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

Docket No. DG 14-___

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

Request for Approval of Special Contract and Lease Agreement with Innovative Natural Gas,
LLC d/b/a iNATGAS

**TESTIMONY
OF
WILLIAM J. CLARK**

April 4, 2014

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1 **I. INTRODUCTION**

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

3 A. My name is William J. Clark and I am employed by Liberty Energy Utilities (New
4 Hampshire) Corp. (“Liberty Energy NH”) as a Business Development Professional. My
5 business address is 11 Northeastern Blvd., Salem, NH 03079. In that capacity, I am
6 responsible for creating new business opportunities for Liberty Utilities (EnergyNorth
7 Natural Gas) Corp. (“EnergyNorth” or the “Company”) and Liberty Utilities (Granite
8 State Electric) Corp. while identifying and recommending new products, services and
9 businesses including enhancements of existing offerings to improve the overall
10 profitability, earnings production and strategic positioning of the companies.

11
12 **Q. Please summarize your educational and business 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. In 1992, I began my career at Boston
15 Gas Company. During this time I was a member of the Steel Workers of America, Local
16 12007 and held various positions in both, gas distribution and customer service as well as
17 being a union official. In 1998, I was employed by National Grid to start an unregulated
18 energy service subsidiary, where I worked as a Sales Account Manager until 2010. In
19 2010, when National Grid sold this business, I was employed by National Grid as a
20 Commercial Gas Sales Representative, working in EnergyNorth Natural Gas, Inc.’s
21 territory. In 2012, I joined Liberty Energy NH and progressed into my current position.
22 In this role, I am responsible for organic growth opportunities and commercial
23 development for both gas and electric operations.

1 **Q. Have you previously testified before any regulatory bodies?**

2 A. No, I have not.

3

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

5 A. The purpose of my testimony is to describe a lease and special contract between
6 EnergyNorth and Innovative Natural Gas, LLC d/b/a iNATGAS. The Company seeks
7 Commission approval of both the lease and the special contract. Under the lease,
8 iNATGAS will construct a compressed natural gas terminal for vehicle fueling (the
9 “CNG Facility”) on property owned by EnergyNorth at Broken Bridge Road in Concord,
10 New Hampshire. Under the special contract, iNATGAS will become a firm sales
11 customer of the Company, and will pay a distribution rate in excess of the current tariffed
12 rate. My testimony will present an overview of the project, the need to deviate from the
13 tariff for the distribution rate, a description of the terms and conditions of the lease and
14 special contract, and the assurances included in the lease and special contract that are
15 designed to protect the Company and its customers. In addition, my testimony will
16 address the need for expedited consideration of this project by the Commission.

17

18 **II. BACKGROUND**

19 **Q. Please describe the Company and its natural gas distribution business.**

20 A. EnergyNorth is the largest natural gas distribution utility in the state of New Hampshire,
21 serving approximately 90,000 customers in 30 towns and cities in the State. EnergyNorth
22 currently has a take station with a tap and meter on the Tennessee Gas Pipeline Concord
23 Lateral as well as an LNG peak shaving facility at Broken Bridge Road which it uses for

1 the day-to-day operation of its gas distribution system. EnergyNorth is actively seeking
2 to expand its natural gas operations, and late last year began discussions with iNATGAS
3 regarding the possibility of developing a compressed natural gas fueling station in the
4 Concord area. On November 19, 2013, Liberty entered into a letter of intent with
5 iNATGAS regarding this project, and on April 2, 2014, entered into the special contract
6 and lease that are the subject of this docket. Copies of the lease, special contract,
7 guaranty and a master project agreement between EnergyNorth and iNATGAS are
8 attached hereto as WJC-1.

9
10 **Q. What role will iNATGAS have in the CNG Facility?**

11 A. In the most general terms, iNATGAS will construct, own and operate a CNG filling
12 station, canopy, storage vessels, a CNG vehicle fueling dispenser and associated fuel
13 management system at the Broken Bridge location. iNATGAS will seek end user
14 customers who wish to take delivery of CNG as well as allow access to other CNG
15 providers as a tolling facility to supply their customers with CNG. The pumps at the
16 facility will be capable of fast fill applications for CNG tractors as well as city, state,
17 municipal and private vehicle fleets.

