

REDACTED

STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION

In the matter of

Liberty Utilities (Energy North Natural Gas) Corp. d/b/a Liberty Utilities

Docket No. DG 15-289

Petition for Approval of Franchise in City of Lebanon and Town of Hanover

DIRECT TESTIMONY

OF

Dr. Pradip K. Chattopadhyay  
Assistant Consumer Advocate/Rate and Market Policy Director

January 22, 2016

1 **Q. Please state your name, business address and occupation.**

2 A. My name is Pradip K. Chattopadhyay. My business address is 21 South Fruit Street,  
3 Suite 18, Concord, New Hampshire. I am employed as the Assistant Consumer Advocate/Rate  
4 and Market Policy Director with the New Hampshire Office of Consumer Advocate (OCA).

5 **Q. Please describe your formal education and professional experience.**

6 A. I have a Ph.D. in Economics from the University of Washington, Seattle, which I earned  
7 in 1997. I have also taken courses in City and Regional Planning with applications to Energy  
8 Planning from Ohio State University in 2001-02. I have taught several courses in economics at  
9 the University of Washington as an instructor and adjunct faculty at its Business School. I am  
10 also associated with the Southern New Hampshire University (SNHU) as an adjunct faculty,  
11 where I teach several courses in economics.

12 From March 1998 to October 1999, I was a consultant with the National Council of  
13 Applied Economic Research, New Delhi, India. From November 1999 to August 2001, I was  
14 the Economist at the Uttar Pradesh Electricity Regulatory Commission (UPERC) in India, and  
15 advised UPERC on tariff issues. From September 2001 to June 2002, I worked at the National  
16 Regulatory Research Institute, Columbus, Ohio, as a graduate research associate while pursuing  
17 advanced courses in Energy Planning in the City and Regional Planning Program at Ohio State  
18 University. From June 2002 to July 2002, I worked at the World Bank, Washington D.C. as a  
19 short-term consultant/intern with its Energy and Water Division.

20 I worked at the New Hampshire Public Utilities Commission (Commission) from August  
21 2002 to January 2007 in the capacity of a utility analyst. My responsibilities at the Commission  
22 as an analyst were in electric utility issues including analyzing and advising the Commission on

1 rate design, cost of capital issues, wholesale market issues, and other regional matters. I briefly  
2 worked at the Massachusetts Department of Telecommunications and Energy (later reorganized  
3 into Department of Public Utilities (MA-DPU)) starting in January 2007 as an Economist. At  
4 MA-DPU, I represented the staff and examined gas demand estimation and forecasting,  
5 decoupling issues, and environmental remediation matters. I returned to the Commission in June  
6 2007 to join its Telecom Division as its Assistant Director, and continued in that position until  
7 December 2010. I was also helping other divisions as an expert witness in economics-related  
8 issues as well as advising the Commission on regional electric matters including FERC  
9 jurisdictional issues. I joined the Commission's Regional Energy Division in January 2010 as  
10 the Regional Energy Analyst, and was advising the Commission in that capacity until I joined the  
11 Antitrust and Utilities Division, Office of the Minnesota Attorney General, in August 2013. I  
12 came back to New Hampshire in March 2014 and worked as an individual consultant until the  
13 end of August, 2014, representing the Minnesota Attorney General. I joined Liberty Utilities at  
14 the end of August, 2014 as a Forecasting Analyst for its Energy Procurement Department. I  
15 worked with Liberty Utilities for about three months, before starting my own consultancy firm.  
16 In December 2014, I joined the OCA as its Rate and Market Policy Director. I was later  
17 appointed the Assistant Consumer Advocate.

