

BEFORE THE STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

In the matter of:)
DG 15-090)
Northern Utilities, Inc)
2015 Summer Cost of Gas)

Direct Prefiled Testimony

Of

James Brennan
Finance Director

On behalf of
The New Hampshire Office of the Consumer Advocate

Dated: May 14, 2015

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

2 A. My name is Jim Brennan. I am the Finance Director at the New Hampshire
3 Office of the Consumer Advocate (OCA). My business address is 21 South
4 Fruit Street, Suite 18, Concord, New Hampshire.

5 **Q. Please summarize your educational background and work experience.**

6 A. I graduated in 1978 from Saint Bonaventure University with a Bachelor of
7 Science degree in Finance. In 1980, I graduated from Syracuse University with
8 an MBA. In 1981, I completed a JP Morgan Chase (formerly Chemical Bank)
9 MBA Management Training Program. I have completed courses in business,
10 finance, software development, electric utility regulation, regulatory finance and
11 accounting, and Smart Grid development.

12 In my present position at the OCA I perform economic and financial analysis of
13 utility filings across all industries, draft discovery and testimony, and provide
14 guidance on financial policy and regulatory issues.

15 My business career began in banking as First Vice President at Chemical Bank,
16 1980-1989, with responsibilities as a financial analyst, credit department
17 manager, account management, credit committee member, and course designer
18 and instructor of the in-house Risk Assessment training. I also have experience
19 managing business and technology operations. At TD Waterhouse Securities,
20 1995-2001, I ran the third largest brokerage statement operation on Wall Street
21 during a period of 400% growth with responsibilities for content accuracy,

1 budget, operations, information technology, month end processing and New
2 York Stock Exchange compliance. Waterhouse's brokerage statement was
3 awarded #1 ranking by Smart Money during my assignment. My experience
4 includes IT project management and software design such as implementation of
5 paperless technology in Waterhouse Security National Investor Clearing
6 Corporation stock clearing operation (2000); managing launch of an eServices
7 web site providing on-line secure access of brokerage statements to 2.5 million
8 Waterhouse clients (2001); designing Microsoft.NET and SQL Server based
9 software systems for Mathematica Policy Research 2003-2006; and directing
10 design testing and launch of cloud based Microsoft Customer Relationship
11 Management (CRM) applications for Southern New Hampshire University
12 (2012-2013). As an Adjunct Instructor I taught courses in Corporate Finance,
13 Microsoft applications and Microsoft C# programming language.

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

15 A. The purpose of my testimony is to provide my recommendation for
16 modification of Northern Utilities, Inc.s' (Northern) proposal to extend for up
17 to three years its flow-back to ratepayers of a substantial FERC-approved
18 interstate pipeline refund pursuant to rates set for Portland Natural Gas
19 Transmission Systems (PNGTS). My testimony recommends a one year flow-
20 back period.

21 **Q. What is the PNGTS refund?**

22 A. The PNGTS refund covers a four year period from 2010 through 2015. See
23 Portland Natural Gas Transmission FERC Docket No. RP10-729. On February

1 19, 2015 FERC Issued Opinion 524-A denying most of PNGTS request for
2 rehearing of the 2010 PNGTS Rate Case initial decision. On March 23, 2015
3 FERC ordered refunds to be paid by April 20, 2015. In April 2015 PNGTS
4 refunded money to Northern, including interest, which Northern will disburse
5 to its customers. See Kahl testimony (3/17/2015) at 31.

6 **Q. What utilities in New Hampshire have received a PNGTS refund?**

7 A. In addition to Northern, Liberty Utilities (Energy North) has also received a
8 PNGTS refund. The commission reviewed and approved the terms of that
9 refund in DG 15-091, Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a
10 Liberty Utilities 2015, Summer Cost of Gas, Order No. 25,781(April 27, 2015).

11 **Q. What is the amount of the PNGTS refund Northern received?**

12 A. Northern received approximately \$22 million of which approximately \$10.5
13 million was allocated to Northern's NH division.

14 **Q. What is Northern's proposed refund period for its firm sales customers?**

15 A. Northern proposed a three-year period for distributing the refund. Northern
16 proposed that the distribution begin effective May 1, 2015 including summer
17 2015 Cost of Gas rate period. See Kahl testimony (3/17/2015) at 35.

18 **Q. Is Northern's proposed 3 year refund period consistent with the tariff?**

19 A. No. The tariff states refunds "...shall remain in effect for a period of one year".
20 See Northern's Tariff Part IV Section 8at Original Page 33.

21 **Q. What is Northern's proposed interest rate to be paid on the undistributed refund**
22 **balance?**

1 A. Northern proposes using their short term borrowing rate of 1.55% for
2 calculating interest on the undistributed refund balance.

3 **Q. Is Northern's proposed 1.55% interest rate consistent with the tariff?**

4 A. No. The tariff calls for an interest calculation using the monthly prime lending
5 rate. See Tariff Part IV section 8 at Original Page 34. As of the date of this
6 testimony, the prime rate is 3.25% as reported by the Federal Reserve Statistical
7 Release of Selected Interest Rates.

8 **Q. How did Liberty Utilities (Energy North) treat the PNGTS refund relative to the**
9 **length of refund flow-back and interest rate for held balances in DG 15-091?**

10 A. Liberty will disburse the PNGTS refund over a one year period with interest
11 calculated at prime rate (prime rate currently 3.25%).

12 **Q. What considerations has the OCA given to issues of rate instability and migration**
13 **due to a faster flow-back?**

14 A. Residential ratepayers regularly experience a measure of rate instability due to
15 fluctuations in natural gas markets. The temporary rate reduction associated
16 with this proposed one year flow-back period is within the realm of
17 acceptability to ratepayers because it is within the magnitude of typical swings
18 in energy prices. We recommend that Northern communicate the reasons for
19 the rate decrease as well as its temporary nature, using bill inserts and on-line
20 messages. The OCA has also considered the potential harm from allowing a
21 larger price reduction over a shorter time period that might incent
22 transportation-only customers to return to sales service in order to take
23 advantage of the refund. However, we are not aware of any evidence to support

1 the likelihood of this hypothetical effect. As a result, our recommendation is
2 for a one year flow-back.

3 **Q. Why does OCA recommend Northern disburse the PNGTS refund over a one year**
4 **period rather than the 3 years as proposed by the company?**

5 A. A one year flow-through, as supported by the tariff, is a fair and consistent time
6 frame for refunding this significant amount of money owed to customers. Three
7 factors support our recommendation:

8 1. Interest rates paid on balances held over the next three years are so
9 low that ratepayers will naturally prefer a faster refund. The low interest
10 rate does not offset risks ratepayers undertake with the longer refund
11 flow-back;

12 2. A longer flow-back increases generational inequities as customers
13 leave the system;

14 3. Liberty (Energy North) has agreed to a one year PNGTS refund flow-
15 back. There should be consistency between utilities.

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

17 A. Yes.