

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

Docket No. DG 14-____

Iberdrola USA Enterprises, Inc.

and

Liberty Utilities (EnergyNorth Natural Gas) Corp.

DIRECT TESTIMONY

OF

RICHARD H. LEEHR

June 6, 2014

I. INTRODUCTION

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

A. My name is Richard H. Leehr and I am employed by Liberty Energy Utilities (New Hampshire) Corp. (the “Company” or “Liberty Energy NH”) as its President. My business address is 15 Buttrick Road, Londonderry, NH 03053. I am also the President of and responsible for the overall management, operations and growth of the two utilities owned by the Company: Liberty Utilities (EnergyNorth Natural Gas) Corp. (“EnergyNorth”) and Liberty Utilities (Granite State Electric) Corp.

Q. Please provide your employment background and appearances before regulatory agencies.

A. Prior to joining Liberty Utilities on January 1st of this year, I had formed MarShale Consulting LLC in 2010, through which I provided natural gas and regulatory consulting services for infrastructure project development to a variety of participants in the natural gas industry. As its principal, I served as President and service provider to the various clients during the period 2010 through 2013. I have accumulated approximately 40 years of experience in the natural gas pipeline business, working mostly in a variety of executive level capacities at various interstate natural gas pipelines, prior to founding MarShale Consulting LLC. My more recent employment included serving as President of Portland Natural Gas Transmission Systems (2001-2005) and President of Millennium Pipeline Company LLC (2005-2010). I began submitting prepared testimony before the

1 Federal Energy Regulatory Commission (“FERC”) in December, 1984 and have
2 participated and/or testified in several dockets thereafter. In addition to testifying before
3 the FERC, I have also provided expert testimony before the National Energy Board of
4 Canada, various state commissions and U.S. Bankruptcy courts.

5
6 **Q. Would you briefly describe your educational and military background?**

7 A. Yes. In 1972, I graduated from John Carroll University with a BSBA degree, majoring in
8 Accounting. From 1975 through 1977, I pursued an MBA degree in Finance from the
9 University of Detroit. From 1972 through 1980, I served as an officer in the U.S. Army
10 Reserves - Transportation Corps, resigning my commission in 1981 at the rank of
11 Captain.

12
13 **Q. Have you previously testified before the Commission?**

14 A. No.

15
16 **Q. What is the purpose of your testimony?**

17 A. The purpose of my testimony is to describe why EnergyNorth’s purchase of the stock of
18 New Hampshire Gas Corporation (“New Hampshire Gas”) is in the public interest,
19 including why EnergyNorth believes it is advantageous to own and operate a system in
20 Keene, to address EnergyNorth’s managerial and financial qualifications to own and
21 operate the gas distribution system currently owned by New Hampshire Gas (the “Keene

1 System”) and to identify regulatory approvals associated with the transaction. In
2 addition, my testimony will address the potential for expansion of natural gas service in
3 Keene.

4
5 **Q. Could you delineate which Company witness is covering each part of the application**
6 **being submitted?**

7 A. Gladly:

- 8 • Energy Procurement/Gas Supply – Mr. Francisco DaFonte, Senior Director, Energy
9 Procurement
- 10
11 • Operations and Technical Support – Mr. Daniel Saad, Vice President, Operations and
12 Engineering
- 13
14 • Human Resources – Mr. Mark Smith, Vice President, Human Resources
- 15
16 • Customer Services – Mr. William Sherry, Vice President, Customer Care
- 17
18 • Regulatory Matters - Mr. Stephen Hall, Director, Regulatory and Government Affairs
- 19

II. THE PROPOSED TRANSACTION IS IN THE PUBLIC INTEREST

Q. Could you describe, from an overview perspective, why EnergyNorth's acquisition of New Hampshire Gas would be in the public interest?

A. Yes. Just as Liberty's acquisition of EnergyNorth in Docket No. DG 11-040 presented the Commission with the opportunity to significantly increase the level of local management, control and operation of two important New Hampshire utilities, this acquisition similarly provides an opportunity for New Hampshire Gas to be supervised and directed under EnergyNorth's local executive management and control based in Londonderry, New Hampshire. The resulting synergies, as well as the potential to grow the Keene System and convert it to deliver competitively priced Liquefied Natural Gas or Compressed Natural Gas, will benefit customers and serve the public interest.

