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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

June 10, 2014 - 10:09 a.m.  
Concord, New Hampshire

NHPUC JUN24'14 AM 9:45

RE: DG 14-091  
LIBERTY UTILITIES (ENERGYNORTH NATURAL  
GAS) CORP. d/b/a LIBERTY UTILITIES:  
*Special Contract and Lease Agreement with  
Innovative Natural Gas, LLC d/b/a iNATGAS.*

PRESENT: Chairman Amy L. Ignatius, Presiding  
Commissioner Martin P. Honigberg

Sandy Deno, Clerk

APPEARANCES: Reptg. Liberty Utilities (EnergyNorth Natural  
Gas) Corp., d/b/a Liberty Utilities:  
Sarah B. Knowlton, Esq.

Reptg. Innovative Natural Gas d/b/a iNATGAS:  
Babak Alizadeh

Reptg. Xpress Natural Gas:  
Mark H. Puffer, Esq. (Preti, Flaherty...)

Reptg. NG Advantage:  
David Lavoie

Reptg. Clean Energy Fuels:  
Drew Drummond

Court Reporter: Steven E. Patnaude, LCR No. 52

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**APPEARANCES: (C o n t i n u e d)**

**Reptg. Residential Ratepayers:**

Rorie E. P. Hollenberg, Esq.  
Stephen R. Eckberg  
Office of Consumer Advocate

**Reptg. PUC Staff:**

Alexander F. Speidel, Esq.  
Michael J. Sheehan, Esq.  
Stephen Frink, Asst. Dir./Gas & Water Div.  
Robert Wyatt, Asst. Dir./Safety Division

**I N D E X**

	<b>PAGE NO.</b>
<b>WITNESS PANEL:</b>	
<b>STEPHEN R. HALL</b>	
<b>WILLIAM J. CLARK</b>	
<b>FRANCISCO C. DaFONTE</b>	
Direct examination by Ms. Knowlton	13
Cross-examination by Mr. Speidel	22
Cross-examination by Ms. Hollenberg	38
Cross-examination by Mr. Puffer	64
Interrogatories by Cmsr. Honigberg	37, 69
Interrogatories by Chairman Ignatius	73
Redirect examination by Ms. Knowlton	87
<b>WITNESS:</b>	
<b>STEPHEN P. FRINK</b>	
Direct examination by Mr. Speidel	93
Cross-examination by Ms. Hollenberg	104
Interrogatories by Cmsr. Honigberg	108
Interrogatories by Chairman Ignatius	111
<b>WITNESS:</b>	
<b>STEPHEN R. ECKBERG</b>	
Direct examination by Ms. Hollenberg	114
Cross-examination by Ms. Knowlton	116
Cross-examination by Mr. Speidel	119
Interrogatories by Chairman Ignatius	121
Redirect examination by Ms. Hollenberg	124
<b>CLOSING STATEMENTS BY:</b>	<b>PAGE NO.</b>
Ms. Hollenberg	129
Mr. Speidel	132
Ms. Knowlton	133
<b>QUESTIONS BY CHAIRMAN IGNATIUS</b>	137

**E X H I B I T S**

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
1	Confidential version of the Testimony of William J. Clark, including attachments (04-04-14)	12
2	Redacted version of the Testimony of William J. Clark, including attachments (04-04-14)	12
3	Testimony of Stephen R. Hall, including attachments (04-04-14)	12
4	PUC Staff Report, including attachments (06-04-14)	12
5	Testimony of Stephen R. Eckberg, including attachments (06-04-14)	12
6	Rebuttal Testimony of William J. Clark (06-06-14)	12
7	Enlarged engineering drawings from Staff Discovery Responses to Attachment Staff 3-2 (4 pages) and Attachment Staff 4-3 (1 page)	12
8	<b>RESERVED</b> (Escrow Agreement addendum)	85
9	<b>RESERVED</b> (Operations and Maintenance Contract)	86
10	<b>RESERVED</b> (Exhibits A & B to the Special Contract)	127

**P R O C E E D I N G**

1  
2 CHAIRMAN IGNATIUS: Good morning. I'd  
3 like to open the hearing in Docket DG 14-091. This is  
4 Liberty Utilities' request for approval of a Special  
5 Contract and Lease with Innovative Natural Gas, LLC. And,  
6 I always shorten it as "iNATGAS", but maybe you pronounce  
7 it differently than that. If you do, correct me. We are  
8 here today on a hearing on the Petition itself. And, so,  
9 first, let's take appearances, and then hear from you  
10 where you -- how you recommend going through the evidence  
11 today, and whether there will be a panel presentation or  
12 individual witnesses. We'll begin with Ms. Knowlton  
13 please.

14 MS. KNOWLTON: Good morning,  
15 Commissioners. My name is Sarah Knowlton. I'm here today  
16 on behalf of Liberty Utilities (EnergyNorth Natural Gas)  
17 Corp. And, with me from the Company today are the  
18 Company's three witnesses, William Clark, Francisco  
19 DaFonte, who I will be proposing to be a witness, he  
20 didn't prefile testimony, and Stephen Hall. And, with me  
21 at counsel's table is Steven Mullen, Manager of Rates and  
22 Regulatory, and Mr. Alizadeh from iNATGAS.

23 CHAIRMAN IGNATIUS: Good morning. Do we  
24 have other parties?

1 MR. LAVOIE: Dave Lavoie, with NG  
2 Advantage.

3 CHAIRMAN IGNATIUS: "Lavoie"?

4 MR. LAVOIE: Yes.

5 CHAIRMAN IGNATIUS: Thank you.

6 MR. DRUMMOND: Drew Drummond, with Clean  
7 Energy Fuels.

8 MR. PUFFER: Mark Puffer, with Xpress  
9 Natural Gas.

10 MS. HOLLENBERG: Good morning. Rorie  
11 Hollenberg and Stephen Eckberg here for the Office of  
12 Consumer Advocate.

13 MR. SPEIDEL: Alexander Speidel,  
14 representing the Staff of the Commission. And, I have  
15 with me Assistant Director Stephen Frink of the Gas and  
16 Water Division, Assistant Director Bob Wyatt of the Safety  
17 Division, and co-counsel Michael Sheehan.

18 CHAIRMAN IGNATIUS: Good morning. Is  
19 there anyone here from Global, one of the companies that  
20 intervened?

21 (No verbal response)

22 CHAIRMAN IGNATIUS: All right. What is  
23 the expectation for presentation of testimony this  
24 morning?

1 MS. KNOWLTON: The Company would propose  
2 calling a panel of three witnesses, Mr. Clark and Mr.  
3 Hall, who prefiled testimony, and we would like to include  
4 on that panel Mr. DaFonte, as he provided responses to a  
5 number of the discovery requests in this docket. And, to  
6 the extent there's questions on the procurement side, Mr.  
7 DaFonte could answer those.

8 CHAIRMAN IGNATIUS: Is there any  
9 objection to Mr. DaFonte joining the panel?

10 MS. HOLLENBERG: No.

11 MR. SPEIDEL: No objection. And,  
12 Chairman, Staff would further propose that there be  
13 separate panels for Staff and OCA witnesses. In the  
14 instance of Staff's witnesses, I would suggest that we  
15 call Mr. Frink as the primary witness, and have available  
16 on standby Mr. Wyatt for further questioning, if it is  
17 viewed warranted by the Commissioners or, in the  
18 alternative, the Company. But he did not present  
19 materials as a primary witness.

20 CHAIRMAN IGNATIUS: And, that would be a  
21 panel, Mr. Frink and Mr. Eckberg?

22 MR. SPEIDEL: Perhaps --

23 CHAIRMAN IGNATIUS: Or, I'm sorry.  
24 Maybe that's not what you were proposing?

1 MR. SPEIDEL: No. It's up to OCA. But  
2 I would suggest that Staff have its own presentation.

3 CHAIRMAN IGNATIUS: Thank you. Is there  
4 any objection to Mr. Wyatt also being available for  
5 questioning, even though he didn't file testimony, similar  
6 to Mr. DaFonte, it sounds like?

7 MS. HOLLENBERG: No.

8 CHAIRMAN IGNATIUS: All right. Doesn't  
9 appear to be. And, Ms. Hollenberg?

10 MS. HOLLENBERG: Yes. We will be  
11 presenting Mr. Eckberg for --

12 CHAIRMAN IGNATIUS: All right.

13 MS. HOLLENBERG: -- for questioning.

14 CHAIRMAN IGNATIUS: All right.

15 Mr. Speidel, is the Staff testimony generally in support  
16 of the Company's Petition at this point?

17 MR. SPEIDEL: Subject to the conditions  
18 laid out by Staff, the answer is "yes".

19 CHAIRMAN IGNATIUS: All right. Then, I  
20 think we ought to have the Company panel first, then the  
21 Staff presentation, and then the OCA, all right?

22 (Atty. Speidel and Atty. Hollenberg both  
23 nodding in the affirmative.)

24 CHAIRMAN IGNATIUS: Is there other



1 administrative matters to take up before we begin with  
2 taking of testimony?

3 MS. KNOWLTON: Yes, I have two. The  
4 first is that the Company has -- there are two pending  
5 motions for protective treatment. There have been three  
6 filed in the case total. The first one was granted at the  
7 prehearing conference. And, there have been two others  
8 that have been filed. So, I wanted to point out for the  
9 record that those are pending. And, we'll certainly do  
10 our best today to identify confidential information in  
11 advance of stating anything on the record that is, in  
12 fact, confidential, so that you may address those issues  
13 then.

14 CHAIRMAN IGNATIUS: Well, before you  
15 move on, we've reviewed the motions, the two remaining  
16 motions. We discussed it and find that they're  
17 appropriately identifying materials that should remain  
18 confidential. So, we will grant both of the two  
19 protective order requests. And, I appreciate your being  
20 careful, all witnesses being careful about information, so  
21 that we don't have to go through the process of clearing  
22 the room for people who are not entitled to see that  
23 information. Thank you.

24 MS. KNOWLTON: The last matter is the

1 marking for identification of exhibits. I've put together  
2 an exhibit list for your consideration. The Company would  
3 propose as "Exhibit 1" the April 4th, 2014 confidential  
4 Testimony of William J. Clark, which would include all of  
5 the attachments to that. As "Exhibit 2" would be the  
6 redacted version of that testimony. "Exhibit 3" would be  
7 the April 4th, 2014 Testimony of Stephen R. Hall,  
8 including the attachments. "Exhibit 4" would be the  
9 June 4th, 2014 Staff Report. "Exhibit 5", the June 4th,  
10 2014 Testimony of Mr. Eckberg, along with all of the  
11 attachments. And, the same with the Staff Report, the  
12 attachments as well. "Exhibit 6" is the June 6th, 2014  
13 Rebuttal Testimony of William J. Clark.

14 And, my understanding is is that Staff  
15 has a proposed Exhibit 7, which it would like to mark.

16 CHAIRMAN IGNATIUS: Why don't we take  
17 the Staff exhibit, and then I'll ask if there's any  
18 objection to any of those being marked for identification.

19 MR. SPEIDEL: Okay, Chairman. I'll  
20 circulate around the hearing room providing the exhibit,  
21 and then provide some explanation after.

22 (Atty. Speidel distributing documents.)

23 MR. SPEIDEL: I do apologize that I  
24 don't have enough of these color copies for the

1 intervening parties, but the material would be available  
2 online in short order as public hearing "Exhibit 7". The  
3 idea is that this is a series of engineering drawings,  
4 facsimiles, blowups, from discovery responses to Staff  
5 Discovery Responses 3-2 and also 4-3 made by the Company.  
6 And, it's four pages from Attachment Staff 3-2 and a  
7 single page from Attachment Staff 4-3. And, I'll direct  
8 some questions to the Company's representatives regarding  
9 certain engineering changes that have been made as part of  
10 this proposal.

11 CHAIRMAN IGNATIUS: Are these five  
12 pages, although they weren't blocked together this way,  
13 have they all been available to all of the parties just  
14 through the normal course of the case?

15 MS. KNOWLTON: Yes. They were  
16 originally produced under a "confidential" designation.  
17 But, in review of the data responses, in preparation of  
18 the Motion for Protective Treatment that was filed last  
19 week, we recessed our "confidential" designation of the  
20 documents and lifted them, lifted that, and then  
21 recirculated them to the entire discovery distribution  
22 list. So, everybody should have them. And, I have a  
23 black and white copy in my file, which I'd be happy to  
24 share, if someone needs one to look on to.

[WITNESS PANEL: Hall~Clark~DaFonte]

1 CHAIRMAN IGNATIUS: All right. So,  
2 hopefully, people have them in their files, brought it  
3 with them today, or, if you don't and need copies, just  
4 let us know and we'll make sure that you have them. And,  
5 if at any point the fact that it's in color makes a  
6 difference, you know, help out those with the black and  
7 white copies by not saying "look over at the blue  
8 section".

9 MR. SPEIDEL: It shouldn't be that  
10 complicated. Yes.

11 CHAIRMAN IGNATIUS: Then, we'll mark  
12 those then, that five-page set of maps as "Exhibit 7" for  
13 identification.

14 (The documents, as described, were  
15 herewith marked as **Exhibit 1** through  
16 **Exhibit 7**, respectively, for  
17 identification.)

18 CHAIRMAN IGNATIUS: Is there any --  
19 well, I guess we'll get to that later. We'll keep those  
20 all as marked for identification.

21 Anything further before the Liberty  
22 panel begins?

23 (No verbal response)

24 CHAIRMAN IGNATIUS: If not, then, you

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 can go ahead and seat your witnesses. And, Mr. Patnaude,  
2 please swear the witnesses please.

3 MS. KNOWLTON: The Company calls Stephen  
4 Hall, William Clark, and Francisco DaFonte.

5 (Whereupon **Stephen R. Hall, William J.**  
6 **Clark,** and **Francisco C. DaFonte** were  
7 duly sworn by the Court Reporter.)

8 CHAIRMAN IGNATIUS: Please proceed.

9 **STEPHEN R. HALL, SWORN**

10 **WILLIAM J. CLARK, SWORN**

11 **FRANCISCO C. DaFONTE, SWORN**

12 **DIRECT EXAMINATION**

13 BY MS. KNOWLTON:

14 Q. Good morning. Mr. Hall, I'll start with you. Could  
15 you please state your full name for the record.

16 A. (Hall) My name is Stephen R. Hall.

17 Q. By whom are you employed?

18 A. (Hall) I'm employed by Liberty Energy Utilities New  
19 Hampshire Corp.

20 Q. What is your position with the Company?

21 A. (Hall) I'm the Director - Regulatory and Government.

22 MS. KNOWLTON: Can you check your  
23 microphone and see if it's on?

24 WITNESS HALL: How's that?

{DG 14-091} {06-10-14}

1 MS. KNOWLTON: Much better.

2 BY MS. KNOWLTON:

3 Q. Would you describe your job responsibilities at the  
4 Company.

5 A. (Hall) Certainly. I have overall responsibility for  
6 regulatory affairs, rates, pricing, tariff  
7 administration, and supervisory responsibility for  
8 governmental affairs.

9 Q. We've marked for identification as "Exhibit 3" the  
10 prefiled testimony that you submitted to the Commission  
11 on April 4th, 2014. Do you have that testimony before  
12 you?

13 A. (Hall) Yes, I do.

14 Q. Was that prepared by you or under your direction?

15 A. (Hall) Yes, it was.

16 Q. Do you have any updates or corrections to your  
17 testimony today?

18 A. (Hall) There is one very minor change. It's on Page 1,  
19 Lines 4 and 5. My business address is now 15 Buttrick  
20 Road, Londonderry, New Hampshire 03053.

21 Q. If I were to ask you the questions that are contained  
22 in your testimony today, subject to that correction,  
23 would the answers be the same?

24 A. (Hall) Yes.

[WITNESS PANEL: Hall~Clark~DaFonte]

1 Q. Mr. Clark, would you please state your full name for  
2 the record.

3 A. (Clark) William Clark.

4 Q. By whom are you employed?

5 A. (Clark) Liberty Energy Utilities Corp.

6 Q. What is your position with the Company?

7 A. (Clark) Business Development Manager.

8 Q. And, what do your job duties entail in that role?

9 A. (Clark) I investigate new growth opportunities for the  
10 Company and expansion of existing growth opportunities  
11 as well.

12 Q. Do you have before you the April 4th, 2014 confidential  
13 and redacted testimony that you filed in this docket?

14 A. (Clark) I do.

15 Q. Was that testimony prepared by you or under your  
16 direction?

17 A. (Clark) It was.

18 Q. Including all of the attachments to that?

19 A. (Clark) It was, yes.

20 Q. Do you have any corrections to your testimony?

21 A. (Clark) I do not.

22 Q. Do you have any updates to your testimony?

23 A. (Clark) I do not.

24 Q. If I were to ask you the questions in your testimony

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 today, would the answers be the same?

2 A. (Clark) Yes.

3 Q. Mr. DaFonte, would you please state your full name for  
4 the record.

5 A. (DaFonte) Francisco C. DaFonte.

6 Q. By whom are you employed?

7 A. (DaFonte) Liberty Energy Utilities New Hampshire Corp.

8 Q. What is your position with the Company?

9 A. (DaFonte) I am the Senior Director of Energy  
10 Procurement.

11 Q. In that role, what job duties do you perform?

12 A. (DaFonte) I oversee the purchasing, planning, and  
13 optimization of the EnergyNorth portfolio of assets, as  
14 well as the Retail Choice Program.

15 Q. You did not prefile testimony in this docket. Can you  
16 explain what your role is today on the panel relative  
17 to the Company's request?

18 A. (DaFonte) Yes. I sponsored several data requests,  
19 "responses to data requests", I should say, in this  
20 docket. And, I'm available to address any questions  
21 related to those data requests.

22 Q. Mr. Clark, I'll circle back to you. You filed rebuttal  
23 testimony on June 6th, is that correct?

24 A. (Clark) I did.

{DG 14-091} {06-10-14}



[WITNESS PANEL: Hall~Clark~DaFonte]

1 Q. And, we've marked that for identification as "Exhibit  
2 6". Do you have that before you?

3 A. (Clark) I do.

4 Q. Do you have any corrections or updates to that  
5 testimony?

6 A. (Clark) I do not.

7 Q. If I could direct your attention to Bates Page 4 of  
8 your testimony.

9 CHAIRMAN IGNATIUS: Is this the rebuttal  
10 testimony?

11 MS. KNOWLTON: Correct. This is the  
12 rebuttal testimony that was filed this past Friday.

13 WITNESS CLARK: I'm sorry, Bates Page?

14 MS. KNOWLTON: Bates Page 4.

15 WITNESS CLARK: I have it.

16 BY MS. KNOWLTON:

17 Q. And, if you would look at Lines 10 and 11 of that  
18 testimony. This refers to an "escrow provision to be  
19 filed with the Commission as an amendment to the  
20 Special Contract".

21 A. (Clark) That is correct. We came to an agreement with  
22 iNATGAS regarding Staff recommendation to escrow a  
23 substantial amount of funds, which will be filed with  
24 the Commission.

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 Q. Do you, either -- any of the witnesses can answer this  
2 question. Can you provide an update for the Commission  
3 with regard to the Company's efforts to draft and put  
4 in place this Escrow Agreement and what the timing of  
5 that would be?