18
19 **Q. What is EnergyNorth's role in the Broken Bridge CNG Facility?**

20 A. EnergyNorth will own a CNG compressor station that will be constructed on the Broken
21 Bridge property adjacent to the Company's existing take station. The CNG compressor
22 station will initially house four electric drive compressors but could be expanded to six
23 compressors as demand increases. EnergyNorth will install a 4" steel pipe with a meter

1 set assembly capable of handling the 750 PSI line pressure in the Concord Lateral, as
2 well as install a 1250 KVA transformer and will bring electrical power to the compressor
3 station. The compressor station will compress the natural gas up to 3600 PSI and deliver
4 it to the iNATGAS fueling station located across the road.

5
6 **Q. Does EnergyNorth have the land sufficient for this project?**

7 A. Yes. In December 2013, EnergyNorth purchased from Broken Bridge Corp. three parcels
8 of land on Broken Bridge Road, which consist of approximately 91 acres of land.
9 EnergyNorth purchased this land primarily to meet its operational needs, including use of
10 some of the land for a training facility. A small portion of the acreage is aptly suited for
11 use in this project with iNATGAS.

12
13 **Q. Why doesn't EnergyNorth own and operate the entire project?**

14 A. As an experienced developer of CNG filling stations, iNATGAS has already formulated a
15 successful business process that it will apply to the Broken Bridge facility in order to
16 capture various commercial markets for the CNG product. At this time, EnergyNorth
17 does not possess that same experience in the development of commercial markets for
18 CNG or the delivery logistics needed to serve those markets. EnergyNorth has chosen to
19 invest in and maintain a more traditional role in the project through ownership of the
20 compressors and the related tie-in to the Company's distribution system.

21
22 **Q. What is EnergyNorth's expected capital investment in the project?**

23 A. The Company expects to invest between \$1.8 and \$2.2 million in the compressors, gas

1 conditioning equipment, meter set assembly and piping, electrical transformer, permanent
2 site work, consulting fees and permitting fees, as described further below.

3
4 **Q. Do iNATGAS and its affiliates have any experience operating CNG refueling
5 facilities?**

6 A. Yes. iNATGAS is an affiliate of Alternative Vehicle Service Group, LP (“AVSG”) and
7 Consolidated Utilities Corporation, which are in the business of owning and operating
8 vehicle refueling stations. AVSG owns and operates CNG vehicle refueling stations in
9 13 states. It designed, built and operates the CNG facilities at both Logan International
10 Airport in Boston and TF Green airport in Providence. AVSG also designed,
11 constructed, and owns and operates the first public access vehicle refueling station in
12 New Hampshire (located in Nashua) as well as multiple stations along the Massachusetts
13 Turnpike and Route 128 in Massachusetts. CUC designed and built the private access
14 CNG station for the University of New Hampshire at its Durham campus. iNATGAS
15 recently received approval by the Massachusetts Department of Public Utilities for a
16 special contract with NSTAR involving the construction of a CNG facility at an NSTAR
17 facility located in Worcester, Massachusetts. This facility will supply CNG to northern
18 and western Massachusetts along with Northern Connecticut.

19
20 **Q. Does AVSG have a role in this project?**

21 A. Yes. Based on the terms of the lease, AVSG will own and operate the private access
22 vehicle refueling pump(s) located within the iNATGAS fueling station at Broken Bridge.
23 AVSG will own and operate the pumps to maintain the existing business structure

1 between iNATGAS and AVSG as well as the different fuel management systems
2 required regarding the tax treatment of CNG end use. AVSG owns and operates all the
3 vehicle refueling stations while iNATGAS will own and operate all the “virtual pipeline”
4 facilities. Currently, CNG as a vehicle fuel is taxed by the federal government and CNG
5 for base load applications is not. This requires distinctive fuel management systems
6 along with differing financial accounting methods.