Q. How will this acquisition complement the "New Hampshire Centric" corporate framework of EnergyNorth, as outlined in the earlier testimony presented before the Commission?

A. First, in the months leading up to and following the acquisition in 2012 of EnergyNorth by Liberty Energy NH, Liberty Energy NH has hired over 139 employees, 90 of who were residents of New Hampshire. This employment base provides a significantly enhanced local presence that will further the goal of having New Hampshire Gas operated and controlled by local management. Second, customers of the Keene System will benefit from the significant engineering and operational/technical expertise that is

1 available in-house from EnergyNorth's existing operations and engineering departments,
2 which are based in Southern New Hampshire. This will ensure ready accessibility to
3 locally based, experienced utility resources, nearby backup resources and readily
4 dispatchable internal emergency support in these areas. Witness Daniel Saad discusses
5 these operational benefits in more detail in his prefiled testimony. In addition, as Mr.
6 DaFonte details in his testimony, EnergyNorth has important capacity resources that will
7 be available to the Keene System, including propane storage sufficient to ensure that the
8 Keene System stays in compliance with the Commission's 7-day storage requirement.
9 The availability of EnergyNorth's storage resources will also provide a significant benefit
10 to customers of the Keene System by providing periodic storage opportunities in order to
11 mitigate future price volatility and a corresponding reduction in the cost of gas rates.

12
13 At some point following the closing, EnergyNorth will also be in a position to provide
14 other services to customers of the Keene System, including offering EnergyNorth's
15 energy efficiency programs and customer service support.

16
17 The transition of ownership from New Hampshire Gas to EnergyNorth will not have an
18 adverse effect upon rates paid by New Hampshire Gas's customers, and will in fact cause
19 those rates to go down. In particular, EnergyNorth intends to make a future filing in a
20 separate proceeding in which it will propose a formal plan to transition customers of the
21 Keene System into EnergyNorth's tariff and rate structure over time, which will provide

1 rate reductions to those customers. However, EnergyNorth will not seek any rate
2 changes that could impact New Hampshire Gas customers as part of this proceeding, or
3 rate recovery of any acquisition premium or transaction costs arising from the
4 acquisition.

5
6 **Q. Are there any other synergies the Commission should consider in assessing whether**
7 **this acquisition is in the public interest?**

8 A. Yes. This acquisition would reduce the number of regulated utilities in the state by one,
9 eliminating some of the regulatory burden and administration of the Commission, the
10 Commission Staff, and the Office of Consumer Advocate. Additionally, as Mr.
11 Dickinson explains in his testimony, Iberdrola USA Enterprises, Inc. (“Iberdrola”) has
12 paid Keene Propane Corporation (“KPC”) an amount to settle an existing lawsuit
13 between KPC and New Hampshire Gas. Mr. Dickinson further explains that this is a
14 significant benefit to both New Hampshire Gas and its customers, who will receive the
15 benefit of the long-term use of the KPC propane air facility without bearing any of the
16 cost paid to secure such use. Effectively, this would reduce the costs for customers as
17 compared with costs in the absence of this transaction.

**III. ENERGYNORTH'S FINANCIAL, TECHNICAL, AND MANAGERIAL
ABILITIES AND REGULATORY APPROVALS**

Q. Please describe EnergyNorth's capability to manage the operation of the Keene System.

A. As is evidenced by the prefiled testimony and stated credentials of Messieurs Saad, Smith, Sherry and DaFonte, EnergyNorth has a very experienced management team and significant expertise and resources to bring to the ownership and operation of the Keene System. EnergyNorth has a long history of successful operations, which have continued under Liberty Energy NH's ownership. For example, Witness Saad had previous senior executive responsibility for National Grid's northeast gas and LNG operations prior to joining Liberty. Witness DaFonte is well respected in the Northeast gas markets, having considerable gas and energy procurement experience while at Bay State Gas and Northern Utilities. Witnesses Smith and Sherry have brought many years of experience in Human Resources and Customer Service at National Grid prior to joining Liberty Utilities.