6 A. (Hall) I can provide that update. We're in the process  
7 of preparing an addendum to the Master Project  
8 Agreement, which is going to contain an article, a new  
9 article, providing for escrow of funds by iNATGAS.  
10 And, in very general summary, under this provision,  
11 iNATGAS will deposit 1.224 million into an escrow  
12 account. And, they will be able to withdraw funds from  
13 that account over time in the following manner: At the  
14 end of the first year of the Agreement of this Special  
15 Contract, we will look at the actual revenue received  
16 from iNATGAS during that year. We will then add to  
17 that actual revenue amount the anticipated or assured  
18 revenue that we expect them to receive -- that we  
19 expect to receive in years two through five of that  
20 Agreement. And, the assured revenue for years two  
21 through five will be set equal to the actual revenue in  
22 year one. So, we'll have a stream of actual and  
23 anticipated revenue over the first five years. We'll  
24 take the present value of that stream and come up with

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 a dollar amount. That dollar amount will be subtracted  
2 from the 1.224 million, and the residual, that  
3 difference, is the amount that will have to remain in  
4 escrow in the next year. Then, the next year we'll go  
5 through the same exercise. We'll look at actual  
6 revenue in the next year, and anticipated revenue in  
7 the remaining years of the first five years, take the  
8 present value, and iNATGAS will have to leave the  
9 residual amount in that account.

10 What we anticipate is that there will be  
11 an escrow agent that will hold the funds. And, Liberty  
12 will perform the calculations each year of the amount  
13 that has to remain in the escrow account. We'll  
14 provide that information to the escrow agent, and only  
15 then will the escrow agent release the funds to  
16 iNATGAS.

17 Q. And, Mr. Hall, will the Company file that Escrow  
18 Agreement with the Commission?

19 A. (Hall) Yes.

20 Q. And, Mr. Clark's testimony referred to the escrow  
21 requirement being included as an amendment to the  
22 Special Contract. Is that the Company's intentions, as  
23 far as amending that particular document? Either Mr.  
24 Hall or Mr. Clark can address that.

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 A. (Hall) No. No, we don't intend to amend the Special  
2 Contract. Really, the place to make the amendment is  
3 in the Master Project Agreement.

4 Q. And, would you -- let's take a look at that. That's on  
5 Bates Page -- found at Bates Page 21 of Exhibit 1,  
6 which is the confidential filing. Would you indicate  
7 to the Commission which part of this Agreement the  
8 Company will be amending to address this escrow issue?

9 A. (Hall) It will be an additional article that we'll be  
10 adding. And, it will be Article 1.5, right after the  
11 Article 1.4, "Cross-Default".

12 Q. And, will the Escrow Agreement itself be attached to  
13 this Master Project Agreement as part of that  
14 amendment?

15 A. (Hall) Yes. I'm sorry, I didn't follow your question  
16 previously.

17 Q. It would be -- would it be marked as an exhibit?

18 A. (Hall) Yes, it will.

19 Q. Thank you.

20 A. (Hall) It will be Exhibit D to the Master Project  
21 Agreement.

22 Q. Mr. Clark, I'll turn back to you. There was a second  
23 condition that was contained in the Staff's June 4th,  
24 2014 Report. Are you familiar with that second

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 condition?

2 A. (Clark) I am.

3 Q. Would you describe what that condition is.

4 A. (Clark) The second condition requested another  
5 agreement to be signed between Liberty and iNATGAS  
6 reflecting a maintenance contract. Since Liberty  
7 Utilities will be owning the compressors and iNATGAS  
8 will be maintaining those compressors, a legal document  
9 will be drafted, signed by both parties, stipulating  
10 the maintenance schedule and the appropriate  
11 timeframes. Liberty Utilities has retained a third  
12 party owner's engineer to draft that, to review, and  
13 that will create that schedule. INATGAS has agreed to  
14 this. And, we will be attaching that as an amendment  
15 as well.

16 CHAIRMAN IGNATIUS: What did you say the  
17 name of the engineering firm was?

18 WITNESS CLARK: Sanborn Head Associates,  
19 out of Concord.

20 CHAIRMAN IGNATIUS: I thought you said  
21 something like "Onus"?

22 WITNESS CLARK: Oh. They're our owner's  
23 engineer. They represent Liberty Utilities.

24 WITNESS HALL: Owner's.

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 WITNESS CLARK: Owner's, excuse me.

2 CHAIRMAN IGNATIUS: Got it.

3 BY MS. KNOWLTON:

4 Q. And, will the Company file that maintenance agreement  
5 with the Commission as requested by the Staff in its  
6 Report?

7 A. (Clark) Yes. Yes, we will.

8 MS. KNOWLTON: The Company would at this  
9 point make the witnesses available for cross-examination,  
10 unless the Commissioners would prefer further direct  
11 examination?

12 CHAIRMAN IGNATIUS: No. That's fine.  
13 Why don't we begin, if there's essentially friendly cross,  
14 from Mr. Speidel.

15 MR. SPEIDEL: Thank you, Chairman. And,  
16 I'll direct all these questions to the panel generally.  
17 You can kind of decide on the fly as to who should  
18 respond, since I believe you're all fairly well versed in  
19 the matters before us.

20 **CROSS-EXAMINATION**

21 BY MR. SPEIDEL:

22 Q. If I may, would you please explain where things  
23 currently stand regarding regulatory filings, including  
24 those before the City of Concord, and approvals?

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 A. (Clark) That would be me. We have applied for a zoning  
2 variance with the City of Concord. We are in the  
3 process of finalizing engineering documents for site  
4 plan approval. We have the dates that we will be  
5 submitting those. We intend to meet all of our  
6 deadlines for that. Which should have an approval  
7 around mid August.

8 Q. Thank you. Do you know when the compressors will be  
9 ordered and the CNG compressor fill stations will be in  
10 service?

11 A. (Clark) Currently, the compressors are running between  
12 15 and 24 weeks. The long range is a 24-week lead  
13 time. I don't -- however, recently, there has been  
14 purchases with due dates that are in the 15-week range.  
15 We anticipate ordering those compressors upon final  
16 approval from the City and PUC. The construction lead  
17 time is approximately two to three months. So, we are  
18 anticipating an operation date of mid to late November.

19 Q. Is it fair to say that, if there's some level of  
20 ongoing review by the Commission related to this  
21 Special Contract and Lease proposal that might go  
22 slightly beyond July the first, it would not be fatal  
23 to the project planning process for the Company?

24 A. (Clark) That is correct. Yes.

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 Q. Okay. Would you please describe, in general terms, the  
2 G-54 customer class for Liberty, and compare the  
3 charges that iNATGAS will be paying compared to those  
4 required under the tariff for a G-54 firm sales  
5 customer.

6 A. (Clark) The G-54 is the largest industrial customers  
7 under Liberty Utilities currently. They have a summer  
8 distribution charge and a winter distribution charge.  
9 Currently, those average, I believe, around 32 cents a  
10 decatherm -- three cents. And, I believe winter is in  
11 the four and a half cents and summer is two and a half  
12 cents, around there. The contract pricing in relation  
13 to that that iNATGAS will be paying is confidential.  
14 And, I'd be happy to address that later, in relation to  
15 how that compares with the G-54.

16 Q. I think, in general terms, we've received enough  
17 information in the oral record.

18 MR. SPEIDEL: Would you agree, Mr.  
19 Frink?

20 (Atty. Speidel conferring with Mr.  
21 Frink.)

22 MR. SPEIDEL: Thank you. Thank you for  
23 your patience.

24 BY MR. SPEIDEL:

{DG 14-091} {06-10-14}



[WITNESS PANEL: Hall~Clark~DaFonte]

1 Q. To verify, iNATGAS will pay the contract delivery rate,  
2 the meter charge, gas costs, as long as it remains a  
3 firm sales customer, and will not pay Local  
4 Distribution Adjustment Charges, the LDAC, is that  
5 right?

6 A. (Clark) That is correct. They will pay the G-54 meter  
7 charge, the cost of gas for the G-54, our special  
8 contract distribution charge, but not the LDAC.

9 Q. Thank you. Would you please explain how mandatory  
10 capacity assignment works and the capacity costs  
11 iNATGAS will be paying as a firm sales customer, and  
12 the capacity costs it would be expected to pay if it  
13 switches to transportation service? Now, if you need a  
14 repetition of some of those elements, let me know.

15 A. (DaFonte) That won't be necessary. I just need a  
16 minute to reference the response.

17 Q. Okay. Thank you.

18 A. (DaFonte) Just one more minute.

19 Q. Please take your time.

20 A. (DaFonte) So, if I can turn everyone's attention to the  
21 Company's response to Staff 3-10. The mandatory  
22 capacity assignment is calculated based on the  
23 attachment to Staff 3-10. In that attachment, we  
24 establish two customer classes, a high load factor

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 class and a low load factor class. Each of those  
2 classes is assigned a proportionate share of the  
3 Company's resources, which are comprised of pipeline,  
4 storage, and peaking resources.

5 In the case of iNATGAS, they would be a  
6 high load factor customer under the G-54 rate schedule.  
7 So, their assignment of pipeline is 54 percent, storage  
8 15 percent, and peaking 31 percent.

9 Under the Company's transportation  
10 tariff, any sales customer that switches from sales  
11 service to transportation service is assigned a slice  
12 of the capacity that was utilized to serve that  
13 customer under this formula. And, the amount of the  
14 capacity is based on the prior 12 months actual usage,  
15 where a linear regression calculation is developed to  
16 determine what that customer's design day requirement  
17 would be. So, that establishes the volume.

18 In the case of iNATGAS, we've made some  
19 assumptions, because, obviously, we don't have any  
20 actual usage information. But, essentially, what we've  
21 done is we've determined that their peak day, under  
22 Table 3-10 in this response, and this is based on  
23 accelerated volumes under the contract. But, as an  
24 example, in the first year, we assume that their design

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 day or peak day would be 2,700 decatherm. That 2,700  
2 decatherms would be prorated based on the 54 percent  
3 pipeline, the 15 percent storage, and 31 percent  
4 peaking. And, so, all of those, the costs of each of  
5 those resources, under pipeline and storage and  
6 peaking, is detailed in the attachment to Staff 3-10.  
7 Ultimately, what that results in is a credit to the  
8 cost of gas, based on the capacity that is assigned to  
9 this customer.

10 In the winter, that capacity credit  
11 would be approximately \$334,000; in the summer, it's  
12 approximately \$229,000; for an annual capacity credit  
13 of approximately \$563,000.

14 In terms of how that impacts sales  
15 customers, today, the Company has what it considers a  
16 "reserve capacity" to meet future growth requirements.  
17 That reserve capacity is spread out, the costs of that  
18 reserve capacity are spread out over all sales  
19 customers. By adding a load such as iNATGAS, they are  
20 essentially picking up those costs that had been spread  
21 out across all sales customers, thus reducing the cost  
22 to other sales customers. So, in essence, it's  
23 lowering the system average cost for all customers.

24 Q. Just as a caveat, your responses are subject to the

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 understanding that you're paraphrasing the specific  
2 schedules in the data responses. These are not being  
3 marked as exhibits for the Commission's direct review  
4 in this hearing. But you are providing a paraphrase of  
5 what that information contains, is that right, Mr.  
6 DaFonte?

7 A. (DaFonte) That's correct.

8 Q. Okay. And, with that understanding going forward, I'd  
9 like to ask a couple more questions about the issue of  
10 capacity assignment. Would you agree that iNATGAS  
11 capacity requirement projections presented by the  
12 Company indicate a significant peak day increase  
13 between years one and year five?

14 A. (DaFonte) That's correct.

15 Q. What is Liberty's expectation regarding iNATGAS use of  
16 Liberty's capacity over the term of the Contract, and  
17 what is the basis for those expectations?

18 A. (DaFonte) Well, based on current economics, given  
19 market pricing, we expect that iNATGAS would continue  
20 to use the Company's capacity, either by continuing to  
21 remain a sales customer, as it ramps up its usage, or  
22 by converting to firm transportation customer. Under  
23 the Company's tariff, any transportation customer is  
24 allowed to request a recalculation of its peak day

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 requirements every 12 months. So that, if usage had  
2 gone up, and they wished to take on additional capacity  
3 to meet those requirements, the Company would go  
4 through the calculation to determine what those exact  
5 requirements are and would assign the appropriate  
6 amount of capacity in the manner that I just described.

7 We think, you know, given the economics,  
8 as I mentioned, the fact that, in the winter period,  
9 the most recent winter period, the Company's cost of  
10 gas rate averaged approximately \$11 per decatherm, as  
11 compared to market prices that reached over \$80 this  
12 past winter, and even for baseload purchases at the  
13 citygate, those prices, on average, this is November  
14 through March, on average, were well over \$15, we think  
15 that it's compelling to remain either a sales customer,  
16 take advantage of the Company's diversified portfolio  
17 that accesses much lower cost Marcellus supply gas, as  
18 well as Gulf Coast supplies and Canada supplies, along  
19 with storage, in lieu of purchasing gas at the  
20 citygate. Which it should be noted that, on the  
21 Concord Lateral, there is no incremental capacity  
22 available. That capacity has all been contracted for  
23 at this point.

24 Q. If you find this question objectionable, please let me

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 know. Or, if you do provide a response, please keep it  
2 general. But have you engaged in conversations with  
3 iNATGAS regarding their plans to make use of the  
4 Company's capacity?

5 A. (DaFonte) We haven't had any specific discussions as to  
6 how they would manage the capacity. Obviously, that  
7 would only happen if they were a transportation  
8 customer. Certainly, in the first year, they would be  
9 a sales customer, and, therefore, the Company is  
10 essentially managing that capacity, as it would for any  
11 other sales customer. But we have not had any further  
12 discussions with regard to how they would manage it, if  
13 they chose to take assignment of the capacity as a  
14 transportation customer.

15 Q. So, the time horizon at present for the information  
16 that you receive from iNATGAS is essentially one year.  
17 You know that, for one year, they're going to be a  
18 sales customer. And, then, beyond that, the Company  
19 doesn't have specific knowledge of what their own  
20 internal business plans are?

21 A. (DaFonte) Exactly.

22 Q. Okay. Thank you. And, in Mr. Eckberg's testimony, he  
23 suggests that the recovery of 100 percent of the  
24 capacity value rate is not a unique benefit to this

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 Special Contract. Does the Company agree with that  
2 statement? And, if not, please explain.

3 A. (DaFonte) The Company does not agree with that  
4 statement. The Company has quite a bit of experience  
5 in optimizing its capacity portfolio. It goes out to  
6 the marketplace, both in the winter and in the summer  
7 periods, to attempt to release its fixed cost capacity  
8 contracts to the market, basically, in the secondary  
9 market. And, it has not been able to recover  
10 100 percent of the costs of that capacity at any time  
11 in the past. Particularly, in the summer period, when  
12 there is much more capacity available to the market,  
13 the Company is not able to get anywhere near its  
14 maximum capacity rate for that release of capacity in  
15 the summer period.

16 You know, in addition, you know, the  
17 Company on its system does have transportation  
18 customers that are called "capacity exempt" customers.  
19 That means that they have their own capacity and do not  
20 utilize the utility's capacity. If the Company could  
21 extract 100 percent of the value of its capacity, and I  
22 would assume that those customers would take advantage  
23 of that as well, but they do not at this time. So, I  
24 don't believe that the Company could get 100 percent of

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 the value of its capacity, other than through serving a  
2 sales customer, such as iNATGAS would be in at least  
3 the first year of the contract, and possibly beyond  
4 that.

5 MR. SPEIDEL: Thank you. Chairman, may  
6 I approach the witness stand regarding Exhibit 7?

7 CHAIRMAN IGNATIUS: Yes, of course.

8 MR. SPEIDEL: Thank you. And, I'll try  
9 to speak up. And, I think I direct this question to  
10 Mr. Clark himself.

11 WITNESS CLARK: Uh-huh.

12 MR. SPEIDEL: So, -- oh, and you do have  
13 a copy of your Exhibit 7 of your own. So, that makes  
14 things a little bit easier. I'll take a seat then.

15 BY MR. SPEIDEL:

16 Q. Mr. Clark, these drawings were provided to Staff in  
17 discovery regarding the engineering planning for this  
18 project, is that correct?

19 A. (Clark) That the correct.

20 Q. And, essentially, in the second page of the five pages  
21 that have been supplied as part of hearing Exhibit 7,  
22 there is a drawing of the site on Broken Bridge Road,  
23 in the City of Concord, is that right?

24 A. (Clark) Correct.

{DG 14-091} {06-10-14}



[WITNESS PANEL: Hall~Clark~DaFonte]

1 Q. And, then, there is, in the fifth page of hearing  
2 Exhibit 7, there's a somewhat similar drawing of the  
3 same site, but it has a few differences. Is that  
4 correct?

5 A. (Clark) That is correct.

6 Q. And, I'd just like to ask a couple of questions, and  
7 you can confirm or disconfirm, and then I'll give you  
8 an opportunity to discuss these a little bit more.  
9 Now, I'll call these "Drawings A" and "Drawings B".  
10 The first drawing is the second of the five pages, and  
11 is second drawing is "Drawing B", and that is the fifth  
12 of the five pages.

13 MR. SPEIDEL: So, I'll let everyone kind  
14 of get familiar with the package. And, if the  
15 Commissioners need any assistance, I can help them with  
16 identifying the specific pages.

17 CMSR. HONIGBERG: Just to be clear, the  
18 one that you're calling "A" is labeled in the upper  
19 right-hand corner "Attachment Staff 3-2 Page 2 of 4"?

20 MR. SPEIDEL: Correct.

21 CMSR. HONIGBERG: And, the one you're  
22 calling "B" is labeled in the upper right-hand corner  
23 "Attachment Staff 4-3"?

24 MR. SPEIDEL: Yes, Commissioner.

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 CMSR. HONIGBERG: Thank you.

2 BY MR. SPEIDEL:

3 Q. So, in Drawing B, there is a large partial circle,  
4 correct?

5 A. (Clark) Yes.

6 Q. And, in Drawing A, there is no such partial circle?

7 A. (Clark) Correct.

8 Q. And, if you look within I guess you could call it kind  
9 of a "polygon" or a "rhombus" of sorts towards the  
10 right of the --

11 CHAIRMAN IGNATIUS: Mr. Speidel, you  
12 didn't tell me there was going to be math.

13 MR. SPEIDEL: Well, I'm trying to  
14 educate folks. You know, I'm just trying to draw on my  
15 fifth grade math class here.

16 BY MR. SPEIDEL:

17 Q. There's two -- there's two elements within that  
18 irregular-shaped rhombus, where it says "Existing  
19 private drive" to the left, that's one left bound of  
20 that shape, and then, to the top, there's "Broken  
21 Bridge Road". And, there's, two buildings it would  
22 appear. There's a long building, with several elements  
23 sticking out the top of it. And, then, there's a  
24 building towards the bottom, a smaller building, that's

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 labeled "Meter set for CNG station". Do you see that,  
2 Mr. Clark?

3 A. (Clark) I do.

4 Q. Now, in Drawing A, that building is farther to the left  
5 than it is in Drawing B, isn't that right?

6 A. (Clark) That is correct.

7 Q. Okay. Now, could you explain to us the significance of  
8 both the circle and the shifting of the building in the  
9 site plan between Drawing A and Drawing B?