7
8 **III. IMPORTANCE OF AND NEED FOR PROJECT**

9 **Q. Why is this project happening now?**

10 A. This project is going forward now given the burgeoning CNG market in New England
11 which is driven in part by the relatively small footprint of natural gas distribution
12 infrastructure, the price divergence between oil, propane and natural gas commodity and
13 technological advances in CNG delivery. Given the expense associated with expansion
14 of natural gas distribution mains and the high price of natural gas in New England
15 relative to other parts of the United States, CNG provides new opportunities for
16 expansion of gas availability. Advances in compression and decompression technology
17 of CNG along with market share increases have brought capital and operational costs of
18 CNG stations lower. In addition, there have been technological improvements in CNG
19 transportation that make CNG delivery more economical. New Titan all-composite
20 lightweight trailers manufactured by Hexagon-Lincoln Composites capable of delivering
21 350 MCF of natural gas in a single load allow for larger deliveries at a much lower cost.
22 Wesport-Cummins, an engine manufacturer, now has in service a natural gas engine for
23 large tractor trailers, which helps to drive demand for CNG. Given the difference in

1 prices between natural gas and oil in the region and these technological advances, a very
2 large customer can save between 30% and 40% on its fuel expense. As a result, the
3 Company believes that properly designed, priced and managed CNG fueling stations will
4 be both in demand and successful in the New Hampshire marketplace.

5
6 **Q. Will the increased availability of CNG facilitate the establishment of CNG “virtual
7 pipeline?”**

8 A. Yes. A “virtual pipeline” is a means to deliver natural gas to large end users who are not
9 currently connected to a natural gas transmission or distribution system. These large
10 customers are typically using fuel oil or propane for heating and manufacturing. If this
11 project is approved, the Company anticipates that iNATGAS will be delivering CNG via
12 tube trailers for delivery to end users. Upon arrival at an end user’s facility, the trailer
13 will dock at a daughter station, which is a facility where decompression of the gas takes
14 place before being piped into the facility at the desired operating pressure of the end user,
15 typically less than 5 PSI. The daughter station will have equipment that monitors the
16 amount of gas in the trailer and determines when a new delivery is required. After a new
17 trailer arrives it connects to a second docking station at the daughter station. As the
18 existing trailer approaches delivery of its entire load, the new trailer takes over and the
19 existing trailer heads back to the mother station to start the process over again.
20 Depending on the size of the customer, there may be multiple deliveries per day or a few
21 per week. The establishment of this CNG fueling station is an important step in
22 increasing such “virtual pipelines” in New Hampshire, which will bring immediate
23 energy savings to end user-consumers and may serve as a foundation for developing

1 increased natural gas infrastructure in the future.

2
3 **Q. Is the Company requesting expedited consideration by the Commission of the**
4 **special contract and lease?**

5 A. Yes. In order for this project to be built in time for the upcoming 2014-2015 heating
6 season, the Company is requesting that the Commission allow the special contract and
7 lease to take effect thirty days from the date of its filing. This quick turnaround is
8 necessary given the lead time associated with ordering the parts to build the CNG fueling
9 station as well as to give potential end user-customers the lead time necessary to convert
10 from their current heating source to CNG, which can take up to three months. For
11 business owners to feel comfortable investing a significant amount of capital towards
12 their plant conversion, they will need to know with certainty that this project will be
13 proceeding for the upcoming heating season.

14
15 As described in more detail later in my testimony, the Company must purchase
16 compressors and gas conditioning equipment for this project for which there is a long
17 lead time. In the case of the compressors, the Company estimates that it will take 24
18 weeks from the date of order to the date of their delivery to the Broken Bridge site.
19 Because the deposits for this equipment are substantial (e.g. in the range of \$350,000)
20 and non-refundable, the Company would not order the equipment until it has approval
21 from the Commission to proceed. Therefore, in order for this project to be completed by
22 the 2014-2015 heating system which begins in November 2014, the Company requests
23 expedited consideration of the special contract and lease.