Q. What is EnergyNorth's financial capacity to own and operate the Keene System?

A. EnergyNorth will be paying cash for the purchase price of New Hampshire Gas. Furthermore, EnergyNorth's parent, Liberty Utilities holds an investment grade rating of BBB+ while Liberty Utilities Co.'s parent, Algonquin Power & Utilities Corp., holds an investment grade rating of BBB and both have ready access to both the debt and equity

capital markets as may be needed to fund our business growth.

Q. What technical capabilities does EnergyNorth have to own and operate the Keene System?

A. In addition to inclusion in our normal billing, payment processing and customer information systems, the Keene System will be integrated into our 24/7 Londonderry dispatch operations, as well as our SCADA systems of the Company. Witness Saad has addressed this coverage further in his direct testimony.

Q. Other than the Commission's approval, are there any other regulatory approvals required for this transaction to close?

A. Yes. EnergyNorth will require authorization by the Federal Communications Commission to transfer certain licenses from New Hampshire Gas to EnergyNorth. We do not anticipate any issues with obtaining that approval in time to close this transaction.

IV. GROWTH POTENTIAL OF THE KEENE SYSTEM

Q. What are the economics of natural gas relative to other fuel sources?

A. I am an ardent supporter of natural gas as a competitively priced, abundant, clean burning fuel of the future for both New Hampshire and the Northeast for many years to come. My optimism is due to the considerable evolution of shale gas development in the United States and especially the robust drilling and development activity within the Marcellus

1 and Utica shale gas region, approximately 300 miles from our markets, which is now
2 producing over 12 Bcf of natural gas per day. These historical events, coupled with a
3 substantial increase in the nation's proven and probable reserves and the related ongoing
4 momentum of major interstates to expand and extend pipeline infrastructure into the
5 Northeast by Spectra (Algonquin/Maritimes), Williams (Constitution), Kinder Morgan
6 (Tennessee) and TransCanada (PNGTS) reinforce my outlook. Having abundant supply
7 potentials and economic natural gas pricing through competition can only generate a
8 substantial economic stimulus for economic development for the region. EnergyNorth is
9 seeking capacity to access to these new supply sources through its participation in
10 regional open season solicitations by project sponsors.

11
12 While individual consumption within EnergyNorth's customer base continues to decline,
13 due primarily to increased conservation and efficiencies, lower sustainable prices in the
14 future will substantially increase the aggregate demand for our commodity and its
15 derivatives, Compressed Natural Gas ("CNG") and Liquefied Natural Gas ("LNG"),
16 when compared to alternative fuel choices. In his testimony, Mr. DaFonte discusses
17 some of these pricing issues and has illustrated the current market conditions as it relates
18 to the current Keene System propane supply.

19
20 We have recently quantified the fuel pricing disparities for customers in our market area
21 this past winter, reflecting January 2014 experience as provided by the New Hampshire

Office of Energy Planning:

AVG. FUEL PRICES IN NEW HAMPSHIRE

Fuel Type	Price per MMBtu *
# 2 Fuel Oil	\$ 27.26
Propane	\$ 38.13
Natural Gas	\$ 13.24

* as of January 13, 2014

While this experience reflects a peak service month, it illustrates the significant price disparity between fuels being experienced in New Hampshire by energy consumers. The cited average propane pricing appears to be almost triple that of natural gas during a month of peak consumption. Of equal significance is the fact that the equivalent price of No. 2 oil is double that of the natural gas, even though natural gas is being delivered in a capacity-constrained Northeast market.

Q. Are there opportunities for growth in the Keene System?

A. Yes. We have researched the market growth potential of the Keene System and believe there is significant opportunity for increased utilization of a natural gas derivative as a primary fuel source for residential, commercial and industrial markets in the Keene area. Keene is a small city of about 22,000 residents as well as home to an ever expanding

1 Keene State College. The City is also home to many small, eclectic businesses
2 throughout the downtown area. Keene has been ranked as one of the “best small cities in
3 America” as well as one of the” best places to live” in national rankings. Keene has all
4 the attributes of a region that Liberty desires when contemplating an investment in a
5 community.