10 A. (Clark) Sure. The shifting of the building is actually  
11 the compressor station. That's the -- it's concrete  
12 blocking that will house the compressors and the gas  
13 conditioner. The circle is the thermal dispersion area  
14 for our existing LNG facility. That circle represents  
15 a 500-foot radius that will get beyond the 5 percent  
16 saturation rate of that thermal vapor dispersion model.

17 The existing drawings from Sanborn Head  
18 did not take that into account. They were working on  
19 the proximity to the canopy. We, at that time, we did  
20 not -- we had not made a decision as to how we were  
21 going to treat that vapor dispersion model, whether it  
22 was going to be with vapor sensing. We've made the  
23 decision since then to move entirely outside of that  
24 circle, by shifting the compressor station down

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 approximately 50 to 100 feet down the road, which still  
2 meets all the engineering criteria for the facility.

3 Q. So, this dispersion zone in Drawing B is marked by  
4 this, by this circle. Essentially, you should not have  
5 any source of electrical spark erected within that  
6 zone?

7 A. (Clark) Without addressing it in some other fashion.

8 Q. I see. Thank you for that explanation.

9 A. (Clark) Sure.

10 Q. And, this revised site plan that's outlined in Drawing  
11 B and other drawings submitted by the Company as part  
12 of Exhibit 7, that is the site plan that the Company is  
13 seeking approval of from the State Fire Marshal and the  
14 City of Concord, correct?

15 A. (Clark) Yes.

16 Q. Okay. Now, I just have -- I just want to make sure.  
17 Okay, I just have one more quick question. And, I'll  
18 address this to the Company in general. Is it fair to  
19 say that the Company would not object if Staff and the  
20 OCA had the opportunity to review the changes to the  
21 Master Agreement related to the financial surety after  
22 submission, and also enabling Staff and the OCA to make  
23 their respective recommendations regarding the  
24 appropriateness of the changes to the Commission, as

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 part of the Commission's informational review of the  
2 proposal, because there's going to be a little bit of a  
3 time lag? We'll receive these changes, we will produce  
4 some form of recommendation. And, then, the Commission  
5 would be able to review the recommendation and the  
6 changes independently. Is that a path of action that  
7 is objectionable to the Company or not?

8 A. (Hall) No. That's fine with us.

9 MR. SPEIDEL: Thank you so much. Staff  
10 has no further cross-examination questions at this time.

11 CHAIRMAN IGNATIUS: Thank you.

12 CMSR. HONIGBERG: Just can I ask a real  
13 quick question to orient myself on these, on one of these  
14 maps, just take the last one, 4-3. Where is Manchester  
15 Street in relationship to this map?

16 WITNESS CLARK: So, Manchester Street,  
17 if you would go north up Broken Bridge Road, you would run  
18 into Integra Drive. You take a right on Integra Drive,  
19 and it's about 50 feet before you'll hit the intersection  
20 of Manchester Street and Integra Drive.

21 CMSR. HONIGBERG: Thanks.

22 CHAIRMAN IGNATIUS: Okay. Why don't we  
23 turn to the OCA for questioning.

24 MS. HOLLENBERG: Thank you. Good

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 morning.

2 WITNESS HALL: Good morning.

3 WITNESS CLARK: Good morning.

4 MS. HOLLENBERG: I'll direct this, these  
5 questions to the panel generally, and allow whichever  
6 witness feels most appropriate to respond.

7 BY MS. HOLLENBERG:

8 Q. Is iNATGAS planning to market and serve residential  
9 customers?

10 A. (Clark) No.

11 Q. Is that just at this time or during the entire time of  
12 the Special Contract, is that your understanding?

13 A. (Clark) My understanding, it would be the entire life  
14 of the Special Contract. Currently, it's not  
15 economical.

16 Q. Okay. And, Mr. DaFonte, you discussed some assumed  
17 capacity revenues based on the accelerated forecasts  
18 that the Company included in its initial filing for  
19 capacity. And, is it correct that those capacity  
20 revenues are not included in the original filing?

21 A. (DaFonte) They were not included in the original  
22 filing. It was really -- the original filing really  
23 looked at the revenue stream from the distribution  
24 rate.

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 Q. So, why would you not have included the capacity  
2 revenues?

3 A. (DaFonte) Well, --

4 A. (Hall) No, go ahead.

5 A. (DaFonte) I was just going to say, as I mentioned  
6 earlier, these are assumptions. It's very difficult at  
7 this point to determine what the exact capacity revenue  
8 credits will be, particularly given that this CNG  
9 facility is what we consider an "open" facility, which  
10 means that other CNG providers could use it for filling  
11 their own tankers, if you will, and that could affect  
12 the design day capacity. As I mentioned earlier, the  
13 capacity assignment calculation is based on the  
14 anticipated design day based on an actual 12-month  
15 usage.

16 So, in effect, I mean, conceivably, you  
17 could have a day in the winter where multiple vehicles  
18 were filling up at that facility, transports, and that  
19 could raise the design day requirement significantly.  
20 So, it's difficult to pinpoint it, because, as I said,  
21 the design -- the capacity assignment is based on that  
22 one peak day, as opposed to looking at the annual  
23 volume. So, while the annual volumes may not be as  
24 high in the first year as in the fifth year, the design

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 day could conceivably be exactly the same. They could  
2 max out that facility. And, if they did, then their  
3 capacity assignment would be that maximum.

4 A. (Hall) Well, I'd just like to add that the analysis  
5 that we performed showed that the project was  
6 beneficial to the Company and to customers simply on  
7 the basis of the delivery revenue. And, due to the  
8 uncertainty associated with capacity revenue that Mr.  
9 DaFonte just talked about, we didn't include that in  
10 the analysis, because there really was no need to do  
11 so. It stands on its own just from a delivery revenue  
12 perspective.

13 Q. Okay. Thank you. Mr. DaFonte, why did you base your  
14 capacity revenue calculation in Staff 3-10 on the  
15 accelerated revenue stream, as opposed to the other two  
16 revenue streams that were assumed or presented in the  
17 filing? That's the highest of three revenue streams.  
18 I was just curious why you used that level of revenues  
19 for capacity?

20 A. (DaFonte) I think the reason we used it is because we  
21 had previously provided a table in I believe it was  
22 response to Staff 2-6, which included the accelerated  
23 volume. So, we simply used what we had already  
24 calculated in that table to derive the capacity release

{DG 14-091} {06-10-14}



1 revenues.

2 Q. Okay. Thank you. In terms of the capacity revenues,  
3 the Company only realizes capacity revenues if iNATGAS  
4 actually takes gas, is that correct?

5 A. (DaFonte) That's correct.

6 Q. So, and that would happen as either a firm sales  
7 customer or if they take gas as a firm transportation  
8 customer, correct?

9 A. (DaFonte) Let me explain, there is a slight difference  
10 in that. As a sales customer, they do not have an  
11 assigned capacity amount. We really would calculate  
12 the capacity assignment if they went and switched to  
13 transportation service. Once they're at transportation  
14 service, unless they request a recalculation of their  
15 capacity assignment each year, then it would remain  
16 fixed at the level that it was when they switched to  
17 transportation service.

18 Q. But the cost of gas for a firm sales customer includes  
19 the cost of capacity to deliver the gas to that  
20 customer, is that correct?

21 A. (DaFonte) Yes. Absolutely. The credits in year one  
22 would be the same if they -- even if they increased and  
23 didn't request additional capacity, those capacity  
24 credits that were in year one would continue to flow

[WITNESS PANEL: Hall~Clark~DaFonte]

1 back to the firm sales customers as a credit in the  
2 cost of gas each and every year.

3 Q. And, the -- Liberty would not realize capacity  
4 revenues, if iNATGAS switches to a firm sales  
5 transportation customer and only pays the take-or-pay  
6 amount, is that correct, because they're not taking gas  
7 in that case? If they only paid for the -- paid under  
8 the take-and-pay -- take-or-pay and didn't receive gas,  
9 they would -- the Company would not receive capacity  
10 revenues, is that correct?

11 A. (DaFonte) Yes, I guess -- yes. That would assume that  
12 they -- that they didn't fill up not one trailer during  
13 the first 12 months of operation. Which, in my  
14 opinion, is highly unlikely.

15 Q. So, in year two, if they don't use any gas, they're  
16 still going to pay for capacity?

17 A. (DaFonte) That's correct. That capacity is fixed for  
18 the life of the contract, unless they request  
19 additional capacity.

20 Q. Okay. And, what happens in between the -- so, you have  
21 an assigned amount of fixed capacity, just for a  
22 hypothetical, say, we're in year two, they're a firm  
23 transportation customer. They're assigned the level of  
24 capacity that they used in the 12 months prior to that

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 time. What happens if they need more capacity during  
2 that time and it's more than what they have been  
3 assigned?

4 A. (DaFonte) If they need more capacity, they would  
5 request that a recalculation of their -- what we call  
6 the "TCQ", which is the "Total Contract Quantity", be,  
7 you know, recalculated. And, they would get assigned  
8 up to that level of TCQ, the reinstated TCQ.

9 Q. But I guess I thought I heard you say earlier that that  
10 only happens once every 12 months. So, what would  
11 happen -- or, can that happen any time? Maybe I  
12 misheard.

13 A. (DaFonte) They can request it, I believe, subject to  
14 check, that they can request it once a year prior to  
15 the November 1st period. So, prior to the winter  
16 period.

17 Q. So, I guess my question is, what happens during the  
18 winter, when they need more capacity than they have  
19 assigned then, before they're able to ask for their TCQ  
20 to be recalculated?

21 A. (DaFonte) They would have to go out and procure their  
22 own capacity at that time, --

23 Q. Okay.

24 A. (DaFonte) -- if they were to choose to do so. But, as

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 I mentioned earlier, certainly, they have the option to  
2 stay on sales service. In which case, as a sales  
3 customer, it would be incumbent on the Company to  
4 ensure that there was enough supply going to that  
5 facility.

6 Q. So, one option they would have, if they faced that  
7 situation, would be to become a sales customer again?

8 A. (DaFonte) Absolutely. They always have the option to  
9 return to sales service.

10 Q. Okay. Thank you. And, just to confirm, do you,  
11 gentlemen, do you agree that the personal guarantee  
12 continues to exist, along with the escrow that has been  
13 proposed as an amendment to the Special Contract?

14 A. (Clark) Yes, we do.

15 Q. And, that personal guarantee exists for the first five  
16 years of the Special Contract?

17 A. (Clark) It does.

18 Q. Mr. Clark, how long will the escrow be in place?

19 A. (Clark) The escrow will be recalculated every year  
20 until it's diminished.

21 Q. Okay. You had mentioned in your rebuttal that -- about  
22 the recalculation taking place within the first five  
23 years of the contract, and that's at Page 4, on Lines 8  
24 to 10. So, is it feasible or is it possible that it

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1           could last longer than five years? Or be shorter than  
2           five years?

3   A.   (Hall) I don't believe the escrow would last longer  
4           than five years. I think that, even under the minimum  
5           take-or-pay --

6   A.   (Clark) Well, excuse me, as that was my clarification.  
7           I was going to clarify that. Even at the take-or-pay  
8           minimums, it would not take five years to diminish the  
9           funds in escrow.

10   Q.   Okay. Thank you.

11   A.   (Clark) Sure.

12   Q.   On the subject of the phrase "actual and assured  
13           revenues", which were -- that phrase was used by the  
14           Staff in their recommendation, and the Company's  
15           witnesses, you discussed it in your testimony just  
16           moments ago. What does "assured revenues" mean?

17   A.   (Hall) "Assured revenue" is essentially the revenue  
18           that was realized in the prior year of the contract.  
19           And, the idea is that one would anticipate that, to the  
20           extent that iNATGAS wants to grow its business, that  
21           the amount of revenue it would receive in future years  
22           would be equal to, if not greater than, the revenue in  
23           the first year of the contract.

24   Q.   Okay. And, is it possible that these assured revenues,

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 which you're assuming are going to continue going  
2 forward after the first year, is it possible that the  
3 iNATGAS would not earn the assured revenues after the  
4 escrow was reduced?

5 A. (Hall) Yes. But, to the extent that iNATGAS's business  
6 plan didn't materialize, they would still be obligated  
7 to pay the minimum take-or-pay amount.

8 Q. Uh-huh. And, would, by paying the minimum take-or-pay  
9 amount for the five years, assuming that, would that  
10 make customers whole for the \$2.2 million investment?

11 A. (Hall) Bear with me.

12 (Short pause.)

13 **BY THE WITNESS:**

14 A. (Hall) No.

15 BY MS. HOLLENBERG:

16 Q. Okay. And, there's no requirement, in order to be  
17 categorized as "assured revenues", that there be some  
18 kind of contract between iNATGAS and the customers it's  
19 serving from whom the revenues are going to be received  
20 or are assumed to be received in the next years,  
21 there's no requirement for any contract to underlie the  
22 assured revenues, is that correct, between iNATGAS and  
23 its customers?

24 A. (Hall) That's correct. But keep in mind that iNATGAS

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 has every incentive to get as much business as  
2 possible. So, that incentive already exists, just from  
3 their business plan perspective.

4 Q. But you would agree that that incentive is not the same  
5 as a security for customers in terms of repaying the  
6 amount they have invested, is that correct?

7 A. (Hall) Well, in my view, I think it's very nearly as  
8 good, because iNATGAS, obviously, isn't going into this  
9 business to sit on its heels and do nothing. I mean,  
10 they want to make money from this. So, the incentive  
11 for them to grow their business is extremely strong.

12 Q. Thank you. Do you agree that the CNG market is  
13 evolving?

14 (Witnesses conferring.)

15 WITNESS CLARK: Sorry.

16 MS. HOLLENBERG: Shall I repeat the  
17 question?

18 WITNESS CLARK: Please.

19 MS. HOLLENBERG: Okay. Sure.

20 BY MS. HOLLENBERG:

21 Q. Do agree that the CNG market is evolving?

22 A. (Clark) Yes, we do. We believe CNG is growing at a  
23 very rapid rate in the Northeast, that has BIA  
24 presentations by competitors and expansion -- or, I

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 should say construction of new facilities throughout  
2 the Northeast are underway.

3 Q. And, is it possible that the market will evolve in ways  
4 that are not consistent with the projections that have  
5 been made in this case?

6 A. (Clark) Well, I think there is the potential for it to  
7 evolve at a rapid -- at a more accelerated rate than  
8 predicted. There are opportunities for smaller  
9 customers that are not currently in the predictions to  
10 take service, if some technology and new pipeline  
11 capacity and fuel costs remain low at this level.

12 Q. And, your -- and, it's your position that it's not  
13 possible for it to evolve in a less positive fashion  
14 than has been projected?

15 A. (Clark) I'm sure it's possible.

16 Q. Thank you.

17 A. (DaFonte) Could I just add to that?

18 Q. Sure.

19 A. (DaFonte) One of the things that I think will actually  
20 benefit the development of CNG is the fact that there  
21 are several new pipeline projects proposed into the  
22 Northeast. These Pipeline projects, unfortunately, are  
23 not going to be able to connect directly to many of  
24 these large users, who currently either do not benefit

{DG 14-091} {06-10-14}



[WITNESS PANEL: Hall~Clark~DaFonte]

1 at all from natural gas or are using CNG today. And,  
2 these new pipeline projects will be tapping into much  
3 lower cost natural gas supplies. So, the delta between  
4 the alternate fuels used by many of these companies and  
5 the cost of natural gas will just increase.

6 Q. Would you agree that it's possible that customers who  
7 start taking natural gas -- or, start taking service  
8 from iNATGAS in year one will not remain customers of  
9 iNATGAS after that?

10 A. (Hall) That's always a possibility. But I think you  
11 really have to put this contract into perspective.  
12 And, I mean, all of these questions are really getting  
13 at "what's the risk?" And, I understand that Liberty  
14 and the OCA share a different perception of what that  
15 risk level is. And, I mean, that's fair. That's  
16 perfectly understandable. But, to really put this in  
17 perspective, you have to consider that any investment  
18 or extension in the Company's facilities that it makes,  
19 whether it's serving iNATGAS or whether it's serving  
20 residential customers, always carries risk. When  
21 Liberty extends its facilities to serve a residential  
22 subdivision, there's no guarantee that the revenue is  
23 going to be there.

24 But you've got to put things in

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 perspective. At the minimum take-or-pay level in year  
2 one, the amount that iNATGAS is required to pay for is  
3 basically equivalent to 3,300 residential customers.  
4 So, that's a lot of load.

5 To put it into a little more  
6 perspective, I'll take you back to a docket that was  
7 held last year on line extensions, DG 13-198. And,  
8 OCA, Staff, and the Company entered into a settlement  
9 agreement in that docket. And, if you recall, the  
10 information in that docket and the settlement  
11 essentially provided for line extensions up to 100 feet  
12 to new customers, new residential customers, at no  
13 cost. Well, discovery in that docket showed that the  
14 cost of serving a residential customer was somewhere in  
15 excess of \$3,000. So, the parties were comfortable  
16 with Company investing \$3,000 for a residential  
17 customer and serving them without charging them  
18 anything.

19 Let's bring that back to where we are  
20 with iNATGAS. I said earlier that iNATGAS's minimum  
21 take-or-pay in year one is effectively 3,300 customers.  
22 Take the investment, the \$2.245 million, and divide it  
23 by 3,300, and you're going to come up with a number  
24 that's under \$700 per equivalent residential customer.

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1                   So, we had a line extension agreement  
2                   last year where we were agreeing to not charge  
3                   customers anything for 3 -- and it was going to cost  
4                   about \$3,000 to serve them. On an equivalent basis,  
5                   this is less than \$700 at the year one minimum  
6                   take-or-pay. So, that kind of gives you an idea of the  
7                   bounds and the parameters of what kind of risk we're  
8                   talking about.

9                   Now, granted, it's a much larger  
10                  investment in total dollar volume. And, in recognition  
11                  of that, what the Company attempted to do is to get as  
12                  much assurance as possible that it was going to be able  
13                  to get revenue out of this in order to benefit all  
14                  customers. And, our objective with this contract is to  
15                  get additional load in a manner that provides benefit  
16                  to all customers. And, that's why we entered into this  
17                  Special Contract.

18 Q.    Thank you.

19 A.    (Hall) My pleasure.

20 Q.    Does iNATGAS own any trailers?

21 A.    (Clark) To my knowledge, they do not.

22 Q.    And/or any tractors that would be used to haul the  
23           tanker trailers?

24 A.    (Clark) I believe no.

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 Q. Okay. So, in order to be a customer of iNATGAS, one  
2 would need to either own their own trailer or hire a  
3 company that owns trailers to haul the CNG, is that  
4 correct?

5 A. (Clark) They would, if there was a large industrial  
6 customer that wanted to invest in that type of  
7 infrastructure and not pay a multiple, you know, as  
8 part of the rate, they would be able to construct their  
9 on decompression station, buy their own trailers,  
10 contract for delivery, send that tractor to iNATGAS's  
11 facility. Their business plan, however, is to sign up  
12 long-term CNG providers that would do that service and  
13 take gas from iNATGAS to serve their customers.

14 Q. So, the customer is really the CNG provider, who would  
15 then be providing to the end-use customer?

16 A. (Clark) Correct.

17 Q. That's the more likely scenario in this case?

18 A. (Clark) Yes.

19 Q. Thank you. Does the Company know what the rate impact  
20 on an average residential heating customer of the  
21 \$2.2 million investment is?