1 **IV. LEASE AGREEMENT**

2 **Q. Please describe the Lease Agreement.**

3 A. EnergyNorth will lease to iNATGAS sixty-four hundredths of an acre parcel located at
4 20 Broken Bridge Road, and approximately a two acre portion of another parcel located
5 at 14 Broken Bridge Road in Concord. The lease will begin on the first month following
6 all necessary regulatory approvals for this transaction and will run for a term of fifteen
7 years. iNATGAS has the right to renew the lease for one additional five year term.

8
9 **Q. What are iNATGAS's obligations under the Lease Agreement?**

10 A. iNATGAS is obligated, at its sole expense, to construct a CNG fueling station as
11 described in Exhibit B to the Lease Agreement. This includes: providing a commercially
12 viable fuel management system; two sets of CNG storage vessels; 6 trailer fueling posts;
13 at least one retail style CNG dispenser for vehicle fueling; maintenance of all equipment
14 downstream of the natural gas meter set assembly, including the compressor station; all
15 electrical work after the 1250 KVA transformer; and all electric utility meters at both the
16 compressor station as well as the CNG fueling station.

17
18 **Q. What are EnergyNorth's obligations under the Lease Agreement?**

19 A. EnergyNorth's obligations are set forth in Exhibit C to the Lease Agreement, and include:
20 construction of the compressor station; all site survey work and site preparation;
21 extension of a transmission grade natural gas service line to the compressor station from
22 EnergyNorth's current take station on Broken Bridge Road; provision of a 1250 KVA 3-
23 phase step-down transformer and related electrical connections; installation of gas

1 conditioner equipment and up to six electric motor-driven compressor; payment of
2 property taxes and snow removal at both the CNG Compressor Station and the CNG
3 fueling station; and the preparation and submission of all necessary permitting with the
4 City of Concord and the State of New Hampshire.

5
6 **Q. What are the financial terms of the Lease Agreement?**

7 A. iNATGAS will pay EnergyNorth rent in the amount of \$[REDACTED] per month for the
8 approximately 3 acre site that the CNG fueling station will encompass. The rent is based
9 on the purchase price of the land, the acreage involved, EnergyNorth's Weighted
10 Average Cost of Capital and the length of the lease. Although the CNG fueling station
11 will only utilize 3.5 acres, it is prudent to have a buffer zone between the CNG facility
12 and the remaining developable land. This cost of the buffer zone has also been included
13 in the cost of the rent.

14
15 **Q. Does the Lease Agreement include any financial protections for EnergyNorth?**

16 A. Yes. Under Article XVI of the Lease Agreement, iNATGAS is required to obtain
17 \$10,000,000 in comprehensive public liability insurance indemnifying EnergyNorth
18 against any claims for any injury to person or property associated with use of the leased
19 property or the compressor station property. In addition, iNATGAS is required to
20 provide Builder's Risk Insurance during periods of construction on the premises, and
21 must provide EnergyNorth with a letter of credit prior to constructing any improvements
22 in excess of \$10,000 after the initial Tenant Improvements listed in Exhibit B of the
23 Lease Agreement. In addition, as explained in the Master Project Agreement contained

1 in Attachment WJC-1, EnergyNorth has required AVSG and its principal, Babak
2 Alizadeh, to provide a guaranty to EnergyNorth in which they jointly and severally
3 unconditionally guaranty iNATGAS's obligations under the Lease Agreement and the
4 Special Contract for five years from the date of the commencement of the lease. A copy
5 of the guaranty is also included in Attachment WJC-1. Default by iNATGAS under
6 either any of the agreements (the Lease Agreement, Special Contract, Master Project
7 Agreement or Guaranty) triggers a default under all of the agreements. These
8 protections, as described further below, will protect the Company and its other customers
9 against many of the construction, financial and operating risks associated with this
10 project.