6
7 Those attributes include an expanding population, low saturation/penetration rate of the
8 existing system, active government participation in economic development and an
9 expanding commercial base. Keene’s residential population has been growing at a
10 consistent rate recently. While Keene has approximately 9,700 housing structures along
11 with numerous commercial structures, New Hampshire Gas has approximately 1,250
12 customers combined, which points to the potential for system expansion. Also, in
13 meetings and discussions with Keene’s political leaders, it became evident that local
14 government is an advocate for bringing in new business to the region, while maintaining
15 the competitiveness of existing businesses. I believe access to stable, lower cost energy
16 supply would be advantageous to meeting both of those objectives.

17
18 As stated, the Keene System has approximately 1,250 customers along with a total annual
19 consumption of approximately 130,000 Dth. EnergyNorth has a market forecast of
20 increasing customer connections that would result in annual consumption levels
21 approaching 500,000 Dth within 5 years of the acquisition. EnergyNorth has identified

1 and met with three large potential anchor customers who provided monthly consumption
2 details over a two year time period. These load profiles total approximately 265,000 Dth
3 annually after a conversion analysis. Liberty has also identified multiple small and mid-
4 size commercial businesses that would be potential conversion candidates, as well as
5 incremental residential expansion opportunities. Using load profiles of similar customer
6 types on the EnergyNorth system, this would add another potential 75,000 Dth of annual
7 throughput.

8
9 Following EnergyNorth's acquisition of the Keene System, EnergyNorth would evaluate
10 a near term program to convert those customers from propane air to natural gas. Such a
11 conversion, if approved by the Commission, would have the desired effect, given the
12 more recent historical pricing experience, of lowering their existing energy costs, and
13 stimulate surrounding markets dependent on other competing fuels and market
14 restrictions to seek gas service as well.

15
16 **Q. What, if any, operating system changes or enhancements is EnergyNorth**
17 **considering to achieve this level of growth?**

18 **A.** To achieve the stated growth objectives, EnergyNorth is considering a variety of options
19 including converting the existing propane air system infrastructure to a pressurized
20 natural gas distribution system utilizing a combination of CNG and/or LNG as the fuel
21 sources. CNG is merely natural gas compressed and transported under high pressure

1 vessels or containers mounted on truck trailers. LNG is natural gas cooled to
2 approximately 260 degrees below zero at which point it turns from a vapor into a liquid.
3 The advantage of storing the gas in liquid form is that it represents the equivalent of 600
4 times the volume of the gas vapor being stored. These two fuels are enjoying extensive
5 market interest and development in the Northeast.

6
7 **Q. Why would a conversion of the plant and system infrastructure assist in achieving**
8 **the growth objective?**

9 A. The reasons making conversion an attractive option are twofold: existing system
10 constraints and price. Currently, the propane air/mix for the Keene System is 70% air
11 and 30% propane with a Btu content of 740 Btu per cf. Also, the majority of the system
12 infrastructure is operating at a pressure of 11" WC with a small area operating at 2 PSI.
13 The large potential anchor customers previously mentioned would need to operate at
14 higher pressures above 2PSI and require a Btu content of 1000 as in traditional natural
15 gas systems. A system conversion, if economic, would further these potential market
16 commitments for future service and support an expansion and growth strategy. A
17 pressurized central plant would allow for new main expansions throughout Keene, most
18 likely, at a lower cost than a low pressure expansion, if incremental markets were to be
19 served.

1 **Q. What are the additional costs associated with CNG and/or LNG conversion as**
2 **compared to traditional natural gas delivery by pipeline?**

3 A. When reviewing the logistics required to provide safe and reliable delivery of natural gas
4 derived from CNG or LNG, as mentioned below, additional facility investments will be
5 required above those of a facility connected to a transmission pipeline. The additional
6 required investments linking Keene's distribution system to a natural gas supply source
7 require further investigation. Any such investments would not be proposed until after
8 closing, and would be subject to Commission review and approval. However, if and
9 when such modifications are proposed, EnergyNorth anticipates that a current customer
10 of the Keene System will save on the COG portion of their bill compared to the existing
11 propane COG as discussed further in Mr. DaFonte's testimony.