22 A. (Hall) I don't know offhand. I'd have to calculate it.  
23 But we'd also have to take into account the anticipated  
24 revenue that we'd receive. It may well be that the

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 rate impact, especially longer term, is going to result  
2 in lower rates, not higher. And, that's why we've  
3 entered into this Special Contract.

4 Q. Okay. But you haven't calculated that, is that fair to  
5 say?

6 A. (Hall) I don't have it with me, no.

7 Q. Okay. Okay, thank you.

8 A. (DaFonte) Could I also add that, as we discussed  
9 earlier, the credits that would accrue from capacity  
10 assignment would also reduce the overall cost to  
11 residential customers.

12 A. (Hall) Uh-huh.

13 Q. Okay. Thank you. The \$2.2 million investment only  
14 covers four of the potential six compressors included  
15 in the Special Contract, is that correct?

16 A. (Clark) Yes.

17 Q. And, how, when, and by whom will the other two  
18 compressors be paid for?

19 A. (Clark) The other two compressors will be paid for by  
20 Liberty Utilities, upon the demand reaching the point  
21 where those compressors are needed, which is north of  
22 1 million decatherms a year usage.

23 Q. And, in the three scenarios that you included in the  
24 filing, does that occur at any point in time under the

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 take-or-pay, the baseline or the accelerated revenues,  
2 does that occur within that time period?

3 A. (Clark) If it were to occur in less than five years, it  
4 would have to be under the accelerated model.

5 Q. Okay. Do you have a sense of how much the two  
6 compressors, additional compressor investment will  
7 cost? Or, is that confidential?

8 MS. KNOWLTON: It's not confidential.

9 WITNESS CLARK: Yes.

10 MS. KNOWLTON: We removed the  
11 "confidential" designation from the data responses that  
12 had that information.

13 **BY THE WITNESS:**

14 A. (Clark) Correct. So, the two compressors and the  
15 canopy extension are approximately 600 to \$750,000, I  
16 believe.

17 BY MS. HOLLENBERG:

18 Q. Okay. Each or for both?

19 A. (Clark) Total project cost.

20 Q. Okay. Thank you.

21 A. (Clark) Certainly.

22 Q. Who is Liberty buying the compressors from?

23 A. (Clark) That would be ANGI Compressor.

24 Q. And, is that company in any way affiliated with the

{DG 14-091} {06-10-14}

1 principal or the affiliates of iNATGAS?

2 A. (Clark) I believe one of their affiliates is a local  
3 service provider -- warranty service provider for ANGI.  
4 But that would be the only affiliation that I'm aware  
5 of.

6 Q. And, would that warranty service provider receive funds  
7 as a result of this transaction?

8 A. (Clark) I don't know.

9 Q. Thank you. Mr. Eckberg discussed in his testimony at  
10 Pages 8 and 9 some unclear, possibly conflicting  
11 contractual obligations. And, one of the examples he  
12 gave was the construction of the canopy. Do you recall  
13 that?

14 A. (Clark) Yes, I do.

15 Q. Do you -- I didn't see any discussion in your rebuttal  
16 related to that. So, I wanted to give you an  
17 opportunity to respond to that observation.

18 A. (Clark) The Lease document and Special Contract were  
19 the governing contracts for this deal. And, they were  
20 always clear, in my opinion, that Liberty Utilities was  
21 responsible for the construction of that canopy.

22 Q. Is the Company willing to indemnify and hold harmless  
23 customers for any possible conflicts in the future  
24 about interpreting the contracts?

[WITNESS PANEL: Hall~Clark~DaFonte]

1 A. (Hall) In what way? I'm not following you.

2 Q. I guess, to the extent that there's a risk to customers  
3 of litigation and costs associated with litigation  
4 about what the contracts mean, I was wondering if the  
5 Company was willing to hold customers harmless for  
6 those disputes, the costs of those disputes?

7 A. (Hall) I can't answer that without consulting with  
8 counsel, I'm sorry.

9 Q. Mr. Eckberg noticed in his testimony at Page 10 some --  
10 a different understanding of the language that was  
11 used, and the Company was making the statement that  
12 they were going to be delivering "firm transportation  
13 of CNG". And, he noted that it was his observation  
14 that the Company is delivering "firm transportation of  
15 NG". Do you have any response to that? Is the Company  
16 delivering firm transportation of CNG?

17 A. (Hall) Yes, because the Company will own the  
18 compressors.

19 Q. Does the -- does iNATGAS take ownership of the gas  
20 before it enters the compressor, at the meter?

21 A. (Hall) I think, really, what you're asking is "what's  
22 the delivery point for service?" And, the delivery  
23 point for service is where the gas leaves the  
24 compressor, notwithstanding the fact that the metering

{DG 14-091} {06-10-14}



[WITNESS PANEL: Hall~Clark~DaFonte]

1 point differs from that delivery point. Metering point  
2 isn't necessarily the point of delivery, although,  
3 generally it is.

4 Q. Typically, it is.

5 A. (Hall) It doesn't -- typically, it is, but it doesn't  
6 have to be.

7 Q. Okay.

8 A. (Clark) Correct. Generally, that is the case. We do  
9 have other commercial customers, a great deal, where we  
10 own regulating equipment after a meter to provide  
11 different pressures, depending on manufacturing needs,  
12 boiler needs. So, --

13 Q. So, if there were a problem, there was an accident,  
14 someone got hurt by the compressor, that would be a  
15 Liberty liability?

16 A. (Hall) If I say "yes", am I assuming liability?

17 Q. I'm only trying to get to some of the issues that  
18 Mr. Eckberg raised in his testimony. And, one of those  
19 was this unique structure of the ownership of the  
20 equipment and the gas. And, I guess, typically,  
21 customers own the gas once it leaves the meter. And,  
22 so, I'm trying to --

23 A. (Clark) Sure.

24 Q. -- determine if that's a liability for customers or a

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 risk to customers?

2 A. (Clark) I would equate that similar to -- the  
3 compressor station will be a secure facility within the  
4 station, within the overall facility. Similar in  
5 security to our existing LNG, propane/air peak shaving  
6 facilities. So, the risk would be pretty much the  
7 same.

8 Q. But it is your position that Liberty owns the gas until  
9 it leaves the compressor?

10 A. (Hall) Having trouble with the term "owning the gas".  
11 I view it as a point of delivery, where we're  
12 delivering gas to a customer.

13 Q. Okay.

14 A. (Hall) And, the way I view it, that point of delivery  
15 occurs where it leaves the compressor.

16 Q. Okay. And, in that sense, you are delivering LNG --  
17 or, CNG, as opposed to NG?

18 A. (Hall) Correct.

19 Q. Okay. Thank you. Do you agree with Mr. Eckberg's  
20 observations at Pages 13 and 14 that there are no price  
21 increases in the contract for the 15 year period of  
22 term?

23 A. (Hall) Yes.

24 A. (Clark) Yes.

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 Q. And, why is that?

2 A. (Hall) This customer is very unique. And, this  
3 customer is what I would consider a "marginal"  
4 customer. Not "marginal" in a sense that the customer  
5 is risky, but it is, in the absence of this agreement,  
6 it's likely that this additional customer wouldn't be  
7 taking service from Liberty. And, therefore, the  
8 pricing for this customer really should consider  
9 marginal costs. And, when you look at it, the marginal  
10 cost of serving this load, this additional consumption,  
11 is really the upfront cost of investment that Liberty  
12 will make in the compressor and ancillary type of  
13 equipment. And, once that is in place, there really  
14 isn't any additional cost of serving. And, therefore,  
15 nothing is going to change over the next 10 or 15 years  
16 associated with the cost of providing service to this  
17 customer.

18 Now, the -- I take that back. There is  
19 a nominal amount of maintenance and upkeep that Liberty  
20 is responsible for each year. That could increase. I  
21 think that's something like \$11,500 a year. That's  
22 subject to increase by normal inflationary pressures.  
23 But, if you look at all of the other costs, there  
24 really isn't any cost that's subject to cost increases.

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 And, therefore, coming up with a fixed price doesn't  
2 mean that somehow like the cost and the revenue lines  
3 are going to cross later on, because they won't.

4 Q. You're confident that the marginal cost of serving this  
5 customer won't exceed the contract price at any point  
6 during the 15-year term?

7 A. (Hall) Yes.

8 Q. Thank you. Why a 15-year term?

9 A. (Clark) We felt -- excuse me. We felt 15 years was  
10 appropriate for the Company's risk tolerance and also  
11 fit the iNATGAS business plan. Most of the contracts  
12 signed for CNG end-use customers are between three and  
13 five years. So, with the nature of those contracts, we  
14 felt 15 years was appropriate. But we'll revisit at  
15 the end of the 15 years to extend.

16 Q. Thank you. Mr. DaFonte, you were asked a question  
17 about Mr. Eckberg's opinion in his testimony that it's  
18 possible for other customers to pay 100 percent of  
19 capacity costs. Do you recall that questioning?

20 A. (DaFonte) Yes, I do.

21 Q. And, your answer, and correct me if I misremember, was  
22 that you don't believe that that is possible, that  
23 customers would pay -- other customers would pay  
24 100 percent of capacity costs, annual capacity costs?

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 A. (DaFonte) That has not been our experience.

2 Q. Okay. But do you recall, you did participate in a  
3 technical session in this docket by telephone recently,  
4 do you recall that?

5 A. (DaFonte) I do.

6 Q. And, would you agree that there was at least one  
7 participant in that technical session that indicated  
8 they would pay 100 percent of capacity costs to  
9 Liberty?

10 A. (DaFonte) Sure. They did say that.

11 Q. Okay.

12 A. (DaFonte) But they haven't followed through on it.

13 Q. Okay. Okay. Thank you. I wondered if the Company had  
14 any response to the depreciation issue that Mr. Eckberg  
15 raised in his testimony, which we understand is more  
16 something to take up at the rate case -- at the next  
17 rate case. But wondered if you had any comments or  
18 concerns or disputes about the "half-year convention"  
19 he talked about on Page 6 of his testimony?

20 A. (Hall) No, he's fundamentally correct. In that,  
21 when -- if you look at rate base and rate of return,  
22 generally, it's an average of the beginning and ending  
23 balance of plant in service. Understand that the  
24 calculations that were in Attachment SRH-1 are really

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 illustrative calculations to demonstrate the economics  
2 of the project. And, as you indicated, that's  
3 something that will be taken up in the rate case.

4 We're not here today requesting cost recovery. We're  
5 simply requesting approval of the Contract. Once we  
6 get to the rate case, the additional investment will be  
7 appropriately reflected in our calculations.

8 Q. Do you also agree that the rate case is the appropriate  
9 venue for the Commission to consider the prudence of  
10 the Company's investment?

11 A. (Hall) In a sense, yes. But let me explain what I mean  
12 by that. If the Commission approves this contract in  
13 this docket, then we believe that means that the  
14 decision to enter into the contract, and therefore  
15 construct the compressors, was a prudent decision.  
16 However, we will still be subject to prudence review on  
17 whether we prudently incurred those costs, whether we  
18 prudently managed the project, and so on. But, from  
19 our perspective, approval by the Commission in this  
20 docket isn't -- shouldn't put us in a position of being  
21 second guessed later on, when it comes to the rate  
22 case, as to whether or not we should have entered into  
23 an agreement to purchase the compressors.

24 Q. Okay. Thank you. Will the Company perform the Special

[WITNESS PANEL: Hall~Clark~DaFonte]

1 Contract revenues in the next rate case?

2 A. (Hall) To be determined. There are many, many options.  
3 And, I'm sure they will be actively discussed during  
4 the rate case.

5 Q. And, I wondered at what level they would be proformed,  
6 the take-or-pay, the baseline, or the accelerated  
7 level?

8 A. (Hall) That's the \$64,000 question.

9 MS. HOLLENBERG: Okay. One moment  
10 please.

11 (Atty. Hollenberg conferring with Mr.  
12 Eckberg.)

13 MS. HOLLENBERG: Thank you. No other  
14 questions. Thank you.

15 CHAIRMAN IGNATIUS: Thank you. I'm  
16 going to turn now to the intervenors. And, you'll recall  
17 from the order on intervention, the Commission asked you  
18 to coordinate, to the extent possible, your discovery and  
19 presentation. Is there a designated lead intervenor to  
20 ask questions?

21 MR. PUFFER: Not to my knowledge. Not  
22 to my knowledge.

23 CHAIRMAN IGNATIUS: Well, that's  
24 unfortunate, because that's what we had instructed the

[WITNESS PANEL: Hall~Clark~DaFonte]

1 parties to do. But why don't we begin and see if -- I  
2 don't know the extent of your questions, each of your  
3 company's questioning may be. Why don't we begin with  
4 Mr. Puffer. If there's any way that -- obviously, we  
5 don't want repetitive questioning. And, if things were  
6 already covered by one, you don't need to go further.  
7 And, why don't we see where it goes. Mr. Puffer.

8 MR. PUFFER: Thank you. And, I've  
9 already scratched off some of the questions I was going to  
10 ask have already been asked today.

11 BY MR. PUFFER:

12 Q. I'd like to ask the panel, probably these are questions  
13 that are best directed to Mr. Hall, but I'll take  
14 answers from any of the three of you that are  
15 responsive. I turn your attention, first of all, to I  
16 believe it's the attachment to Mr. Hall's testimony,  
17 which is the "Computation of Revenue Requirement".  
18 It's a three-page spreadsheet.

19 A. (Hall) I'm there.

20 Q. Okay. Thank you. Now, at the top, under "Investment",  
21 you have "compressors a million dollars, piping, meter  
22 set, survey, etcetera 865,000", you with me on that?

23 A. (Hall) Yes.

24 Q. Okay. And, that's a breakdown of the estimated



[WITNESS PANEL: Hall~Clark~DaFonte]

1 \$2.245 million investment that Liberty would be making  
2 in this project, correct?

3 A. (Hall) Correct.

4 Q. Okay. Now, on the second item, the "Piping, meter set,  
5 survey, etcetera", "etcetera" always bothers me. Is  
6 that exactly what is included in that item spelled out  
7 in more detail somewhere else?

8 (Witnesses conferring.)

9 **BY THE WITNESS:**

10 A. (Clark) Yes. Excuse me. Those were spelled out in one  
11 of the confidential data requests on there.

12 BY MR. PUFFER:

13 Q. So, that there's -- it is not spelled out in anything  
14 that is public?

15 A. (Hall) Just one moment.

16 Q. Thank you.

17 (Short pause.)

18 **BY THE WITNESS:**

19 A. (Clark) That would be in Data Request Staff 1-5.

20 BY MR. PUFFER:

21 Q. Okay. And, I'd like to ask you some specific questions  
22 about specific items, and whether and where they're  
23 included in your numbers as set forth in the  
24 Computation of Revenue. Is there any -- I notice

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1           there's no specific line item for "dryers" in this  
2           process.  Is that included anywhere in the  
3           \$2.2 million?

4   A.   (Clark) It is included.  And, I believe it was, check  
5           with -- oh, yes.  It's that same data request, Staff  
6           1-5, has "gas conditioner" and "dryer".

7   Q.   Okay.  And, what is the dollar amount you have for  
8           that?

9   A.   (Hall) I don't recall if this data request -- if this  
10          is one of the data requests that we refiled in  
11          unredacted form.

12                           CHAIRMAN IGNATIUS:  Is this the Staff  
13   1-5?

14                           WITNESS HALL:  Yes.

15                           MS. HOLLENBERG:  Yes, it is.

16   BY MR. PUFFER:

17   Q.   The next question is, could you tell us where  
18          mechanical and civil engineering is included in your  
19          \$2.2 million?

20                           (Court reporter interruption.)

21   **BY THE WITNESS:**

22   A.   (Clark) Oh, I'm sorry.  That was not line itemed.  That  
23          was a cost for Sanborn Head Associates, our engineer,  
24          owner's engineer.

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 Q. Where, if at all, is the cost of bringing electricity  
2 to the site?

3 A. (Clark) To the site is Liberty's responsibility, and  
4 that was in Staff 1-5 as well.

5 Q. Okay. Now, Liberty's investment in this proposed  
6 project is estimated to be 2.245 million. And, this  
7 question might be better asked to someone from iNATGAS,  
8 but I'm going to ask you, and ask you to tell me what  
9 you can. Do you know whether iNATGAS, on its own or  
10 through any of its affiliates, could raise that amount  
11 of money, that is the \$2.245 million for this project?

12 A. (Clark) I personally believe they can.

13 Q. Okay. But, in this case, they're asking a regulated  
14 public utility to raise that amount of money for it or  
15 advance that amount of money for it in lieu of spending  
16 that money on its own, correct?

17 A. (Hall) That's something that Liberty wanted to do.  
18 And, the reason that we wanted to do it is we see value  
19 in this arrangement for customers. So, that was --  
20 that was our desire.

21 Q. And, iNATGAS, as you discussed earlier, is going to be  
22 paying higher than the present tariffed rates, correct?

23 A. (Hall) That is correct.

24 A. (Clark) Yes.

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 Q. And, they need to do that, to pay that, because to help  
2 pay off and to justify Liberty's investment in this  
3 project, correct?

4 A. (Clark) Correct.

5 Q. Now, is this type of venture a new one for Liberty,  
6 that is building the compressors yourselves and  
7 entering into this type of special contract?

8 A. (Clark) Yes.

9 Q. Okay. And, this is also a new venture for iNATGAS, is  
10 it not, a new type of a venture?

11 A. (Clark) Well, they have an extensive history of CNG  
12 compression with their vehicle --

13 (Court reporter interruption.)

14 A. (Clark) I'm sorry. They have extensive background of  
15 CNG compressor stations/vehicle refueling stations  
16 throughout New England.

17 BY MR. PUFFER:

18 Q. But their primary business is tolling facilities for  
19 motor vehicles, is it not?

20 A. (Clark) Correct.

21 Q. Not for providing a distribution station for large  
22 end-users, correct?

23 A. (Clark) This will be their second. They are in the  
24 construction phase for a similar facility in Worcester,

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 with a special contract with NSTAR.

2 Q. Okay. So, this type of arrangement then is a  
3 relatively new adventure for both Liberty and iNATGAS,  
4 correct?

5 A. (Clark) Yes.

6 MR. PUFFER: No further questions.  
7 Thank you. Thank you very much.

8 CHAIRMAN IGNATIUS: Thank you. Mr.  
9 Lavoie, do you have questions?

10 MR. LAVOIE: No.

11 CHAIRMAN IGNATIUS: And Mr. Drummond?

12 MR. DRUMMOND: Not at this time.

13 CHAIRMAN IGNATIUS: All right. Thank  
14 you. Mr. -- excuse me. Commissioner Honigberg, do you  
15 have questions?

16 BY CMSR. HONIGBERG:

17 Q. I'm going to ask Mr. Hall to go back to the Escrow  
18 Agreement, --

19 A. (Hall) Okay.

20 Q. -- the arrangement, and walk me through it again. I  
21 thought I understood it. I'm not 100 percent sure I  
22 understand how -- what the calculation is of and how  
23 the money gets then reduced and ultimately exhausted.

24 A. (Hall) Uh-huh.

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 Q. So, walk me through that again please.

2 A. (Hall) Uh-huh. At the end of year one, Liberty will  
3 look at the amount of revenue it received from iNATGAS  
4 for delivery. And, keep in mind that that revenue  
5 could be the minimum take-or-pay amount.

