



**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Docket No. DG 16-XXX

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Petition for Approval of Asset Purchase Agreement with Concord Steam Corp.

DIRECT TESTIMONY

OF

WILLIAM J. CLARK

STEPHEN R. HALL

July 21, 2016

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1 **I. INTRODUCTION**

2 **Q. Please state your names, positions and business addresses.**

3 A. My name is William J. Clark and my title is Director, Business Development. My
4 business address is 15 Buttrick Road, Londonderry, NH 03053.

5 A. My name is Stephen R. Hall and my title is Director, Rates and Regulatory Affairs. My
6 business address is 15 Buttrick Road, Londonderry, NH 03053.

7 **Q. By whom are you employed?**

8 A. We are employed by Liberty Utilities Service Corp. (“Liberty”), which provides services
9 to Liberty Utilities (EnergyNorth Natural Gas) Corp. (“EnergyNorth” or “the Company”).

10 **Q. On whose behalf are you testifying today?**

11 A. We are testifying on behalf of EnergyNorth.

12 **Q. Mr. Clark, please state your educational background and professional experience.**

13 A. I graduated from St. Anselm College in Goffstown, New Hampshire, with a Bachelor of
14 Science degree in Financial Economics in 1991. I began my career in 1992 at Boston
15 Gas Company where I was a member of the Steel Workers of America, Local 12007 and
16 held various positions in gas distribution and customer service, as well as being a union
17 official. In 1998, I was employed by National Grid to start an unregulated energy service
18 subsidiary where I worked as a Sales Account Manager until 2010. When National Grid
19 sold this business in 2010, I was employed by National Grid as a Commercial Gas Sales
20 Representative, working in EnergyNorth’s service territory. I joined Liberty in 2012 and
21 progressed into my current position where I am responsible for organic growth

1 opportunities and commercial development for both EnergyNorth and Granite State
2 Electric.

3 **Q. Have you previously testified before the Commission?**

4 A. Yes, I have testified before the Commission regarding EnergyNorth's business expansion
5 plans, including franchise applications, and I have submitted testimony in the currently
6 active docket on Managed Expansion Plan rates.

7 **Q. Mr. Hall, please state your educational background and professional experience.**

8 I received a Bachelor of Science degree in Mathematics Education from the University of
9 New Hampshire in 1977 and a Master's in Business Administration from the University
10 of New Hampshire in 1979. From 1979 through August 2013, I was employed by Public
11 Service Company of New Hampshire in positions of progressive responsibility in the
12 rates and regulatory area of the company. My responsibilities included all aspects of cost
13 recovery and ratemaking, rate design, tariff administration, as well as regulatory relations
14 and supervisory responsibility for revenue requirements. I joined Liberty Utilities in
15 September 2013 and assumed my current responsibilities for rates and regulatory affairs
16 at that time.

17 **Q. Have you previously testified before the Commission?**

18 A. Yes, I have testified extensively before the Commission during my 34-year career at
19 Public Service of New Hampshire and more recently on behalf of Liberty. My testimony
20 has covered a wide range of regulatory, ratemaking and pricing issues, as well as
21 testimony in support of numerous special contracts.

1 **Q. What is the purpose of your testimony?**

2 A. Our testimony provides a summary of an Asset Purchase Agreement (APA) between
3 EnergyNorth and Concord Steam Corp. ("Concord Steam") under which EnergyNorth
4 will offer natural gas service to all of Concord Steam's customers. The APA provides for
5 an orderly, managed transition of Concord Steam's customers from steam to natural gas
6 as their fuel source, if they so choose. EnergyNorth will perform the necessary
7 installation of gas services to all customers during the 2017 construction season, which
8 will enable customers to utilize gas as their fuel source by the 2017/2018 heating season.

9 **Q. Please describe the salient provisions of the APA.**

10 A. The APA is a transaction whereby EnergyNorth will acquire certain tangible and
11 intangible assets from Concord Steam for the sum of \$1.9 Million. The closing of this
12 transaction will take place on May 31, 2017. Liberty will acquire all pertinent Concord
13 Steam customer information, provided that customers have consented to release of such
14 information. This will enable an expedient distribution system design and process that
15 will allow for Concord Steam's customers to convert to natural gas service during the
16 summer of 2017. The APA also requires that Concord Steam utilize natural gas as the
17 primary fuel source, 170,000 Dth minimum, for creation of steam to serve its customers
18 during the winter of 2016/2017. Concord Steam will remain dual-fuel and utilize
19 biomass for peaking needs, as well as the primary fuel for Design Days (0 Fahrenheit).
20 Liberty will also acquire all easements and rights of way currently held by Concord
21 Steam, which could facilitate expansion of natural gas distribution lines. In essence, the
22 APA requires Concord Steam wind down operations effective May 31, 2017, and
23 abandon any assets, such as underground steam piping and boiler equipment, that could

1 be utilized to serve past, current or future customers unless approved by EnergyNorth. In
2 addition, Concord Steam must utilize natural gas as the sole source of fuel to provide
3 service to any customers unable to convert their heating systems during the 2017
4 construction season.