12
13 **Q. If conversion to LNG and CNG is an appropriate business plan for customers of the**
14 **Keene System, why was it not done in the past?**

15 A. The delivery of bulk CNG to customers that do not enjoy access to natural gas pipelines,
16 while prevalent for years around the world, is a relatively new market in the United States
17 that has been pioneered here in the northeast. In New England there are currently three
18 CNG facilities in operation (one in Vermont and two in Maine) with two stations under
19 development in New Hampshire including one by EnergyNorth and Innovative Natural
20 Gas. The CNG market is developing rapidly with many New England companies making
21 the switch to this fuel source.

1 As for LNG, approximately 12 years ago, New Hampshire Gas developed plans to
2 convert the Keene System from propane/air to LNG. New Hampshire Gas went so far as
3 to acquire land for the construction of an LNG plant (which is being transferred as part of
4 EnergyNorth's acquisition) and contracted with an engineering, procurement and
5 construction firm to design and estimate the facility. The site was also permitted by the
6 New Hampshire Department of Environmental Services for this purpose at that time.
7 However, after taking these initial steps, New Hampshire Gas determined that conversion
8 to LNG was not economical at the time. It made a similar determination in 2009. The
9 ability to access incremental quantities of natural gas, economically, in the northeast
10 United States has shifted considerably due to several market drivers. Henry Hub spot
11 prices have decreased from the \$15.00 level to the mid-\$4.00 range per MMBtu. In that
12 same period, #2 fuel oil has increased from approximately \$10.70 per MMBtu to \$28.57
13 per MMBtu while propane has increased from approximately \$14.25 up to \$43 per
14 MMBtu for residential customers during the peak winter period. (Sources - EIA website
15 and NHOEP website). This dramatic divergence in pricing between fuels now compels
16 stakeholders to seriously consider the conversion of the facility to a natural gas
17 derivative.

18
19 Another significant factor affecting the potential feasibility of converting the facility to
20 LNG is the increased regional availability of the commodity. Previously, there was only
21 one major source of LNG in the region, which was the Distrigas facility in Everett,

1 Massachusetts (now GDF Suez). Currently, there are several liquefaction facilities in
2 development in the Northeast, including one in Groveton, NH, along with expansions of
3 existing facilities to serve merchant customers such as the UGI Energy Services plant in
4 Reading, PA. This allows for a reliable, competitively priced, proximate source of fuel
5 which also facilitates consideration of a system conversion.

6
7 **Q. Why does Liberty Utilities see New Hampshire Gas as a promising addition to**
8 **EnergyNorth's business?**

9 A. Liberty Utilities already has a substantial presence in New Hampshire with ownership of
10 EnergyNorth and Granite State. Liberty Utilities views New Hampshire as having a
11 growing economy and positive demographics that provide the potential for growth. The
12 City of Keene and surrounding region, in particular, possess these growth factors.
13 Liberty Utilities has always sought out regulated investment opportunities that present
14 opportunities for capital investment and growth, and the acquisition of New Hampshire
15 Gas is consistent with this approach.

16
17 **V. ACCOUNTING FOR THE TRANSACTION**

18 **Q. Can you describe the accounting treatment for this transaction that Liberty Utilities**
19 **would record on its books, once the acquisition is approved by the Commission?**

20 A. Under the proposed transaction, EnergyNorth will purchase from Iberdrola all of the
21 issued and outstanding stock of New Hampshire Gas for \$3,000,000 in cash. This

1 amount will be adjusted, as necessary, based on the net working capital of the Company
2 at the date of purchase. The acquisition will be accounted for using the acquisition
3 method of accounting. Under the acquisition method of accounting, certain valuations
4 need to be made as of the acquisition date which may require the recognition of certain
5 assets or liabilities at their fair values.

6
7 **Q. Does this conclude your testimony?**

8 **A.** Yes, it does.