6 Q. Uh-huh.

7 A. (Hall) If they only use very little, they will have  
8 paid Liberty the minimum take-or-pay amount. So, the  
9 floor on that amount is going to be the minimum  
10 take-or-pay. We'll then take that amount and assume  
11 that that will be the revenue that we'll receive in  
12 years two, three, four, and five. We'll discount that  
13 stream of revenue to the present, and we'll come up  
14 with a dollar amount. And, that essentially becomes  
15 the dollar amount that would get released by the escrow  
16 agent, and any residual amount would have to remain in  
17 escrow going into year two.

18 Q. The purpose of the escrow is to assure that there's  
19 money available to make the take-or-pay payment, isn't  
20 it?

21 A. (Hall) Yes. It's additional assurance.

22 Q. So, is that money that, I think you said initially,  
23 that the payment they make might be the minimal  
24 take-or-pay amount, that's money that would be paid

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 separately, not from the escrow originally?

2 A. (Hall) Correct.

3 Q. Under what circumstances would the money be taken from  
4 the escrow, for you, not back to iNATGAS, but at what  
5 point would Liberty be entitled to money from the  
6 escrow?

7 A. (Hall) In the event that they failed to make a payment.

8 Q. And, then, how would you calculate what you're entitled  
9 to at that point?

10 A. (Hall) We would be entitled to the minimum take-or-pay  
11 amount for that year.

12 Q. And, so, that's why you're leaving in the present  
13 value -- what you calculated to be the present value of  
14 the amount that you'd be due, correct?

15 A. (Hall) Yes.

16 Q. All right. I got it now. Thank you.

17 A. (Hall) Uh-huh.

18 Q. And, Mr. Hall also, I think you said, when you  
19 originally calculated whether this contract was  
20 beneficial to ratepayers, you calculated it separate  
21 and apart from any capacity benefits, right?

22 A. (Hall) Correct. Attachment SRH-1 to my testimony  
23 doesn't include any additional value that will be  
24 realized --

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1                   **(Fire alarm interruption with a steady**  
2                   **shrill siren sounding off.)**

3                   (Upon exiting the building, we were  
4                   notified that it was an inadvertent trip  
5                   of the fire alarm, thereafter a lunch  
6                   recess was taken at 11:50 a.m. and the  
7                   hearing resumed at 12:58 p.m.)

8                   CHAIRMAN IGNATIUS: We're back now after  
9                   a lunch break. And, Commissioner Honigberg was asking  
10                  some questions of the panel.

11 BY CMSR. HONIGBERG:

12 Q.     Actually, I think I had asked a question. Mr. Hall was  
13                  in the middle of an answer. It had to do with the  
14                  benefits of the -- the capacity benefits to the  
15                  contract.

16 A.     (Hall) Correct.

17 Q.     So, --

18 A.     (Hall) The analysis that we performed, and that I  
19                  attached to my testimony, did not include any benefits  
20                  associated with that capacity benefit that Mr. DaFonte  
21                  spoke of.

22 Q.     Those are additional benefits on top of what you'd  
23                  already calculated would work?

24 A.     (Hall) Yes.

{DG 14-091} {06-10-14}



[WITNESS PANEL: Hall~Clark~DaFonte]

1 CMSR. HONIGBERG: I believe that was all  
2 I had wanted to ask, but I'll just flip through my notes  
3 real quick, because we did have that opportunity,  
4 unexpected as it was, to break. I think that's all I  
5 have. Thank you.

6 CHAIRMAN IGNATIUS: I have a few further  
7 questions.

8 BY CHAIRMAN IGNATIUS:

9 Q. Why don't we look at the engineering diagrams for a  
10 moment, and just the one that was called "B", which is  
11 Staff 4-3. A few questions just to clarify what we're  
12 dealing with here. Are there any residences in the  
13 area?

14 A. (Clark) Yes. There are two residences located at the  
15 top of 9 Broken Bridge Road, I believe the addresses  
16 are 9 and 11 Broken Bridge Road. Both of those  
17 residences are actually in the industrial zone, as far  
18 as the zoning ordinances.

19 Q. And, as part of the proceedings before City planning or  
20 zoning, will they be notified of this project?

21 A. (Clark) That's still to be determined. Right now,  
22 they're not technically abutters, but we may be  
23 notifying anyways.

24 Q. Does truck activity increase if this were approved?

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 A. (Clark) Yes, it will.

2 Q. Where will the trucks go, if you're looking at the  
3 schematic, I assume you're coming down Broken Bridge  
4 Road. Does it then -- tell me where it then turns?

5 A. (Clark) So, they will be driving south down Broken  
6 Bridge Road, turning right into where it says "Existing  
7 private drive", and then turning left right at the  
8 beginning of that cul-de-sac, where there's that piece  
9 of fence that sticks out. That will be a remote -- a  
10 card access gate. So, the truck drivers will have a  
11 card that will open that gate, to allow them to then  
12 pull in straight through that canopy. That canopy was  
13 referenced earlier today as a "building", but the  
14 structure, it's actually just a drive-through canopy.  
15 So, those trucks will drive straight through that  
16 canopy and hook up to the fuel dispensers for fill-up.

17 Q. So, the trucks don't need to go down to the lower  
18 building that says "Meter set for CNG station"?

19 A. (Clark) That is correct. They do not. The line with  
20 the white circles on there is actually a fence line  
21 that will be separating the compressor station from  
22 that fill station.

23 Q. And, the compressor station itself is the long  
24 rectangular hatched area with what looks like six

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 chimneys, but there sort of six cylinders?

2 A. (Clark) Six, six compressors, four, the initial  
3 build-out, with the potential for six. Also, the gas  
4 conditioner and dryer will be located in that facility.

5 Q. Does the -- excuse me?

6 A. (Clark) I'm sorry. Just to be clear, when you  
7 mentioned the "six potential chimneys", I was looking  
8 at the very little small rectangle things, where it  
9 says "Meter set CNG station". Is that what you were  
10 referencing?

11 Q. No. I was thinking of the larger rectangle above.

12 A. (Clark) Okay. The larger rectangle are actually the  
13 CNG tube trailers.

14 Q. All right. So, that's where it's all part of the  
15 loading of the product?

16 A. (Clark) That's the canopy, the loading of the product,  
17 correct.

18 Q. Okay. So, the -- so, thank you for that clarification.  
19 The actual compressors then is the smaller unit in the  
20 lower right-hand corner?

21 A. (Clark) Correct.

22 Q. Does the fact that trucks pull into that driveway  
23 that's just within the circle of thermal dispersion  
24 raise any risks to the trucks or to the units, the

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 compressing facilities itself?

2 A. (Clark) We do not see any risk. Currently, that  
3 driveway is utilized for our LNG tanker trucks that are  
4 making LNG deliveries, as well as our diggers,  
5 tractors, pickup trucks that are storing at the end of  
6 the cul-de-sac, where they're storing pipe and fill and  
7 other utility capital.

8 Q. And, when you compare B to A, there was another change,  
9 not just the movement of the compressors to the farther  
10 south, but also, in the existing LNG facility, it looks  
11 like increased earthen impoundment. Is that something  
12 that's being added or just the schematic is more  
13 detailed?

14 A. (Clark) That schematic is more detailed. That came  
15 about after Sanborn Head did site visits and had one of  
16 our representatives out there to do detailed drawings.

17 Q. Is there any way that the existing LNG facility needs  
18 to be fortified or is in any way at risk as a result of  
19 the compressor station going in?

20 A. (Clark) No.

21 Q. Tennessee Gas is listed as an owner at the very top of  
22 the -- where the existing drive enters onto Broken  
23 Bridge Road. Is that Tennessee Gas Pipeline?

24 A. (Clark) That is. That's their portion of the take

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 station.

2 Q. And, does Tennessee Gas have any concerns about this  
3 project, in terms of safety?

4 A. (Clark) No, they do not.

5 Q. They're aware of it?

6 A. (Clark) Yes.

7 Q. I think it was Mr. Clark, you mentioned that, after the  
8 first year, iNATGAS could become -- move from a sales  
9 customer to a transportation customer, he could shift  
10 back again, and, presumably, it could shift back and  
11 forth, is that right?

12 A. (Clark) Under the existing tariff, they can.

13 Q. How much lead time do you need to be able to  
14 accommodate a customer as a sales customer, who had not  
15 been before, or to make the shift to turn them into a  
16 transportation customer?

17 A. (DaFonte) I can answer that. Excuse me. You know, we  
18 would certainly like as much lead time as possible.  
19 The main concern is that a customer comes back in the  
20 middle of the winter, for example. That creates  
21 additional planning concerns for us. However, in this  
22 instance, we have sufficient capacity at this time to  
23 meet the requirements that they might have, at least as  
24 we forecast it, up through the fifth year, where --

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 under the normal volumes that they're committed to  
2 taking. But, typically, with any customer, we would  
3 like to have at least a 6-month to 12-month lead time  
4 notice period. So that, in the summer period, we would  
5 still have sufficient opportunity to make our plans for  
6 the winter period and include this customer in the  
7 sales forecast.

8 Q. Does the lease have any minimum notice requirements?

9 A. (Clark) No, it does not.

10 A. (DaFonte) No. They are effectively operating under the  
11 Company's general tariff for transportation service.  
12 So, they would be treated like any other transportation  
13 customer.

14 Q. Does that tariff have any minimum notice requirements,  
15 if it's to change its status?

16 A. (DaFonte) I don't believe it does. Initially, a  
17 customer has 90 days to determine whether they want to  
18 remain a sales customer or move to transportation  
19 service. But that's only once it's initially in  
20 service, regardless of the type of customer it is.  
21 But, then, beyond that, I don't believe there's a  
22 minimum requirement to stay on a particular rate for  
23 any specified amount of time. But that's subject to  
24 check. I know that in -- there are companies that have

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 tariffs that require a customer to remain on a company  
2 tariff rate for 12 months. So, it could be a  
3 transportation rate schedule or it just could be a  
4 sales rate schedule, but they have to remain on that  
5 for 12 months, which helps with, certainly, with the  
6 planning. So that, if someone does come to sales  
7 service, we know that we have to plan for them for the  
8 next 12 months. Alternatively, if they go to  
9 transportation, then we know we don't have to plan for  
10 them for at least 12 months.

11 Q. And, did you say you're not certain whether the tariff  
12 has those requirements or you think they do not? Or,  
13 Mr. Hall, if you have any information on that?

14 A. (DaFonte) Subject to check, I don't believe that there  
15 is a minimum requirement to stay on a particular rate  
16 schedule for a specified amount of time.

17 Q. Doesn't that put ratepayers at risk, either it being --  
18 holding more capacity than needed, that you said you  
19 can't fully recover on the market, or being not ready  
20 to provide that capacity and having to obtain it  
21 possibly at higher prices?

22 A. (DaFonte) If the customer comes back to sales service,  
23 the risk would be that we don't have sufficient  
24 capacity to serve them on a design day. As I

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 mentioned, at least at this point, under the minimum  
2 take provisions, we would have sufficient capacity. If  
3 the customer were to leave, after having come back once  
4 already, when they do leave, they would take the  
5 capacity with them. They have to. And that,  
6 therefore, they are paying 100 percent of the capacity  
7 costs that they have incurred on the system. So, every  
8 time they come back, their capacity allocation gets  
9 recalculated.

10 Q. So, if they become a transportation customer, can they  
11 only be a firm transportation customer? They can't be  
12 an interruptible or --

13 A. (DaFonte) I believe we have an interruptible  
14 transportation tariff. But I don't believe any  
15 customers are on that tariff at this point in time. If  
16 your concern is that a sales customer can go to  
17 interruptible transportation and not take the capacity  
18 with them, I believe that that's not the case. If  
19 you're a sales customer, you have to take your capacity  
20 with you.

21 Q. All right. Mr. Hall, does that comport with your  
22 understanding of the requirements as well?

23 A. (Hall) Yes.

24 Q. You looked quizzical, I wasn't sure why.

{DG 14-091} {06-10-14}



[WITNESS PANEL: Hall~Clark~DaFonte]

1 A. (Hall) I was listening.

2 Q. Mr. DaFonte, you had said that, I think it was you, you  
3 said part of your duties are to -- or, maybe it was  
4 Mr. Clark, I'm sorry, part of your duties are to look  
5 for growth opportunities for the Company?

6 A. (Clark) Correct.

7 Q. Does the growth of a company like iNATGAS come at the  
8 expense of the growth of Liberty?

9 A. (Clark) No, it does not.

10 Q. How does Liberty grow its customer base, if it's at the  
11 same time enabling a company like iNATGAS to serve  
12 customers who are interested in natural gas?

13 A. (Clark) The customers that would be interested in  
14 natural gas are stranded from the pipeline, and, in the  
15 foreseeable future, not going to be able to connect to  
16 a pipeline due to distance and economics of \$5 million  
17 per mile, for a transmission line to go 60 miles for  
18 two customers just doesn't make sense. So, these are  
19 customers that, at this time, we would not be able to  
20 serve. In the event that they were in a territory that  
21 we expanded to, while they're on CNG, our delivered  
22 rate for pipeline gas would be, my opinion,  
23 significantly less than CNG, and they would switch over  
24 to the Company, with zero cost to them for the switch,

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 because their boilers and equipment would already be  
2 converted to natural gas. So, it would just be Liberty  
3 Utilities would run a new service line, install a  
4 meter, and they would be on pipeline gas. So, it could  
5 actually benefit us in the future, if we expand to  
6 those territories.

7 Q. So, equipment that is capable of taking CNG is also  
8 capable of taking natural gas?

9 A. (Clark) Yes. At the NG site, the trailer will show up  
10 between 3,600 and 4,000 PSI. And, then, it will go  
11 through a decompression skid to enter the building,  
12 which is typical with our pressures.

13 Q. Mr. Hall, you had said that you don't know the rate  
14 impact to Liberty customers, if this were approved.  
15 That you haven't calculated that?

16 A. (Hall) I've done a very rough calculation, and I'll  
17 tell you how I did it.

18 Q. Yes, I'd be interested, because I was surprised that  
19 you didn't have that calculation done?

20 A. (Hall) Well, the rate impact is pretty small. If you  
21 look at Attachment SRH-1, which is Bates Page 7, --

22 Q. This is in your testimony, Exhibit 3?

23 A. (Hall) Yes. You look down on Line 45, the -- I'm  
24 sorry, Line 40. The first year revenue requirement is

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 about \$366,000. Then, it decreases every year  
2 thereafter. Just using very rough numbers, if you  
3 divide the \$366,000 of annual revenue requirement by  
4 88,000 customers, you get an amount that's just over  
5 \$4.00 per customer per year. That doesn't include any  
6 reduction that would accrue as a result of the revenue  
7 that Liberty will receive from iNATGAS. And, from a  
8 residential customer perspective, obviously, the \$4.00  
9 would be a much lower amount. So, that gives you a  
10 ballpark idea of the annual impact per customer.

11 Q. What is your estimate of the revenue received that you  
12 would then credit against that?

13 A. (Hall) The revenue that we would receive you can see in  
14 the box on the lower part of the exhibit. Under the  
15 "Minimum Take-or-Pay Assumption", it would be  
16 "\$192,600" in year one. Under the "Baseline", it's  
17 "314,600". And, under the "Accelerated", it's  
18 "467,100".

19 So, let's work with the minimum  
20 take-or-pay assumption. If we then look at the net  
21 amount, that's about \$173,550, net of the revenue that  
22 we receive. And, we divide that by 88,000 customers,  
23 you get about a dollar -- you get under \$2.00 a  
24 customer per year. For residential, again, that \$2.00

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 is going to be lower. And, that doesn't include any  
2 value associated with capacity, capacity revenue.

3 Q. And, in the -- I won't finish that question, because I  
4 see it's shaded. All right. Go ahead.

5 A. (Hall) I'm done.

6 Q. And, so, --

7 MS. KNOWLTON: May I just --

8 CHAIRMAN IGNATIUS: Yes.

9 MS. KNOWLTON: I don't believe those  
10 shaded numbers are confidential.

11 WITNESS HALL: No, they're not.

12 MS. KNOWLTON: And, Mr. Hall, would you  
13 confirm that?

14 CHAIRMAN IGNATIUS: Oh. Okay.

15 WITNESS HALL: They are not.

16 BY CHAIRMAN IGNATIUS:

17 Q. So, in the fifth year, you go positive?

18 A. (Hall) Yes.

19 Q. In the greater revenue than the costs?

20 A. (Hall) Yes. From year five forward. And, you know, I  
21 mean, throughout this, we've been focusing on the first  
22 five years of the Contract. If you flip to Pages 2 and  
23 3 of SRH-1, that gives you an idea of what might happen  
24 in outer years. Now, granted, the further you go out,

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 the less reliability or less confidence you'd have in  
2 the assumptions. That goes with any forecast. But, if  
3 you start looking at the net benefit in the out years,  
4 by year ten, even under the minimum take-or-pay  
5 assumption, that's a \$2.7 million benefit to customers.  
6 And, that is -- that's about 30 bucks a year.

7 Q. Thank you. The Escrow Agreement addendum you had said  
8 will be filed with the Commission. Do you have a date  
9 on when that will be submitted?

10 A. (Hall) I would like to say we could submit it this  
11 week, but we're working with other parties as well. We  
12 will submit it as soon as we can.

13 CHAIRMAN IGNATIUS: We should reserve an  
14 exhibit number for that addendum, or whatever the title of  
15 it is going to be. Which I think at this point would be  
16 Exhibit 8?

17 MS. DENO: That's right.

18 **(Exhibit 8 reserved)**

19 BY CHAIRMAN IGNATIUS:

20 Q. And, similarly, on the Operation and Maintenance  
21 Contract, any estimate of when that will be filed?

22 A. (Clark) That's going to be a few more weeks. Sanborn  
23 Head is still through the design process, and we  
24 haven't finalized all the equipment. So, we need to

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1           finalize all the equipment model numbers and  
2           specifications before we agree on the maintenance. I  
3           would anticipate about three weeks.

4 Q.    Is there a version of that that could be submitted  
5           before all of the final details of the equipment  
6           numbers are inserted?

7 A.    (Clark) Yes. Sure.

8 Q.    I mean, I think that's a level of detail that we would  
9           not be concerned with.

10 A.    (Clark) Okay.

11 Q.    But the structure of the provision would be?

12 A.    (Clark) The structure, yes.

13                           CHAIRMAN IGNATIUS: All right. Then  
14           let's reserve Exhibit Number 9 --

15                           MS. DENO: Nine, yes.

16                           CHAIRMAN IGNATIUS: -- for the  
17           Operations and Maintenance Contract.

18                           **(Exhibit 9 reserved)**

19 BY CHAIRMAN IGNATIUS:

20 Q.    Is it the Company's expectation that the Commission act  
21           on the proposal before those two pieces of -- those two  
22           changes have arrived or that there be no action until  
23           they have been received and reviewed?

24 A.    (Hall) I think we can wait until we submit the

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 information. That will provide some incentive for us  
2 to submit it quickly.

3 CHAIRMAN IGNATIUS: Yes, it will. Those  
4 are my questions. Thank you very much. Ms. Knowlton, any  
5 redirect?

6 MS. KNOWLTON: Yes. I have a few  
7 questions.

8 **REDIRECT EXAMINATION**

9 BY MS. KNOWLTON:

10 Q. On cross-examination, there were some questions about  
11 where ownership of the gas would be taken. Would any  
12 of the panel members provide some further clarification  
13 on that point please.