18 **Q. Have you previously provided testimony before this Commission?**

19 A. Yes.

20 **Q. In which dockets did you provide testimonies before this Commission?**

21 A. I provided testimony before the Commission in the following dockets:

- 1           • DE 03-200 – rate design testimony which was about delivery rates for retail  
2           ratepayers of Public Service of New Hampshire (PSNH);
- 3           • DE 06-028 - cost of capital testimony which was also about PSNH’s delivery rates;
- 4           • DT 07-027 - competition testimony in retail telephony;
- 5           • DG 08-009 - cost of equity testimony which related to gas delivery rates of National  
6           Grid NH;
- 7           • DE 09-035 - cost of equity testimony in the matter of electric distribution rates  
8           (PSNH).
- 9           • DG 14-380 – approval of firm transportation agreement (Liberty Utilities)
- 10          • DG 15-155 – Petition by Valley Green, LLC requesting franchise in City of Lebanon  
11          and Town of Hanover, New Hampshire

12   **Q.    Have you ever provided testimonies and affidavits before other Commissions?**

13   A.    Yes. I have testified on cost of capital before the Minnesota Public Utilities Commission  
14   in dockets G008/GR-13-316 and GR 13-617. I have also provided an affidavit before the  
15   Federal Energy Regulatory Commission in a FERC Docket ER 09-14-000 on NSTAR’s petition  
16   for ROE incentive adders on behalf of the New England Conference of Public Utilities  
17   Commissioners (NECPUC).

18   **Q.    What is the purpose of your testimony in this proceeding?**

19   A.    The purpose of my testimony is to state the OCA’s position on the petition by Liberty  
20   Utilities requesting a franchise in the City of Lebanon and Town of Hanover, as it particularly  
21   relates to the interests of residential customers.

22

1 **Q. Please briefly summarize the OCA's position**

2 A. The OCA finds that without a demonstrated need, through commitments from anchor  
3 customers, the requested franchise does not appear to be a viable business proposition. We also  
4 contend, in the event of granting such a franchise, the Commission should carefully address the  
5 issue of prudence of investment, and should ensure that the risk associated with imprudent built-  
6 up remain with the investors and not the ratepayers. Additionally, we observe that having the  
7 same distribution rates for all customers in a class (we are especially concerned about residential  
8 customers) needs careful review of standalone costs associated with the new franchise to ensure  
9 that doing such would be just and reasonable for both preexisting ratepayers and the ratepayers  
10 in the new franchise.

11 **Q. Please briefly discuss the Company's request for the aforementioned franchise**

12 A. The franchise request involves Liberty Utilities procuring LNG and CNG supplies and  
13 distributing them as natural gas to end customers through an "off pipeline" distribution system,  
14 which consists of conventional underground pipelines, service risers and meters, *as well as* a  
15 fueling facility to supply the distribution system with natural gas. The fueling facility will  
16 consist of "an LNG storage and vaporization facility along with a CNG decompression facility to  
17 supply the natural gas to the distribution system and customers."<sup>1</sup> Liberty Utilities has already  
18 determined the site of the fueling facility. An important element of Liberty Utilities' petition is  
19 that the distribution rates for the requested franchise are proposed to be the same as the rates  
20 currently in place for Liberty Utilities at large. For greater detail see the pre-filed direct  
21 testimonies of the Company's witnesses.

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<sup>1</sup> See William J. Clark Testimony, pages 4 of 16 and 5 of 16.

1 **Q. Has Liberty Utilities secured commitments from any anchor customer from the**  
2 **Lebanon and Hanover area yet?**

3 A. No. The Company has stated that it expects to enter into special contracts with  
4 potentially three anchor customers. At this point, there is no evidence that such contracts have  
5 been secured. In responding to data requests Staff 2-3 and Staff 2-4 (See Attachment 1), the  
6 Company states that even without any anchor customers it expects to successfully operate a  
7 smaller scalable facility and distribution system to meet its revenue requirement.

8 **Q. Does Liberty Utilities project natural gas service for residential customers in the**  
9 **near future?**

10 A. Yes. In response to data request 3-9 (see Attachment 2), the Company indicates that ■  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]

15 **Q. Do you agree with the Company's assertion that even without any anchor customers**  
16 **it can operate a smaller scalable facility and the distribution system to meet its revenue**  
17 **requirement?**

18 A. No. Even based on the Company's own analysis, that reasonably assumes per customer  
19 demand for residential and commercial and industrial (C&I) customers to be the class averages  
20 based on recent experience, it does not appear that the Company's assertion is correct.

21 **Q. Please elaborate.**

1 A. The Company's position with respect to the viability of the franchise without anchor  
2 customers, as depicted in response to data request Staff 2-3 (and related follow up response to  
3 Staff 3-6 (Attachment 3)), is predicated on [REDACTED]

4 [REDACTED]  
5 [REDACTED]  
6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED] (see Attachment 3).