11
12 **Q. What is the basis for the Commission's approval of the Lease Agreement?**

13 A. Under RSA 374:30, the Commission must approve the lease of any part of a public
14 utility's system.

15
16 **Q. Other than Commission approval, are there any other regulatory approvals that are
17 necessary for this project?**

18 A. Yes. Within forty-five days of the execution of the Lease Agreement, the Company must
19 apply to the City of Concord (the "City") for any zoning, site plan or subdivision
20 approvals required for the completion of the improvements on the land by iNATGAS, as
21 well as to the New Hampshire Department of Environmental Services ("DES") for any
22 necessary permits. Contemporaneous with the filing of this matter with the Commission,
23 the Company is submitting requests to the City and DES for their respective approvals.

1 **V. SPECIAL CONTRACT**

2 **Q. Please describe the terms of the Special Contract.**

3 A. Under the Special Contract, EnergyNorth will provide firm transportation of compressed
4 natural gas to iNATGAS's CNG fueling station for a term of 15 years. The natural gas
5 commodity will be procured by iNATGAS under EnergyNorth's G-54 firm sales rate for
6 at least one year or from a third party marketer thereafter and delivered by EnergyNorth
7 to the meter set located at the CNG compressor station. The Special Contract has a fixed
8 delivery charge as well as yearly "take or pay" minimum requirements. The fixed
9 delivery charge is \$.■■■ per therm for all therms metered at the delivery point and will
10 remain in effect for the term of contract and will not be subject to any adjustments.

11

12 **Q. Is there a benefit of iNATGAS becoming a sales customer and remaining on sales**
13 **service for a one year period?**

14 A. Yes. The benefit of iNATGAS becoming a sales customer is that its load will reduce the
15 overall unit demand cost for all of the Company's sales customers. That is, since
16 iNATGAS will have a very high load factor, it will be served by nearly the same amount
17 of upstream pipeline capacity year round providing a higher utilization factor for the
18 Company's upstream capacity particularly in the summer where it would otherwise go
19 unutilized or underutilized. Since this capacity has fixed demand charges, all sales
20 customers are effectively paying for that capacity during the off-peak periods when it is
21 underutilized due to lack of off-peak demand. While the Company attempts to mitigate
22 these fixed costs by releasing the capacity into the secondary market, it generally only
23 recoups a small percentage of the fixed costs such that the unit cost to all customers is

1 higher than it otherwise would be if 100% of the fixed costs were recovered. Since the
2 iNATGAS load is essentially flat year round, it is effectively increasing the off-peak
3 demand on the system and spreading out the fixed costs across greater volumes and
4 thereby reducing the average unit cost to all sales customers.

5
6 **Q. What if iNATGAS switches to a supply service from a third party marketer after**
7 **the one year period?**

8 A. If iNATGAS elects to switch to firm transportation service after year one, it will be
9 assigned its prorata share of the Company's upstream and on-system capacity as is the
10 case with any non-grandfathered customer. As such, it will pay for its assigned capacity
11 at 100% of the cost which is far greater than what the Company would recover for that
12 capacity in the secondary market. As with any released capacity, the credits will flow
13 back to sales customers through the Company's cost of gas adjustment.

14
15 **Q. What are the yearly take or pay minimums and intervals under the Special**
16 **Contract?**

17 A. The yearly take or pay minimums vary by intervals. Interval 1 is for the first 24 months
18 after the commencement date of the Special Contract. This interval will require take or
19 pay minimums of 300,000 Dth per year. Interval 2 will commence after the expiration of
20 Interval 1. Interval 2 will be for 24 months and will require take or pay minimums of
21 500,000 Dth per year. Interval 3 will commence after the expiration of Interval 2 and
22 will run for the remainder of the Special Contract. Interval 3 will require take or pay
23 minimums of 1,300,000 Dth per year. iNATGAS may roll over a shortfall of its take or

1 pay minimum requirements into the following year once during the term of the Special
2 Contract.

3
4 **Q. How do these rates vary from the tariffed rates?**

5 A. Under the existing rate structure, iNATGAS would be a G-54 customer. The G-54 rate
6 has winter and summer periods with an average distribution charge of \$.032 per therm.
7 The Special Contract rate at \$. [REDACTED] the G-54 rate. The higher
8 price under the contract will compensate the Company for its additional investment in the
9 CNG compressor station and related electrical and gas facilities.