5 **Q. Please describe how this transaction benefits EnergyNorth's existing customers.**

6 A. Attachment WJC/SRH-1 contains a discounted cash flow (DCF) analysis that details the
7 economic benefits to EnergyNorth's existing customers. The analysis shows a positive
8 net present value of \$1,467,613 over ten years. The requirement to utilize natural gas as
9 the primary fuel source for this 2016/2017 winter season provides incremental revenue of
10 \$155,461. An initial analysis of potential customer conversions shows annual revenue of
11 \$660,760 under currently effective distribution rates. Also factored into the analysis was
12 a construction estimate of \$926,500, which is the direct cost to run natural gas mains and
13 services to new customers, as well as system reinforcements required to accommodate
14 these customers. These reinforcements include enlarging existing gas main in certain
15 areas. The reinforcements represent \$188,000 of the \$926,500. Another benefit to the
16 structure of this transaction is the cost savings associated with aggregating the
17 construction work into a single portfolio during one construction season. The estimated
18 savings associated with this managed transition is estimated at 30% compared to
19 converting customers incrementally over multiple years.

20 **Q. Have you performed an analysis of the economics of converting customers in the**
21 **absence of the transaction?**

22 A. Yes. EnergyNorth also performed a DCF analysis under a "no deal" scenario. Please see

1 Attachment WJC/SRH-2. The “no deal” scenario assumes an accelerated customer
2 migration off of Concord Steam over a five year period. The 30% increase to
3 construction costs mentioned above was factored into this analysis. Although the
4 expected financial benefit to EnergyNorth is slightly greater under the “no deal” scenario,
5 there is significantly more risk associated with the assumptions. Therefore, EnergyNorth
6 believes the prudent business decision is to acquire the potential customer base by
7 proceeding with the APA, which has a clearly positive impact to EnergyNorth, Concord
8 Steam’s existing customers, and EnergyNorth’s existing customers.

9 **Q. Please describe how customers will be converted.**

10 A. As customer consent forms are forwarded from Concord Steam, EnergyNorth will begin
11 compiling a database of customer locations and load profiles. EnergyNorth will also
12 begin marketing efforts that would encourage potential customers to contact the
13 Company if they prefer to provide that information directly to us. The Company will
14 work with each customer to explain rate classifications, estimated yearly bills, as well as
15 Sales and Transportation service. EnergyNorth will begin designing individual service
16 requirements, meter locations and customer timeline requests to develop a construction
17 schedule that will commence in April 2017 and allow EnergyNorth to meet customer
18 expectations for service. EnergyNorth will be able to install all required infrastructure for
19 all current Concord Steam customers to receive gas service prior to the 2017/2018
20 heating season.

1 **Q. What if customers do not have access to the capital required to convert their buildings**
2 **and/or equipment to natural gas from direct steam service?**

3 A. EnergyNorth understands that the upfront cost of converting boilers and furnaces may
4 cause a hardship for some customers. The Company is evaluating financing proposals
5 from third parties that would help alleviate this burden. As more details become
6 available EnergyNorth will reach out to all customers to inform them of their options. In
7 addition, EnergyNorth would consider proposing on-bill financing to support the
8 conversions of Concord Steam customers. In the event that this option is pursued,
9 EnergyNorth will work with the Staff and OCA to develop a proposal for the
10 Commission's review and approval. EnergyNorth believes the savings associated with
11 natural gas service will result in a positive economic outcome for all customers, including
12 conversion costs.

13 **Q. What will happen if some customers simply cannot convert their facilities before the**
14 **2017/2018 heating season?**

15 A. The APA includes provisions to accommodate such a scenario. EnergyNorth would
16 allow for the utilization of the existing plant and steam piping to serve these customers
17 for an additional two year period from the closing date. Natural gas would be the sole
18 source of fuel for Concord Steam's boilers during this time period. The customers that
19 remain on steam service during this time would be responsible for all the costs associated
20 with providing steam service. EnergyNorth anticipates these costs to be considerably
21 higher than receiving direct gas service. At the end of this two year period, all customers
22 are expected to be disconnected from the steam system.

1 **Q. Please describe the proposed cost recovery of the \$1.9 million payment to be made by**
2 **EnergyNorth to CSC.**

3 A. EnergyNorth proposes to recover the \$1.9 million plus its allowed rate of return over a
4 period of five years through its distribution rates, which would be billed to all of
5 EnergyNorth's distribution customers. EnergyNorth will be filing a distribution rate case
6 in the spring of 2017. EnergyNorth will propose that the \$1.9 million be amortized
7 through distribution rates over a five year period, beginning on the date that permanent
8 rates take effect. EnergyNorth proposes to accrue carrying costs on the \$1.9 million
9 balance at its allowed rate of return from the time that the payment is made until the
10 commencement of recovery, and to continue to accrue carrying costs on the unamortized
11 balance during the period of cost recovery.

12 **Q. What cost of capital will be used to determine carrying costs on the unamortized**
13 **balance?**

14 A. Prior to the implementation of permanent rates, EnergyNorth will use the same cost of
15 capital that is used for determining the revenue requirement for assets placed into service
16 under the Cast Iron/Bare Steel replacement program. Once permanent rates become
17 effective, EnergyNorth will utilize the allowed cost of capital authorized by the
18 Commission in the determination of permanent rates.

19 **Q. Approximately how much will the recovery be in each year?**

20 A. Recovery of the \$1.9 million over five years will result in a little over \$500,000 per year
21 recovered through distribution rates.

1 **Q. Will approval of the agreement increase overall rate level?**

2 A. No, it will not. Attachment WJC/SRH-1 shows a DCF analysis of the revenue
3 requirement (including the recovery of the \$1.9 million payment) as compared to the
4 anticipated revenue that EnergyNorth will receive once construction of distribution
5 facilities is completed and customers are taking natural gas service. As shown in that
6 analysis, the amount of anticipated revenue exceeds the revenue requirement. Therefore,
7 in the next distribution rate case filing, the anticipated revenue should more than offset
8 the increased revenue requirement, resulting in a net *decrease* to distribution rates.

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

10 A. Yes, it does.