14 **Q. Have you analyzed the viability of the "no anchor customer" scenario even under**  
15 **the Company's assumptions with respect to C&I customers for 2018? If so, please discuss**  
16 **your findings.**

17 A. I have. [REDACTED]  
18 [REDACTED]  
19 [REDACTED]  
20 [REDACTED]  
21 [REDACTED]

1 [REDACTED] Even for 2018, the “no anchor customer” scenario is  
2 not economic under the company’s proposed minimum LNG/CNG fueling capacity build-out.

3 **Q. Do you have additional observations with respect to the “no anchor customer”**  
4 **analysis conducted by Liberty Utilities?**

5 A. Yes. It is the OCA’s contention that Liberty Utilities’ projection on the number of  
6 residential customers appears to be overly optimistic. Liberty Utilities has the burden to show  
7 [REDACTED],  
8 as assumed in its analysis. The OCA contends that the analysis is lacking in the Company’s  
9 petition. The projection of growth in residential customers appears even more suspect given how  
10 the recent economic realities make the case for natural gas service less attractive than what may  
11 have been expected even a few months ago. Oil and propane prices have decreased significantly  
12 compared to what was observed even in September 2015 (see Company’s response to data  
13 request DR 2-1, Page 9 of 22(Attachment 4)). Low fuel prices changes the dynamics of how  
14 readily existing customers of propane and oil will switch to natural gas service quite significantly  
15 and perceptibly to the disadvantage of CNG and LNG. Careful identification of existing  
16 residential customers and new residential customers along the route of the proposed distribution  
17 pipeline and their characteristics (current fuel source, the age of existing boilers, fixed costs  
18 associated with switching etc.) will inform the estimate of the potential for interest in natural gas  
19 service. While natural gas service may be more readily attractive to new residential customers,  
20 for pre-existing households the interest in switching will be strongly influenced by the current  
21 energy market realities and burden of switching costs, and their expectations about future energy



1 prices. The Company needs to undertake a thorough analysis to examine the viability of the  
2 requested franchise. For the reasons discussed above, it is the OCA's assertion that as a  
3 threshold, the Company must secure sufficient commitments from anchor customers before its  
4 franchise request is considered for approval by the Commission.

5 **Q. Are there additional points that the OCA wants to share?**

6 A. Yes. First, if the Commission grants the requested franchise, it should ensure that the  
7 risks associated with imprudent investment are solely on the investors. Starting a franchise  
8 involves investment. If the Commission grants the requested franchise to Liberty Utilities, it  
9 should carefully address the issue of what constitutes prudent investment. It should be  
10 understood right from the beginning that the Company will have to demonstrate the prudence of  
11 such investment. Any imprudent investment must be at the investors' risk, and should not be  
12 borne by ratepayers. We urge the Commission to convey that message unequivocally and be  
13 vigilant to that effect.

14 Second, in granting an additional franchise to an existing utility, it is important to estimate the  
15 standalone costs associated with the new franchise. We do not believe that Liberty Utilities has  
16 conducted that analysis satisfactorily. To the extent the costs associated with a uniquely "off  
17 pipeline" distribution system differs from the rest of the utility's distribution network, it is  
18 possible that the unit distribution cost of serving a customer under the new franchise is greater  
19 than that of serving a customer in the pre-existing utility-footprint. One cannot rule out the  
20 possibility that a uniform rate structure for the entire class of customers (subsuming the new  
21 franchise) will necessitate customers in the preexisting utility-footprint cross-subsidizing new  
22 customers in the franchise. The reverse scenario is also possible. Regardless, we urge the

1 Commission to carefully analyze whether existing distribution rates are reasonable for the  
2 requested franchise, if it determines that granting the franchise to the utility is in public interest.

3 **Q. Do you have any additional observation?**

4 **A.** I do. Whether the requested franchise is in public interest requires understanding the rate  
5 impact of company investments on each and every customer class, including the residential  
6 customer class. With demonstrable need, i.e., sufficient commitment initially from anchor  
7 customers (regardless of the class), the reasonableness of resulting rates for all customer classes  
8 is more likely.

9 **Q. Does this conclude your testimony?**

10 **A.** Yes.