14 A. (DaFonte) The custody transfer point, as it would be  
15 called, would take place after the Company's meter and  
16 prior to going into the compression facilities.

17 Q. Does the Special Contract address that location?

18 A. (DaFonte) It does.

19 Q. Could you point us to where that is.

20 A. (Hall) It's on Bates Page 58. It's Page 4 of the  
21 Contract. There's a definition of a "delivery point"  
22 and a definition of a "designated receipt point". And,  
23 those two definitions referred to Exhibits A and B,  
24 that were supposed to be attached to the Contract.

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 They were inadvertently omitted. So, we also have to  
2 provide that to the Commission.

3 Q. Do you have an estimate of when that would be  
4 available?

5 A. (Hall) By the end of the week.

6 Q. Mr. Clark, on cross-examination you were asked about  
7 the personal guarantee that Mr. Alizadeh has provided  
8 in this matter in association with the Lease and the  
9 Special Contract. Are there -- is there another  
10 guarantee that's being provided here?

11 A. (Clark) Yes. There is another guarantee in the form of  
12 a security attachment to AVSG, Alternative Vehicle  
13 Service Group, LP assets, as well as the personal  
14 guarantee.

15 Q. And, how substantial an entity is AVSG?

16 A. (Clark) AVSG has been around for over 20 years, has  
17 built and continues to own and operate multiple CNG  
18 vehicle refueling stations throughout the region. They  
19 recently completed the estimated approximately  
20 \$1 million station in Nashua, with public access, which  
21 they built with cash on hand and zero debt. Their  
22 company is debt-free. So, we believe that the AVSG  
23 guarantee is actually stronger than any of the other  
24 guarantees.

{DG 14-091} {06-10-14}



[WITNESS PANEL: Hall~Clark~DaFonte]

1 I also wanted to point out that the  
2 Special Contract with NSTAR in Massachusetts also has a  
3 personal guarantee. However, Liberty was able to  
4 negotiate the AVSG guarantee, the right to purchase the  
5 net book -- the right to purchase the facility at net  
6 book value, as well as the escrow, above and beyond the  
7 personal guarantee.

8 Q. With regard to the special contract with NSTAR, who is  
9 the other party to that contract?

10 A. (Clark) iNATGAS.

11 Q. Thank you. Mr. Clark, you were also asked about  
12 liability issues and potential concerns about who would  
13 bear the responsibility if there was an adverse event  
14 that occurred on the leased premises. Does the Lease  
15 provide any insurance protection to the Company were  
16 such an event to occur?

17 A. (Clark) Yes, it does. On Bates Page 37, Page 10, it  
18 reflects the tenant's insurance. So, the tenant shall,  
19 at their sole cost and expense, obtain insurance for  
20 comprehensive public liability insurance of  
21 \$10 million, along with workmen's compensation,  
22 automobile/vehicle liability insurance, and such  
23 insurance with respect to the premises as reasonably  
24 required by landlord, us. There is also liability,

{DG 14-091} {06-10-14}

[WITNESS PANEL: Hall~Clark~DaFonte]

1 which is on Bates Page 36. Under "Liability", that's  
2 we'll indemnify landlord parties for any events that  
3 occur.

4 Q. Were these requirements imposed on iNATGAS by Liberty  
5 Utilities?

6 A. (Clark) Yes, they were.

7 Q. On cross-examination, there was also questioning about  
8 the risk associated with this project. Does the  
9 Company make capital investment -- capital investments  
10 to serve large commercial/industrial customers as a  
11 matter of general practice?

12 A. (Clark) We do. We'll take them on a case-by-case  
13 basis. We will do an engineering analysis to see if  
14 they can be served. We will do a complete construction  
15 estimate for the cost to serve them. From that point,  
16 we will get a load letter from that large industrial  
17 customer and use our tariff six-year revenue test to  
18 determine if there's a CIAC involved. That's the  
19 standard business. But, again, those are projections  
20 of what the loads will be over six years, without any  
21 guarantees, that we're willing to do, make investments  
22 on currently.

23 Q. And, when you referred to a "guarantee", you mean  
24 "guarantee" in the sense of the type of guarantee that

{DG 14-091} {06-10-14}

1 AVSG has provided here?

2 A. (Clark) Correct.

3 Q. And, in those circumstances, are there any minimum  
4 take-or-pay requirements for those customers?

5 A. (Clark) No, there is not.

6 Q. Mr. DaFonte, you were asked on cross-examination about  
7 a discussion that occurred during a technical session  
8 with regard to a potential purchase of capacity that  
9 the Company may have. Would you elaborate on that  
10 discussion.

11 A. (DaFonte) Yes. The intervenor stated that they would  
12 purchase Liberty's capacity at 100 percent of the  
13 value. The Company, as mandated by the Federal Energy  
14 Regulatory Commission, must post any capacity releases  
15 out on the electronic bulletin board of the interstate  
16 pipeline where it can be bid on by anyone. So, in  
17 essence, it's conducting an RFP process each and every  
18 time that it posts capacity. And, at no time has that  
19 intervenor ever bid on capacity that the Company has  
20 put out in the secondary market.

21 In addition, this particular intervenor  
22 has customers that it's serving behind EnergyNorth, and  
23 those customers do not have capacity that is assigned  
24 to the intervenor by EnergyNorth. Yet, their statement

[WITNESS PANEL: Hall~Clark~DaFonte]

1 that they would purchase capacity from EnergyNorth at  
2 100 percent of the value would seem to contradict the  
3 fact that they are serving customers today without the  
4 EnergyNorth capacity. So, we think it's a little bit  
5 misleading, as far as that statement by the intervenor  
6 in question.

7 MS. KNOWLTON: I have no further  
8 redirect.

9 CHAIRMAN IGNATIUS: Thank you. Then,  
10 witnesses are excused. Thank you very much.

11 WITNESS HALL: Thank you.

12 WITNESS CLARK: Thank you.

13 CHAIRMAN IGNATIUS: Mr. Speidel, your  
14 witness, Mr. Frink, is next, correct?

15 MR. SPEIDEL: That's right. And, in  
16 connection with that, I would like to provide some  
17 photostats of tariff language. This does not have to be  
18 noticed as a hearing exhibit, as it is an existing tariff.  
19 Just by way of clarification about what the specific  
20 tariff language of the Company requires in a given  
21 context. I'll just pass around the hearing room. And, I  
22 would also like to invite Mr. Frink to take the stand.

23 CHAIRMAN IGNATIUS: Please.

24 MR. SPEIDEL: Thank you.

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 (Atty. Speidel distributing documents.)

2 CHAIRMAN IGNATIUS: This is off the  
3 record.

4 (Brief off-the-record discussion  
5 ensued.)

6 (Whereupon **Stephen P. Frink** was duly  
7 sworn by the Court Reporter.)

8 CHAIRMAN IGNATIUS: Please begin.

9 **STEPHEN P. FRINK, SWORN**

10 **DIRECT EXAMINATION**

11 BY MR. SPEIDEL:

12 Q. Mr. Frink, could you state your full name and title  
13 here at the Commission please.

14 A. Stephen Frink. And, my title is the Assistant Director  
15 of the Gas and Water Division.

16 Q. Excellent. Do you have before you Exhibit 4, which is  
17 the June 4th Staff Report?

18 A. I do.

19 Q. Did you prepare this Report as part of your  
20 responsibilities here at the Commission?

21 A. Yes, I did.

22 Q. And, do you still adopt the general conclusions of this  
23 Report today?

24 A. I do.

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 Q. Are there any specific changes or clarifications you'd  
2 like to make regarding the Staff Report?

3 A. There are two. On Page 7 of the Report, where it says  
4 "Staff Recommendation on Entering the Special Contract  
5 and Lease Agreement", in the very first sentence,  
6 second line, it says "as required by RSA 374:32", that  
7 should be "374:30". And, then, on Page 10, the second  
8 to last line, under "Rate Treatment", it says "if the  
9 Commission rules that the investment is prudent as part  
10 of this proceeding Staff would not seek to disallow the  
11 costs if the project ultimately proved unprofitable."  
12 And, that should read "if the Commission rules that the  
13 investment is prudent as part of this proceeding Staff  
14 would not seek to disallow the estimated or prudently  
15 incurred costs if the project ultimately proved to be  
16 unprofitable." That's by way of clarification, if we  
17 have a cost estimate of 2.2 million for Liberty, if  
18 those costs should come in at double that, then there  
19 would -- the issue of prudence would probably come up  
20 in a rate proceeding.

21 Q. Okay. In general terms, would you please explain  
22 Staff's primary concerns outlined in the Report  
23 regarding the Special Contract proposal.

24 A. The greatest risk that Staff sees in this contract is

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 that they're providing gas to a individual that at this  
2 point has no customers. And, if that business plan  
3 isn't fruitful, if iNATGAS is unable to sign up  
4 customers, then it has no sales, then, under the terms  
5 of this agreement, even with the "must take" provisions  
6 they would not fully recover their investment. And,  
7 also, even though those "must take" provisions are  
8 guarantied by two entities, since they're all owned by  
9 the same person, and they all are largely dependent on  
10 the sales of compressed natural gas. So, there are  
11 concerns that, one, the iNATGAS station doesn't --  
12 doesn't attract any customers and, consequently,  
13 iNATGAS defaults, and the guarantors are unable or do  
14 not make the required payments under the "must take"  
15 provisions. So, that's the primary biggest concern  
16 that Staff has.

17 There's also the problem with the  
18 conflict of interest related to Liberty owning the  
19 compressors and being responsible for replacing those  
20 compressors if there's a failure, and how well those  
21 compressors run are largely dependent on how they're  
22 operated and how they're maintained. Those costs are  
23 the responsibility of iNATGAS. So, you could imagine a  
24 situation where it's an extremely cold day, the

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 pressures off the pipeline are not ideal. If it was  
2 Liberty running the compressors, they may elect not to  
3 run them and risk damaging the compressors. Whereas,  
4 iNATGAS, in a desire to meet their sales, and not  
5 having the ultimate responsibility of replacing those  
6 compressors, would prefer to keep them running. So,  
7 it's critical that, from a ratepayers' perspective,  
8 that Liberty has the final say in protecting those,  
9 that investment. So, those were the two primary  
10 concerns that Staff considers the biggest risk.

11 Q. How do your recommendations in the Staff Report address  
12 those risks?

13 A. Well, the Staff recommended that there be a some time  
14 of -- some kind of financial requirement, be it, you  
15 know, property that could be put up or a security bond,  
16 or an escrow certainly works as well, that the utility  
17 would be able to draw on in the event of a default by  
18 iNATGAS and the failure of the guarantors to honor that  
19 agreement. So, what Staff did is calculated what the  
20 net present value of the payments, under the "must  
21 take" provisions, Liberty is making a 2.2 million  
22 investment. Actual payments over the five years under  
23 the "must take" provision is approximately 1.8 million.  
24 Customers are at risk for 400,000. That's not a big

{DG 14-091} {06-10-14}



[WITNESS: Frink]

1 amount, and it's an acceptable risk, in Staff's  
2 opinion, given the potential benefits. But, if you  
3 get -- if iNATGAS doesn't get any customers and doesn't  
4 satisfy the "must take" obligations, then they're at  
5 risk for the entire 2.2 million. So, this escrow means  
6 that, now, say iNATGAS defaults in the first year, the  
7 guarantors can't meet that requirement, this escrow  
8 could be tapped, and the 1.2 million would be available  
9 to satisfy what the net present value of the "must  
10 take" cash flow would be over the five years.

11 And, to be fair to iNATGAS, if their  
12 baseline projections are met, then they're going to --  
13 this project will immediately reap benefits to  
14 ratepayers, and we didn't feel that money should be  
15 tied up in an escrow when it's not needed. So that  
16 this Staff's recommendation was that this be adjusted  
17 at the end of each year. And, it's a little different  
18 than what I understood the Company to be saying for an  
19 escrow. The assured revenues are based on the prior 12  
20 months sales. So, if iNATGAS doesn't get any  
21 customers, but still makes a payment under the "must  
22 take" provisions, that would not assure that the next  
23 four years we're going to see those payments. Under  
24 Staff's proposal, the actual delivery revenues and rent

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 payments for that first year is what you'd use is -- is  
2 what gives you the assurance that those sales will be  
3 there in the future.

4 As a matter of fact, I would say, if  
5 there are no sales in the first year and they're just  
6 making the "must take" payment, that would put the  
7 likelihood of a default further down the road even  
8 greater. So, that is not what Staff had envisioned,  
9 but we'll reserve judgment until we see this escrow as  
10 to exactly how it's proposed to work.

11 But, under Staff's proposal, when they  
12 get -- when they experience sales in that first year,  
13 at the end of year one, we're assuming that they will  
14 meet or exceed those sales in the following years.  
15 And, then, at the end of year two, same situation,  
16 whatever they had for sales in year two, I'm assuming  
17 that the sales will increase. Then, that's -- you  
18 would say "okay, we expect to get those same level of  
19 sales or more over years three through five." So,  
20 that's what the assured sales represent. That's what  
21 this financial arrangement is supposed to achieve, is  
22 that it gives you a reasonable assurance that this  
23 Contract will meet the minimum requirements as provided  
24 for under the "must take" provisions, and the Lease

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 Agreement as well. The Lease Agreement requires the  
2 payments, the annual -- the monthly and annual rent  
3 payments, and the guarantors have backed that up as  
4 well.

5 And, then, the other suggestion was that  
6 the parties enter a Maintenance Agreement that gives  
7 Liberty the final say on operations and maintenance to  
8 the compressors. And, as we heard, that's -- the  
9 utility is working on that, and that doesn't seem to be  
10 an issue.

11 So, those were, if we can -- Staff's  
12 suggestion that these conditions be imposed on the  
13 Company addresses our concerns. We realize that is  
14 structured -- the full -- the "must take" provisions do  
15 not provide full recovery of the investment, and that  
16 was understood. We also understand that the capacity  
17 revenue is not a certainty, delivery revenues aren't a  
18 certainty. But we expect there will be a level of  
19 those as well. But, even absent those, this contract  
20 is favor -- has potential to be very favorable for  
21 customers, very advantageous.

22 Q. Okay, Mr. Frink. So, as you understand, the Company is  
23 going to be submitting a Escrow Agreement proposal to  
24 the Commission to be filed as Exhibit 8. You would

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 strongly recommend that Staff have the opportunity to  
2 review and comment on the features of that said Escrow  
3 Agreement, is this correct?

4 A. Absolutely. As I just stated, what I heard during the  
5 Company's testimony, it wasn't exactly what I had  
6 envisioned. We're going to need to see the escrow  
7 arrangement and the Maintenance Agreement in writing,  
8 which we'll then review and make a recommendation, a  
9 written recommendation at that time, is how I would  
10 prefer to approach this.

11 Q. So, you would expect that Staff would provide a prompt  
12 and written recommendation regarding Exhibits 8 and  
13 9, --

14 A. That's correct.

15 Q. -- the O&M agreement as well?

16 A. Yes.

17 Q. And, if the Staff were to find those elements to be  
18 satisfactory, it is your expectation then, in turn, the  
19 Staff would make a final recommendation for approval of  
20 the Special Contract and Lease currently being  
21 considered, correct?

22 A. That is correct.

23 Q. Okay. Thank you. I just have a couple of small  
24 clarification questions regarding certain tariff

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 language or tariff requirements, switching between  
2 sales service and transportation service. There were  
3 some questions directed to the Company by the  
4 Commissioners and others. And, I have passed around  
5 the room, and thank you to co-counsel Sheehan for  
6 providing this for us so promptly, there's Page 71 and  
7 72 of the Company's tariff. And, again, I haven't  
8 noticed this as an exhibit, because this is something  
9 that's available in the public record as a preexisting  
10 element. But it refers to rate classification G-54.  
11 Now, Mr. Frink, if iNATGAS were not to enter into this  
12 Special Contract with Liberty, is it fair to say that  
13 it would sign up for service under rate classification  
14 G-54?

15 A. They would qualify as a -- in the customer class G-54,  
16 yes.

17 Q. Okay. So, turning the page to Page 72, there's a  
18 segment marked "Terms and Conditions" in the very first  
19 paragraph. Could you just read that first sentence out  
20 for us.

21 A. Yes. "To be" -- excuse me -- "To be eligible for this  
22 service, a customer must sign a contract for a one year  
23 period, which contract shall include the authority for  
24 the Company to monitor the customer's continued

[WITNESS: Frink]

1 qualification for this service. In the event the  
2 customer fails to meet the eligibility [requirements]  
3 set forth in the availability contract" -- "in the  
4 availability section of this schedule based on a  
5 monthly evaluation employing the most recent twelve  
6 month period, the Company may require that the customer  
7 be billed prospectively under an alternative rate  
8 subject to the terms of the customer's Service  
9 Agreement."

10 Q. So, that wasn't a word-for-word reading, but I think we  
11 got the gist of what was being written there. What is  
12 your interpretation of this meaning of the tariff for  
13 switching between sales and transportation service?

14 A. Well, if a customer signs up for sales service under  
15 the terms and conditions of this tariff, that customer  
16 must remain on sales service for a one year period.  
17 There's nothing to preclude that customer from leaving  
18 delivery only service at any time. So, a customer,  
19 iNATGAS, under the terms of the Special Contract, is a  
20 firm sales customer for one year. After which, at any  
21 point he could elect to take delivery only service.  
22 But, if he wished to return to sales service, then he  
23 would have to remain on sales service for one year.

24 I would also say, not included in this,

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 on these two tariff pages, there are requirements that  
2 the utility has to provide service subject to  
3 availability. So, if Liberty does not have the  
4 capacity to serve iNATGAS after it becomes a  
5 transportation customer, then Liberty would simply --  
6 wouldn't be able to accept them as a sales customer.

7 Q. Thank you for that clarification. And, one more  
8 clarification. Mr. Frink, is it your understanding and  
9 Staff's expectation that, whatever additional Escrow  
10 Agreement provisions are provided as part of Exhibit 8,  
11 are in addition to the general guarantee provided by  
12 AVSG and the principal of iNATGAS to Liberty in case of  
13 default?

14 A. Absolutely. It's Staff's understanding that the  
15 guarantees still stand. That the owner and the  
16 affiliate company would still have their -- have to  
17 satisfy those obligations. This is just an added  
18 protection.

19 MR. SPEIDEL: Thank you very much.  
20 Staff has no further direct questions. Thank you,  
21 Commissioners.

22 CHAIRMAN IGNATIUS: Thank you.

23 Ms. Knowlton?

24 MS. KNOWLTON: I have no questions for

[WITNESS: Frink]

1 Mr. Frink.

2 CHAIRMAN IGNATIUS: Why don't we just  
3 keep going around the room. Mr. Puffer?

4 (Mr. Puffer shaking head in the  
5 negative.)

6 CHAIRMAN IGNATIUS: Mr. Lavoie?

7 MR. LAVOIE: No questions.

8 CHAIRMAN IGNATIUS: Mr. Drummond?

9 MR. LAVOIE: He's gone.

10 CHAIRMAN IGNATIUS: He's not here.

11 Ms. Hollenberg.

12 MS. HOLLENBERG: Thank you. Only a few  
13 questions. Thank you.

14 **CROSS-EXAMINATION**

15 BY MS. HOLLENBERG:

16 Q. Mr. Frink, would you agree that it's not typical for a  
17 special contract to have no price increases during the  
18 term of the special contract?