10
11 **Q. Why is a deviation from the tariffed rate necessary?**

12 A. The tariff provisions for firm transportation service do not adequately recognize the
13 Company's investment nor protect its existing customers in the event of unforeseen
14 circumstances that could arise in the future regarding this project. The existing tariff
15 never anticipated a single customer utilizing the amount of natural gas as will be used
16 here, which is projected to be more than five times the amount of natural gas than the
17 Company's largest, non-generation customer, nor does the tariff cover a situation where
18 the Company is required to invest a significant amount for facilities (other than line
19 extensions) necessary to provide service to a single customer. In addition, as written, the
20 existing tariff language does not appear to allow for the resale of natural gas by a
21 customer.

22
23 If an unforeseen commercial risk reversal in the difference between the price of natural

1 gas and fuel oil were to occur after the first year of operation and the CNG facility were
2 uneconomic and forced to shut down, the Company would be left with a substantial
3 amount of unrecovered investment and no revenue. To avoid this result, the Company
4 has required yearly take or pay minimums that allow for recovery of the Company's
5 investment in a timely manner to safeguard its investment and to protect its customers.
6

7 **Q. Why would iNATGAS agree to a higher rate than the tariffed rate?**

8 A. By locking into this fixed rate, iNATGAS has price certainty when negotiating long term
9 fixed price contracts for the delivery of CNG. It will also allow for the CNG facility to
10 reach full capacity much sooner which will benefit both EnergyNorth and its customers
11 because the added revenue will offset the revenue requirement of the Company's
12 investment, thus reducing future rates for all customers.
13

14 **Q. How much revenue does EnergyNorth expect to receive from this project?**

15 A. EnergyNorth has conducted an analysis of the expected revenues from investment in the
16 project. This analysis includes the cost of the land necessary for the project, the cost of
17 all of the Company's obligations in Exhibit C to the Lease Agreement, the minimum
18 projections in revenue paid under the Special Contract, and the monthly rent. Based on
19 this analysis, the Company projects that it will recover its investment in 5.5 years. If the
20 baseline projections are met, the \$2.2 million investment will be recovered in 4 years and
21 if the accelerated projections are achieved, the Company will recover its \$2.2 million
22 investment in 3 years and 4 months.
23

1 **Q. How will EnergyNorth's investment and the associated revenue from the Special**
2 **Contract be handled from a ratemaking perspective?**

3 A. The Company's proposal for ratemaking associated with the project is addressed in the
4 accompanying testimony of Stephen R. Hall.

5
6 **Q. Has EnergyNorth taken any other steps to ensure the protection of its investment**
7 **and the protection of its customers from potential risks associated with this**
8 **transaction?**

9 A. Yes. In addition to the guaranty and the Builder's Risk Insurance, the Company has
10 obtained another remedy in the event of a default of the terms of the Special Contract
11 and/or Lease Agreement by iNATGAS or a forced liquidation of its assets. EnergyNorth
12 will have the right to purchase the CNG fueling station, in its entirety, for its net book
13 value. This will enable the Company to either operate the CNG fueling station and
14 supply CNG to end users or lease the facility to another operator.

15
16 **Q. Are there special circumstances that render departure from the Company's general**
17 **schedules just and consistent?**

18 A. Yes. As described above, the terms of the Special Contract give iNATGAS the certainty
19 it needs to be able to develop the project, while at the same time providing the Company
20 with the opportunity to expand its gas business without creating undue risk to its other
21 customers. As a result, the Special Contract is in the public interest.

22

1 **Q. In your opinion, are the Special Contract and Lease in the public interest?**

2 A. Yes. They are in the public interest because they allow for the development of a new
3 business venture that could enable New Hampshire businesses to save on their energy
4 costs, create more jobs, reduce rates for all existing customers and also contain
5 protections for existing customers. In light of the above, the Special Contract and Lease
6 are in the public interest.

7

8 **VI. CONCLUSION**

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

10 A. Yes, this concludes my testimony.

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