19 A. I wouldn't say it's "unusual". The more recent special  
20 contracts that the natural gas utilities have entered  
21 into, and those would be Northern's. Liberty hasn't  
22 done a special contract I think since may have been  
23 AES. But the Northern contracts do include price  
24 escalators tied to a Consumer Price Index. So, it's



[WITNESS: Frink]

1 tied to inflation.

2 Q. And, is it -- how typical -- or, what's the typical  
3 term of years for special contracts?

4 A. Again, in the -- for the natural gas utilities, there  
5 aren't a lot of special contracts. The longest ones  
6 that I've seen, and this goes back to the early '90s,  
7 were ten-year contracts, and, more recently, they have  
8 been even less. The most recent Northern contract has  
9 the options to renew, which they can exercise. And, I  
10 think, barring any substantive changes, I think it's a  
11 less involved process than what we're going through  
12 here. But ten years is the most I've seen. And, I  
13 think we've had them as short as two years.

14 Q. Do you have any concerns about the lack of price  
15 increase ability or the longer term of this Special  
16 Contract?

17 A. We -- actually, it was at Staff's suggestion that the  
18 price inflation adjustment be incorporated into the  
19 Northern special contracts. And, that was tied to  
20 concerns that the revenues from the contract might at  
21 some point exceed the marginal costs. So, the  
22 assumption is, if the O&M is going up by inflation,  
23 then having the delivery rate tied to inflation would  
24 help ensure that the revenues would keep pace with

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 those O&M costs. So, that's why Staff encouraged the  
2 utility, and the utility went back to the Company and  
3 got those provisions -- got those agreements.

4 In this instance, the O&M costs are  
5 almost entirely the burden of iNATGAS. So, from the  
6 perspective of the utility, the likelihood that the  
7 marginal cost would exceed the revenues under this  
8 contract are pretty remote. And, I don't -- it's  
9 Staff's opinion that you don't need that protection in  
10 this instance, because the revenues are flat, but the  
11 O&M costs are flat as well.

12 Q. And, what about the term, the 15-year term, is that at  
13 all concerning?

14 A. Well, obviously, the farther out you go, the greater  
15 uncertainty. It's not something Staff -- Staff would  
16 prefer to see a shorter term. And, historically, the  
17 Commission has sought shorter terms for these  
18 contracts. But the fact is, the recovery, if they  
19 realize the sales, even the minimum sales there under  
20 the "must take" provisions, this will pay for itself  
21 well before the 15 years are up. And, so, in Staff's  
22 opinion, it's worth them entering into a long-term  
23 contract. This is what was presented to us. And,  
24 while, again, it may not be our preferred length,

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 because of the uncertainties that long contracts have,  
2 it does -- the potential benefits that it generated  
3 under the contract, even in the short term, make it a  
4 worthwhile project.

5 Q. Thank you. Do you recall earlier in the hearing, when  
6 I asked the Company's witnesses if they would -- if  
7 they plan to include proforma adjustments for the  
8 revenues for this contract in their next rate case?

9 A. Yes, I do.

10 Q. And, you're expecting that the next rate case will  
11 happen sometime over the summer, they will be filing a  
12 rate case in the near future anyway?

13 A. That's my understanding.

14 Q. Okay. And, if the Company were to include a proforma  
15 adjustment in -- for rate base purposes or include the  
16 rate base as a step adjustment in the revenue  
17 requirement in that rate case, would it be your  
18 expectation that they would also proform their revenues  
19 as well?

20 A. I would expect that. And, if they don't, I certainly  
21 will.

22 Q. Okay. Thank you. And, do you know if the Company --  
23 if iNATGAS, as a sales customer, will pay the LDAC for  
24 the first year?

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 A. They will not pay the LDAC in any year.

2 Q. Okay. Okay. Thank you. Can you explain why that is  
3 please?

4 A. Well, that was part of the agreement that was presented  
5 to us.

6 Q. Okay.

7 A. And, it's not -- as a matter of fact, it's fairly  
8 common for, in the special contracts that I've seen,  
9 that they do not pay the -- the customer does not pay  
10 the LDAC.

11 MS. HOLLENBERG: Thank you. I have no  
12 other questions. Thank you.

13 CHAIRMAN IGNATIUS: Thank you.  
14 Commissioner Honigberg.

15 BY CMSR. HONIGBERG:

16 Q. I want to make sure I understand the difference between  
17 what you had in mind for the Escrow Agreement and what  
18 Mr. Hall described. I think the difference focuses  
19 almost exclusively on what they get credit for when  
20 they calculate what can be taken out to go back to  
21 them. They, the way Mr. Hall described it, if they  
22 make a "must pay" payment, that's to their benefit, and  
23 they can take that out of the escrow as part of the  
24 calculation. The way you did it in your Report, it's

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 actual revenue that they receive is the baseline  
2 calculation that gets made, is that correct?

3 A. It's tied to the sales, yes. So, again, you could  
4 recognize the "must take" revenue, if they didn't sell  
5 any gas at all. So, there are no sales, there's no  
6 capacity revenue, there's no delivery revenue tied to  
7 sales, what you're getting is a one-time payment from  
8 iNATGAS for volumes that it never actually -- never  
9 went through the meter that they never used. And, from  
10 what I heard, it sounded like "okay, we've got this  
11 \$200,000 in revenue that we took in in year one, even  
12 though we didn't sell any gas, we're going to assume  
13 we're getting that 200,000 for the next four years as  
14 well and adjust the escrow amount accordingly." My  
15 proposition was, those are not assured revenues in  
16 years two through five.

17 Q. But what you want to assure with the escrow is the  
18 payment of the minimum payment, the "must pay" amount?

19 A. That's correct.

20 Q. So, the math that Mr. Hall described does that, doesn't  
21 it? Because he would -- the amount that's in the  
22 escrow is the present value of what's required to make  
23 all five "must pay" payments.

24 A. But you haven't -- okay, so, you, under my example, the

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 "must take" requirement is approximately \$200,000 in  
2 year one. At the end of year one, you've collected  
3 \$200,000 of the 1.8 million. Now, to me, there's still  
4 a great deal of risk, even more risk that, over the  
5 next four years, there could be a default on this  
6 contract without any sales.

7 Q. I don't disagree with that. It clearly shows that  
8 they're not meeting their business plan, their business  
9 model. But the "must take" payment for year two is  
10 still calculated into the amount. This is probably  
11 something you should take up with the Company.  
12 Because, I think, when you talk through what you're  
13 trying to assure, and the amount of money that's set  
14 aside to assure it, you may end up agreeing on a  
15 methodology that is a little different from what's in  
16 your document, if I'm understanding what Mr. Hall said  
17 earlier. And, it doesn't make sense for me to argue --  
18 argue with you about it.

19 I think that -- I just think that, as  
20 you talk through it with them, make sure you're on the  
21 same page as to what it is you're assuring and what  
22 money needs to be set aside to assure it.

23 A. Right. And, I would say if -- that first year's  
24 revenue, that \$200,000. So, you get the \$200,000.

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 And, now, the escrow amount that was 1.2 is now  
2 1 million. But I'd want a million dollars in the  
3 escrow to draw on over the next four years. Well, if  
4 it defaulted -- if the default occurs in year two, you  
5 have a million dollars. Okay, you've already collected  
6 200,000. So, that's what I'm looking for through this.

7 CMSR. HONIGBERG: Okay. I understand.

8 Thank you. That's all I have. Thanks.

9 BY CHAIRMAN IGNATIUS:

10 Q. Mr. Frink, there was some discussion of Company  
11 investments for particular customers, even with fewer  
12 guarantees than had been -- that are put into the  
13 documents in this case. Do you remember that?

14 A. Yes, I do.

15 Q. Are you aware of anything of this magnitude of  
16 investment? Any customer investments in the 2 million  
17 plus range?

18 A. Sure. There was one this past summer for a paving  
19 plant, an asphalt company installed a service line.  
20 The estimated contribution was going to be 4 million.  
21 The paving company made their own -- put the pipes in  
22 themselves at a cost of approximately what this  
23 contract is for. So, that's one example. And, while  
24 we don't see -- typically, we don't look at individual

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 investments, but the fact that that required a  
2 significant contribution of the customer, that the  
3 customer was doing the work themselves, as opposed to  
4 having the Company doing it and reimbursing them, that  
5 was brought to our attention. So, that's why I'm aware  
6 of that one. But I have no doubt there are many other  
7 projects that have a significant investment that I'm  
8 not aware of.

9 Q. How about the company's -- the utility company's  
10 investment? Let's assume that for some reason this  
11 venture does not go well and iNATGAS gas pulls out  
12 after some number of years. Is there any value to  
13 Liberty or its customers in the assets that are left  
14 behind?

15 A. Well, it depends on the -- well, you would have to  
16 assume there's some value. As to what that value is,  
17 the market will determine that at the time. If it's  
18 because the iNATGAS model doesn't work, it could be a  
19 situation similar to when PSNH went bankrupt with  
20 Seabrook, and you acquire the asset, and you sell it,  
21 and it's a different cost at that point. And,  
22 operationally, it could have great value to Liberty, in  
23 that there would be a lot of sales. So, it could be,  
24 if it's due to the fact that, say, we start exporting

{DG 14-091} {06-10-14}



[WITNESS: Frink]

1 natural gas, and the differential between the CNG price  
2 and the competing energy sources isn't significant  
3 anymore, I feel fairly confident that this is -- the  
4 CNG market is going to be there, and that it's going to  
5 continue to grow.

6           It's just the fact that the people who  
7 are participating in this market have put in a  
8 tremendous investment in it in just the last couple of  
9 years. A number of stations have been built, a lot of  
10 trailers have been purchased, a lot of investments have  
11 been made by customers that have just signed up, and  
12 customers that have signed up are in the process of  
13 converting. So, I think there's a strong market. Once  
14 a customer converts to CNG, that's a sunk cost for that  
15 customer, even if the price -- the rate differential is  
16 10 cents in the favor of CNG, that customer is going to  
17 burn CNG over an alternative energy source. And,  
18 that's assuming no other costs, like, as we've heard,  
19 there's benefits from, you know, reduced air permits,  
20 because it's a cleaner fuel.

21           So, I think there will be value in those  
22 facilities in the event of a default. Again, I  
23 wouldn't want to venture a guess as to what the value  
24 might be. But I do think that is a good -- an added

{DG 14-091} {06-10-14}

[WITNESS: Frink]

1 protection.

2 CHAIRMAN IGNATIUS: Thank you. That's  
3 it for my questions. Thank you very much. Any redirect,  
4 Mr. Speidel?

5 (Atty. Speidel shaking head in the  
6 negative.)

7 CHAIRMAN IGNATIUS: All right. Then,  
8 Mr. Frink, you're excused. Thank you very much for your  
9 testimony.

10 I think next up would be Mr. Eckberg,  
11 yes?

12 MS. HOLLENBERG: Yes, please. If I  
13 could call Mr. Eckberg to the stand please.

14 (Whereupon **Stephen R. Eckberg** was duly  
15 sworn by the Court Reporter.)

16 **STEPHEN R. ECKBERG, SWORN**

17 **DIRECT EXAMINATION**

18 BY MS. HOLLENBERG:

19 Q. Good afternoon.

20 A. Good afternoon.

21 Q. Would you please state your name for the record. Thank  
22 you.

23 A. My name is Stephen Eckberg.

24 Q. And, where do you work, Mr. Eckberg?

{DG 14-091} {06-10-14}

[WITNESS: Eckberg]

1 A. I'm employed as a Utility Analyst with the Office of  
2 Consumer Advocate.

3 Q. And, did you file testimony in this proceeding?

4 A. Yes, I did.

5 Q. And, that testimony has been marked for identification  
6 as "Exhibit 5". Do you have your testimony before you  
7 now?

8 A. Yes. I do have a copy of that with me. Thank you.

9 WITNESS ECKBERG: Do I need the  
10 microphone? Okay.

11 BY MS. HOLLENBERG:

12 Q. Do you have any changes or corrections to make to your  
13 testimony?

14 A. No, I do not.

15 Q. If you were to answer the questions in your testimony  
16 today, would your answers be the same as reflected in  
17 your written testimony?

18 A. Yes, they would.

19 MS. HOLLENBERG: I will, unless the  
20 Commission prefers otherwise, I will skip having him  
21 summarize his prefiled testimony and make him available  
22 for cross-examination.

23 CHAIRMAN IGNATIUS: That's fine.

24 MS. HOLLENBERG: Thank you.

{DG 14-091} {06-10-14}

[WITNESS: Eckberg]

1 CHAIRMAN IGNATIUS: All right. Why  
2 don't we go then to Ms. Knowlton.

3 MS. KNOWLTON: Thank you.

4 **CROSS-EXAMINATION**

5 BY MS. KNOWLTON:

6 Q. Mr. Eckberg, if you would turn to Page 12 of your  
7 testimony.

8 A. I'm there.

9 Q. On that page, you refer to a "privately-funded facility  
10 in Pembroke, New Hampshire" that will be making CNG  
11 available on a non-public basis, is that correct?

12 A. Yes. I discuss that facility generally there, yes. I  
13 don't know that I mentioned "non-public basis". Was  
14 that a phrase you just used?

15 Q. That was the phrase that I used, yes. Would you take  
16 subject to check that that facility is not available  
17 generally to the public to come and fill CNG tankers?

18 A. Subject to check, I'm glad to agree one way or the  
19 other. I don't know who would be filling CNG tankers.  
20 I know that I was invited to bring my natural  
21 gas-fueled Honda Civic to that facility and fill it up.  
22 So, it would be publicly available to me in that way, I  
23 believe. And, for the record, I don't own a natural  
24 gas-fueled Honda Civic. But it was a general

[WITNESS: Eckberg]

1 invitation that I had from a representative of that  
2 facility.

3 Q. Okay. But, if you did have one of those Honda Civics  
4 and you did go and fill it at that facility, do you  
5 know whether any of the customers in the company would  
6 benefit from the profits of that sale?

7 MS. HOLLENBERG: I'm going to object to  
8 this question, only because he's already stated that he  
9 doesn't know the status of the public or non-public.

10 MS. KNOWLTON: It's not relevant to the  
11 question. I mean, I can ask it in a different way.

12 CHAIRMAN IGNATIUS: All right. Go  
13 ahead.

14 BY MS. KNOWLTON:

15 Q. The question really goes to, who is able to receive the  
16 benefits of any of the sales at that CNG facility,  
17 regardless of, you know, the customer that's coming to  
18 fill there?

19 A. I believe it would be the private owner of that  
20 facility.

21 Q. Okay. And, has that -- do you know whether that  
22 facility has completely bypassed the utility, which is,  
23 in this case, Liberty Utilities?

24 A. I believe that it has, yes. That Liberty Utilities is

{DG 14-091} {06-10-14}

[WITNESS: Eckberg]

1 not involved with that utility. That's my  
2 understanding.

3 Q. So, to the extent that there are any profits associated  
4 with the use of that facility, then the Company's  
5 customers would see none of those benefits, correct?

6 A. That's correct.

7 Q. And, in the case of what the Company is proposing here,  
8 if the Company's projections are correct, the Company's  
9 customers will see benefits in the out years, meaning  
10 beyond the fifth year of the contract, from the sales  
11 of CNG?

12 A. If the projections are correct, there would be costs --  
13 there would be benefits for the costs that are  
14 incurred, yes.

15 MS. KNOWLTON: Okay. Thank you. I have  
16 no further questions.

17 CHAIRMAN IGNATIUS: Thank you. Mr.  
18 Puffer?

19 MR. PUFFER: No questions.

20 CHAIRMAN IGNATIUS: And, by the way, I  
21 owe you an apology. I misremembered the order and thought  
22 that we had spoken to coordinating in the course of the  
23 hearing, and you were too polite not to correct me. But  
24 my colleague did correct me, and I'm glad he did, that we

{DG 14-091} {06-10-14}

[WITNESS: Eckberg]

1 hadn't put that in the order. So, I apologize for that  
2 statement.

3 MR. PUFFER: That's okay.

4 CHAIRMAN IGNATIUS: Mr. Lavoie, do you  
5 have any questions?

6 MR. LAVOIE: No questions.

7 CHAIRMAN IGNATIUS: Mr. Speidel?

8 MR. SPEIDEL: Yes. I have a couple of  
9 brief questions.

10 BY MR. SPEIDEL:

11 Q. Mr. Eckberg, have you read the Staff Report?

12 A. You're referring to Exhibit 4?

13 Q. Yes.

14 A. Yes. I have read that.

15 Q. And, have you heard some discussion about the Staff  
16 recommendations pertaining to an Escrow Agreement, and  
17 the Company's responses regarding that?

18 A. Yes. I have heard that discussion today.

19 Q. Okay. In light of that discussion, would it be fair to  
20 say that the OCA would or would not continue to oppose  
21 the proposal before us from Liberty and INATGAS, if  
22 some level of financial surety were to be provided by  
23 the Company? Or, does the OCA's opposition not turn on  
24 the provision of surety?

{DG 14-091} {06-10-14}

[WITNESS: Eckberg]

1 A. Well, I don't think I can sit here and give you a  
2 direct answer to that. I would need to consult with my  
3 attorney before I could do that. And, most likely, my  
4 attorney would offer that representation. But I can  
5 say that I appreciate Staff's concern about the risks  
6 that they perceived in this Special Contract. And, I  
7 certainly appreciate Staff's proposals and the extra  
8 protections that the financial assurance of the escrow  
9 account would offer. So, I think that's certainly a  
10 step in the right direction. But whether that  
11 completely goes to ameliorate all of the OCA's  
12 concerns, I would be reluctant to give you a direct  
13 answer to that at the moment.

14 MR. SPEIDEL: I appreciate your candor.  
15 And, I don't require anything beyond that. I just wanted  
16 to ask that as a clarifying question. And, I think that  
17 will be all for now. Thank you very much.

18 WITNESS ECKBERG: You're welcome.

19 CHAIRMAN IGNATIUS: Commissioner  
20 Honigberg, questions?

21 CMSR. HONIGBERG: I have no questions.

22 CHAIRMAN IGNATIUS: Okay. I have just a  
23 couple.

24 BY CHAIRMAN IGNATIUS:

{DG 14-091} {06-10-14}



[WITNESS: Eckberg]

1 Q. Following up on Mr. Speidel's question, I'm surprised  
2 that you haven't thought about or spoken with counsel  
3 about your position, after seeing the rebuttal  
4 testimony of Mr. Clark. I mean, I assume you read it  
5 and thought about the proposal that Staff had made and  
6 the response that the Company had made to try to follow  
7 up on the recommendations that Staff had made.

8 A. And, you're wondering if --

9 Q. Well, my question is, had you -- have you not thought  
10 about whether that accommodates your concerns?

11 A. Well, as I said to Mr. Speidel, it does, Staff's  
12 proposal and this escrow account, does go some distance  
13 to addressing some of the risks and the concerns that  
14 we feel ratepayers are facing. There was certainly the  
15 possibility that, during testimony and  
16 cross-examination today, that perhaps the Company would  
17 address other issues or other concerns. I believe  
18 Attorney Hollenberg asked the Company witnesses if they  
19 had comments on any of our issues that we raised.

20 So, I think that there's still the open  
21 opportunity, I think, from my perspective, to discuss  
22 these issues further with my attorney. But I don't  
23 feel that, at this point, that I need to -- I don't  
24 have any, you know, strong objections to the process,

{DG 14-091} {06-10-14}

[WITNESS: Eckberg]

1 the Special Contract going forward, but neither do I  
2 feel like the OCA needs to offer its endorsement of the  
3 Special Contract either. I think there are still some  
4 outstanding risks that we perceive. And, as Mr. Hall  
5 testified, I think that there are just difference in  
6 perceptions about those risks that are facing  
7 ratepayers, and whether these changes to the Special  
8 Contract are sufficient to make all of those concerns  
9 go away.

10 I think that ratepayers, natural gas  
11 residential customers, for instance, already have a  
12 tremendous benefit just by being customers of Liberty  
13 Utilities. They're heating their homes with the lowest  
14 priced fuel that they can possibly get. It's cheaper  
15 than cordwood, according to information provided on the  
16 website of the Office of Energy and Planning. So, I  
17 certainly don't mean to suggest that additional  
18 financial benefits or potential future benefits of  
19 financial returns on an investment are something that  
20 ratepayers would -- we don't want to look a gift horse  
21 in the mouth, so to speak, but we already enjoy  
22 significant benefits. And, whether this gamble, if you  
23 will, is worth the investment, is not an easy thing to  
24 know the answer to. So, hopefully, that is a useful

{DG 14-091} {06-10-14}

[WITNESS: Eckberg]

1 response to you.

2 Q. No, that's fair. And, I'm not trying to talk you into  
3 a position. I just wanted to know what your position  
4 is. Your testimony, prefiled testimony was to  
5 recommend denial of the request to approve the Special  
6 Contract and Lease. And, I wanted to know if that was  
7 still your position?

8 MS. HOLLENBERG: May I interject at this  
9 point? That is still our position.

10 CHAIRMAN IGNATIUS: All right. Thank  
11 you.

12 BY CHAIRMAN IGNATIUS:

13 Q. In your testimony, I forgot to note the page, you said  
14 that, although the Special Contract would be higher  
15 than the tariffed G-54 rate, it still may not be  
16 sufficient to cover Company's costs?

17 A. Yes. That was my concern about the lack of a price  
18 escalation clause over the 15-year term of the  
19 Contract.

20 Q. Okay. And, that's Page 14. Is there anything other  
21 than the price escalation issue that makes you  
22 concerned that the price in the Special Contract may be  
23 below the cost to serve iNATGAS?

24 A. No. I think that's the sum of it right there. Uh-huh.

{DG 14-091} {06-10-14}

[WITNESS: Eckberg]

1 Q. Thank you.

2 A. Except to say that, you know, it sort of combines with  
3 the long term of the contract. There's no price  
4 escalation clause, and it's a very long term, 15 years,  
5 as well. So, certainly, the compounding, potential  
6 compounding impact of those two things together.

7 CHAIRMAN IGNATIUS: All right. Thank  
8 you. I have no other questions. Ms. Hollenberg, any  
9 redirect?

10 MS. HOLLENBERG: Thank you. Just one  
11 moment please.

12 (Short pause.)

13 **REDIRECT EXAMINATION**

14 BY MS. HOLLENBERG:

15 Q. Mr. Eckberg, do you agree that the testimony stating  
16 the position of the OCA, as recommending that the  
17 Contract be denied because the risks exceed the  
18 benefits in the opinion of the OCA, is your position  
19 today?

20 A. Yes. That is the position that I stated in my  
21 testimony, and I haven't changed that.

22 Q. Okay.

23 A. That's correct.

24 MS. HOLLENBERG: Thank you.

1                   CHAIRMAN IGNATIUS: Thank you. Then,  
2 Mr. Eckberg, you're excused. Thank you very much.

3                   WITNESS ECKBERG: Thank you.

4                   CHAIRMAN IGNATIUS: That is it for  
5 witnesses, correct?

6                   MS. HOLLENBERG: Yes.

7                   CHAIRMAN IGNATIUS: All right. And, is  
8 there anything else, in terms of exhibits, that we need to  
9 address? We've heard kind of a general comment about when  
10 the Escrow Agreement and the Maintenance and Operation  
11 Contract might be filed. Let's try to put a little more  
12 definition on that. For the Escrow Agreement, is, say, a  
13 week from this coming Friday, which would be the 20th, is  
14 that sufficient?

15                   MS. KNOWLTON: Yes, that's fine. I  
16 mean, we will submit it by then, and certainly sooner, if  
17 we can. It's a matter of working out the agreement with  
18 the bank. So, that's why we didn't have it for today.

19                   CHAIRMAN IGNATIUS: All right. And, on  
20 the Maintenance and Operations language, we talked about,  
21 even if all of the detailed equipment specifications are  
22 not included, that the text having to do with the  
23 obligations to have Liberty have final say over those  
24 issues would be the issue of importance for the parties

1 and certainly for the Commissioners to review. Could that  
2 be similarly filed by the 20th?

3 MS. KNOWLTON: Yes.

4 CHAIRMAN IGNATIUS: All right. And  
5 sooner, if available?

6 MS. KNOWLTON: Yes.

7 CHAIRMAN IGNATIUS: Thank you.

8 MS. KNOWLTON: I believe there's one  
9 other exhibit that we should reserve, which is for  
10 Exhibits A and B to the Special Contract that were  
11 omitted.

12 CHAIRMAN IGNATIUS: And, remind me again  
13 what those are?

14 MS. KNOWLTON: That's the designated  
15 delivery point and the designated receipt point for the  
16 gas to be delivered under the Special Contract. And, we  
17 could have those filed tomorrow.

18 CMSR. HONIGBERG: Yes. Those documents  
19 exist. They're referenced in the agreement, they just  
20 weren't attached.

21 MS. KNOWLTON: Correct.

22 CMSR. HONIGBERG: Yes.

23 MS. KNOWLTON: Correct.

24 CHAIRMAN IGNATIUS: And, so, if we were

1 to reserve 10 for both of those?

2 MS. KNOWLTON: Yes.

3 CHAIRMAN IGNATIUS: They could be filed  
4 right away?

5 MS. KNOWLTON: Yes.

6 CHAIRMAN IGNATIUS: All right.

7 MS. KNOWLTON: Thank you.

8 CHAIRMAN IGNATIUS: There was some  
9 reference I thought to the delivery point still being  
10 worked out. I thought Mr. DaFonte perhaps said that.

11 MS. KNOWLTON: That may have been stated  
12 before the lunch break. But my understanding is that  
13 those points had already been determined, you know, that  
14 we -- it's a matter of, and Mr. Clark can specify that the  
15 meter number --

16 WITNESS CLARK: Yes. Correct. Yes, we  
17 were getting the meter number for -- the meter number for  
18 the Broken Bridge take station, which it's in existence,  
19 we just did not attach them.

20 CHAIRMAN IGNATIUS: Okay. Fine. Then,  
21 we will reserve 10 for that, A and B, those exhibits.

22 **(Exhibit 10 reserved)**

23 CHAIRMAN IGNATIUS: Anything further on  
24 documents? Mr. Speidel.

1 MR. SPEIDEL: Yes. Staff would like to  
2 have its response to the Exhibit 8 and 9 filings, the O&M  
3 filing under Exhibit 9, and also the Escrow Agreement  
4 under Exhibit 8, by Friday, June the 27th. And, there  
5 might be some cooperative working with the Company before  
6 that, in order to tweak those documents and produce  
7 perhaps a revised version that would be combined with a  
8 Staff filing. But, in any event, we'd like to weigh in on  
9 that around the 27th of June or before.

10 CHAIRMAN IGNATIUS: I think your  
11 suggestion of trying to work together would be great. If  
12 we get into a sequential filing response, revision, and  
13 response, it will eat it up more time. And, so, if there  
14 is an ability to review before it's officially filed, and  
15 with OCA as well, and have an opportunity to discuss any  
16 final issues before it's submitted may be more efficient.

17 MR. SPEIDEL: Yes. We do reserve the  
18 right, if there is some final disagreement, hopefully not,  
19 we might have to put a position out there describing why  
20 we oppose the form of the agreement. But we don't expect  
21 that to be the case.

22 CHAIRMAN IGNATIUS: Thank you. All  
23 right. Understanding that Exhibits 8, 9, and 10 are yet  
24 to be received, is there any objection to striking the



1 identification and making all of the exhibits permanent  
2 parts of this record?

3 MS. KNOWLTON: I have none.

4 CHAIRMAN IGNATIUS: Seeing none, we will  
5 do that. Is there anything further to take up before we  
6 hear final closing statements?

7 (No verbal response)

8 CHAIRMAN IGNATIUS: And, I guess I put  
9 to you to think about, before you've seen the final  
10 language, I recognize people may want to submit written  
11 responses, Staff has said that it intends to. And, so, I  
12 guess what I'd ask for right now is closing comments, with  
13 the understanding that you may supplement that with  
14 further recommendations after you've reviewed those final  
15 exhibits.

16 Why don't we begin then with  
17 Ms. Hollenberg.

18 MS. HOLLENBERG: Okay. Thank you.  
19 Thank you. The OCA appreciates the Company and Staff's  
20 efforts in putting together their proposal and conditions  
21 for approval. But the OCA continues to view this project,  
22 Special Contract, as the risks being greater than the  
23 benefits to residential customers. At this point in time,  
24 natural gas customers in New Hampshire already are being

1 served with the cheapest fuel available. And, we view  
2 that there's no need to take any additional risk to lower  
3 the rates. And, I think the testimony today was that the  
4 amount of the rates would be lowered was in the, you know,  
5 several dollars. The Commission is required by RSA 378:14  
6 and RSA 378:18 to deny a special contract unless "special  
7 circumstances exist which render departure from the  
8 [tariff] to be just and consistent with the public  
9 interest".

10 In 1992 and 1993, the Commission  
11 undertook a generic evaluation of special contracts. And,  
12 in doing so, identified the types of issues it should  
13 consider when reviewing special contracts. In Orders  
14 20,633 and 20,882, which have been cited in Commission  
15 special contract orders since then, and as recently as  
16 2013, the Commission set forth requirements and a  
17 checklist for approval, which include that the special  
18 contract must not put ratepayers at substantial risk, that  
19 the customer for whom the special contract is proposed  
20 must pursue all other appropriate forms of financial  
21 assistance before requesting a special contract, and that  
22 the special contract must be consistent with the utility's  
23 integrated resource plan. The OCA respectfully takes the  
24 position that the Company has not met these requirements

1 for approval of this Special Contract with iNATGAS.

2 Also, the Commission, in the generic  
3 special contract orders, talked about "risk" and  
4 "prudence". It recognized that, when it comes to risk,  
5 there may be appropriate cases to approve special  
6 contracts subject to the risk of revenue loss being shared  
7 between ratepayers and shareholders, or borne by  
8 shareholders in their entirety. And, the Commission also  
9 affirmed its authority to consider disallowance of any  
10 lost revenue in future rate cases, if it finds that  
11 evidence shows that the utility acted imprudently in  
12 seeking approval for such a discount.

13 If the Commission is inclined to approve  
14 the Contract notwithstanding the OCA's opposition, we  
15 would ask that the Commission consider these additional  
16 methods of protecting customers from the risks of iNATGAS  
17 not making other customers whole on the investment in the  
18 compressor station and related plant. We urge the  
19 Commission to relieve the customers from 100 percent of  
20 the risk of lost revenues and not rule on the issue of  
21 prudence until such time as the Company seeks recovery  
22 from ratepayers for this rate base in its next  
23 distribution rate case. Thank you.

24 CHAIRMAN IGNATIUS: Thank you.

1 Mr. Speidel.

2 MR. SPEIDEL: Thank you, Chairman.

3 Staff thanks the Commission for its consideration of the  
4 evidence presented today by the Company, OCA, and others,  
5 including Staff, represented by Mr. Frink in particular.  
6 Staff believes that, if the proper modifications are made  
7 to the structure of the agreements, as discussed and  
8 agreed to in principle by the Company, relating to  
9 financial surety and also operations and maintenance  
10 requirements, if those modifications are made, Staff is  
11 confident that approval of the Special Contract and Lease  
12 proposals would be in the public interest and in the  
13 public good.

14 Liberty is a private sector entity. It  
15 is a rate-regulated utility serving customers in its  
16 franchise area in central and northern New Hampshire.  
17 And, in general terms, it must be recognized that there  
18 are both upside and downside risks for this proposal.  
19 But, if adopted, Staff's recommendation for financial  
20 surety would protect ratepayers against the downside  
21 risks, while enabling the consumers of the State of New  
22 Hampshire as a whole, and also the ratepayers of Liberty  
23 Utilities specifically, to reap the benefits of upside as  
24 part of this deal.

1                   We will reserve judgment on our final  
2                   recommendation pending receipt of Exhibits 8 and 9. And,  
3                   we look forward to collaborating with the parties in that  
4                   effort. Thank you very much.

5                   CHAIRMAN IGNATIUS: Thank you.

6                   Mr. Puffer?

7                   MR. PUFFER: XNG waives any closing.

8                   CHAIRMAN IGNATIUS: Thank you. Mr.  
9                   Lavoie?

10                  MR. LAVOIE: No. No comments at this  
11                  time.

12                  CHAIRMAN IGNATIUS: All right. And,  
13                  Mr. Drummond is not back or no one else from his company  
14                  is here?

15                  MR. LAVOIE: No.

16                  CHAIRMAN IGNATIUS: All right. Then,  
17                  Ms. Knowlton.

18                  MS. KNOWLTON: Thank you. This has been  
19                  a fast-moving docket, for which we are very appreciative  
20                  to everybody here. We filed this on April the 4th, and  
21                  here we sit on June the 10th in a final hearing. So,  
22                  thank you to everyone for expediting this.

23                  Over the years, the Company and, really,  
24                  under its prior ownership, has been criticized for not

1 aggressively pursuing growth opportunities to benefit its  
2 customers. The Company has come here today because it has  
3 seized an opportunity that could have bypassed it. And,  
4 that certainly is a very true reality, when we look at  
5 what happened with the Pembroke station. The utility and  
6 its customers are not participating in that and truly will  
7 receive no benefits from it.

8 So, the Company is pleased to be here  
9 presenting a deal that it negotiated that has tremendous  
10 potential upside for the Company and its customers. And,  
11 while there is risk, which the company has recognized,  
12 that risk is not unlike risks that the -- risk that the  
13 Company takes and has taken in its day-to-day operations.  
14 You've heard testimony from both the Company and Mr. Frink  
15 that, on a regular basis, the Company makes significant  
16 investments where, in its judgment, it believes that there  
17 is a long-term payoff for the Company and its customers to  
18 do so.

19 We take those risks, if you want to  
20 refer to them that way, to serve large commercial and  
21 industrial customers. And, then, we also take those risks  
22 to serve residential customers. Mr. Hall testified about  
23 the risks that have been taken to serve individual  
24 residential customers growing out of Docket DG 13-198,

1 where the Company makes investments in excess of \$3,000  
2 per customer to extend gas service to those customers  
3 waiting for a payback over the course of eight years.

4 And, we appreciate the OCA's position  
5 that customers already enjoy the significant benefits of  
6 having natural gas service. But we've also heard  
7 testimony today that we believe that, as a result of this  
8 CNG filling station being constructed, that there will be  
9 an opportunity for others in the State of New Hampshire to  
10 take advantage of low cost natural gas where they're not  
11 going to be served by a gas main. And, we believe that  
12 the interests of those entities are also important to  
13 consider. They're very beneficial to our economy to see  
14 the growth of commercial and industrial businesses  
15 throughout our state that could be served by CNG, that  
16 could lower their fuel costs and possibly operate in a  
17 more profitable manner.

18 The Company has put into place multiple  
19 layers of protection against the risks that have been  
20 identified. A guarantee, a personal guarantee from  
21 Mr. Alizadeh; a guarantee from AVSG, which is a very  
22 significant operation that's been in business for two  
23 decades; the ability of the Company to purchase the assets  
24 of the CNG fueling station at net book value in the event

1 of default under any of the agreements that iNATGAS has  
2 entered into. And, you heard Mr. Frink's testimony that  
3 those assets could have significant value. And, then,  
4 this added layer of protection that the Staff has  
5 requested in the form of an escrow of over \$1 million.

6 Those are not protections that the  
7 Company obtains when it enters -- it makes investments to  
8 serve customers on a day-to-day basis. The reason that  
9 we're doing that here is because this is a special  
10 contract and it's a lease. So, we have the opportunity to  
11 provide those additional benefits that we don't normally  
12 have on a day-to-day basis. So, I think, to the extent  
13 that there's been any risk, and there's concern about  
14 risk, that the Company has done a good job mitigating that  
15 risk to the greatest extent possible.

16 In addition, the Company has required  
17 that iNATGAS have significant insurance in place, and  
18 that's a cost to iNATGAS, in the event that there are any  
19 adverse events that occur at the facility, along with the  
20 indemnity provisions that would make the Company whole.

21 There's been some criticism in the  
22 docket of the iNATGAS business model, because it isn't  
23 what everybody else is doing. And, oftentimes, I think  
24 it's people that see things a different way that have a



1 different perspective that are successful. And, doing  
2 something the way that everyone else is doing it is not  
3 necessarily justification for doing it the same way again.  
4 And, we think that the rewards here to the Company's  
5 customers are significant, and that the risks that the  
6 Company would take to possibly receive those rewards  
7 really are quite minimal, and they have been substantially  
8 moderated, as I've described.

9           So, we think that this is a very  
10 exciting opportunity for the Company. We're really  
11 excited about being able to do our part in helping natural  
12 gas be made more available throughout the state. We  
13 believe that the Lease and the Special Contract meet the  
14 legal requirements of RSA 378:18, in the case of the  
15 Special Contract, and 374:30, in the case of the Lease.  
16 And, that the transaction, as proposed, subject to the  
17 Staff's conditions, should be approved and found in the  
18 public interest. Thank you.

19           CHAIRMAN IGNATIUS: Thank you. I do  
20 have one question. Is the -- entering into this proposal  
21 consistent with your Least Cost Integrated Resource Plan?

22           MS. KNOWLTON: Yes, it is.

23           CHAIRMAN IGNATIUS: In what way?

24           MS. KNOWLTON: Well, I mean, in this

1 case, the Company is not, you know, it's not procuring  
2 commodity. But I think it's consistent with the Least  
3 Cost Integrated Resource Plan because it's an effort by  
4 the Company to undertake to take the costs that it incurs,  
5 for example, the capacity costs, and to spread those  
6 across a wider base. Mr. DaFonte addressed that, that to  
7 the extent that there are capacity payments that come to  
8 the Company, that that's going to lower the cost of all  
9 customers, you know, through the cost of gas portion of  
10 rates. So, in that respect, I believe it is consistent  
11 with the Least Cost Integrated Resource Plan.

12 CHAIRMAN IGNATIUS: Thank you. All  
13 right. Unless there's anything further?

14 (No verbal response)

15 CHAIRMAN IGNATIUS: We will take this  
16 under advisement. We await the two new exhibits being  
17 produced, and the final exhibit with the designated  
18 delivery and receipt points to be submitted. And, we will  
19 act on it expeditiously, once everything is received, as  
20 well as any further recommendations that any of the  
21 parties may have. So, thank you all for your  
22 participation today. We're adjourned.

23 **(Whereupon the hearing was adjourned at**  
24 **2:32 p.m.)**