STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILTIES COMMISSION

DG 15-155

VALLEY GREEN NATURAL GAS, LLC

Petition for Franchise Approval

PREFILED DIRECT TESTIMONY OF

TOM EVSLIN

On Behalf of

NG ADVANTAGE LLC

January 15, 2016

Q. Please state your name and business address.

A. My name is Tom Evslin. My business address is: NG Advantage LLC, 480 Hercules Drive, Colchester, VT 05446.

Q. Please state your position at NG Advantage LLC.

A. I am the Co-Founder, Chairman and CEO of NG Advantage LLC ("NG Advantage" or "NGA").

Q. Please summarize your professional experience and education.

A. Except for brief stints of public service, I have been a successful entrepreneur. I have recognized opportunity in disruptive change and created new products and services to serve new and existing industries. In the public sector, I was recently volunteer Chief Technology Officer for the State of Vermont and Chief Recovery Officer (Stimulus Czar) responsible for coordinating Vermont's use of federal Stimulus Funds. In the 1980s, I was Secretary of the Vermont Agency of Transportation.

My business experience includes founding and serving as CEO of ITXC Corporation, a NASDAQ-listed company that grew from a startup in 1997 to the world's leading provider of wholesale voice over internet protocol ("VoIP") service with a presence in over 175 countries. ITXC became one of largest carriers of international voice service of any kind, and in 2004, Deloitte & Touche named ITXC the Fastest Growing Technology Company in North America.

Before founding ITXC, I conceived, launched, and ran AT&T's first internet service provider - AT&T WorldNet Service. Prior to my employment with AT&T, I worked at

Microsoft where I was responsible for the development and initial marketing of Microsoft Exchange and Outlook. I went to Microsoft when key assets of Solutions, Inc. (a Vermont software company I founded and ran) were sold to Microsoft. In the 1970s, Solutions developed the first commercial electronic transfer of funds software for banks. In the 1980s, Solutions was the first developer of commercial communications software for the Macintosh computer.

I have a bachelor's degree *cum laude* in American History and Literature from Harvard College in Cambridge, Massachusetts. I am an inventor and hold eight United States patents.

Q. Please describe NG Advantage's business and experience with "island" local distribution companies ("LDCs").

A. In 2013, NG Advantage became the first company in the United States to provide regular deliveries of trucked compressed natural gas ("CNG") to commercial and industrial companies located beyond the reach of natural gas pipelines. Today, NGA operates the largest trucked CNG service in the United States. NGA serves 26 customer sites from two compressor locations: one in Milton, Vermont and the other in Pembroke, New Hampshire. NGA's direct customers include four hospitals, seven asphalt plants, six paper mills, and miscellaneous other businesses. NGA's delivery of approximately 16 truckloads/day of CNG to International Paper is the largest such "virtual pipeline" supply chain in the US.

Since January 2014, NGA has also been providing service to a "gas island" operated by an LDC in Middlebury, Vermont which is not yet connected to a transmission pipeline. The "gas island" is distribution pipe owned by Vermont Gas System ("VGS"). NGA trucks gas to the site and injects it into the distribution pipe. The gas is metered and delivered by VGS to industrial/commercial customers in Middlebury including Agri-Mark and Middlebury College.

In the fall of 2016, Clean Energy Fuels purchased a majority interest in NGA. Clean Energy is the largest provider of both CNG and liquefied natural gas ("LNG") for transportation in the United States. Clean Energy also operates two liquefaction plants and has offtake agreements with many other customers nationwide. Clean Energy and NGA have developed plans for hybrid CNG/LNG installations which need the economies of CNG but also must be secure in knowing that they will have natural gas at the burner tip at all times, and therefore cannot use an alternate fuel.

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

A. The purpose of my testimony is to identify issues of concern regarding Valley Green's franchise proposal, specifically those surrounding Valley Green's plan to serve this system with LNG as a baseline fuel and, separately, with the procurement of natural gas for the system through a sole source contract that was not obtained through a competitive bid process.

Q. **Please describe the concerns you have identified regarding Valley Green's franchise proposal for the Hanover/Lebanon area.**

A. NGA believes that a "gas island" LDC in the Hanover/Lebanon area can be a significant benefit to large energy users like Dartmouth Hitchcock and Dartmouth College as well as smaller operations and residential users. There is an enormous environmental advantage in moving from oil products to natural gas, not just in carbon dioxide reduction but also in elimination of particulate matter and sulfur dioxide. There is also an economic advantage, although currently, as Valley Green has pointed out in its response to a Staff data request in this docket, this advantage is not as great as it was in the recent past, given "the precipitous drop in crude oil prices" and the collapse of propane prices. *See* Attachment TE- 1.

NGA would like to see the New Hampshire Public Utilities Commission ("the Commission") award a franchise for LDC natural gas service in this area and potentially other areas of New Hampshire. NGA is agnostic as to whom the franchise is awarded; we would like to see the gas island/LDC actually get built and succeed. Our concern with the Valley Green proposal as presented is that, if approved, it is almost certain to be an economic failure and not even likely to be built.

From NGA's experience with CNG and LNG, we believe that the LNG-centric design presented by Valley Green will result in an energy supply significantly more expensive than competing oil-based products -including propane -and also significantly more expensive than the CNG service provided to Dartmouth Hitchcock today by one of our competitors. The landmark customers will not pay a large premium to move to the proposed LDC system, and small customers will not invest the capital necessary to convert from oil products to natural gas if the natural gas supply is more expensive than their current fuel.

The problem is the cost of LNG relative to the cost of both oil and CNG. We do not know what price Gulf has quoted to Valley Green since Valley Green's testimony on this has been redacted. However, we do know what typical quotes for delivery of LNG to the proposed franchise area are. One recent indicative quote NGA received is in the range of $13/mmBtu. This is the equivalent of $2.00/ gallon for #6 oil (which is currently available to large users at about $1.214/gallon), or $1.80/gallon for home heating oil (which is currently available at $2.23 or less to consumers). Because Valley Green must recover not only its O&M costs but also the capital to build the pipeline, it is likely that Valley Green's all-in distribution rates will be significantly higher than the price paid for its LNG supply. Given that LNG supply costs are higher than those for #6 oil and close to the price of retail home heating oil, it is unlikely that customers would switch to Valley Green's higher-priced alternative fuel and delivery service.

By contrast, NGA or its competitors could deliver CNG to the Lebanon area in the quantities required by a built-out gas island/LDC for as low as $6 or $7/mmBTU in the summer and perhaps a dollar more in the winter based on today's natural gas index prices, and assuming the offloading equipment is owned by the utility. NGA does not know what price Dartmouth Hitchcock is currently paying for CNG but we are reasonably confident that it is significantly less than the delivered price of LNG even before pipeline delivery charges are added.

NGA recognizes that CNG alone is not sufficient to meet the reliability needs of a utility with small business and residential customers. There will be a need for LNG as a backup fuel. However, the economics of a successful gas island LDC service depend on the expensive LNG being used ONLY as backup fuel if the CNG supply is interrupted for any reason. Although Valley Green has said that it will consider CNG supply in the future, this appears unlikely. If Valley Green constructs expensive LNG infrastructure and builds a system into which CNG cannot easily be introduced, it is unlikely that Valley Green would move toward CNG supply. It is therefore necessary to design a hybrid CNG/LNG system at the outset, in order to obtain the economies of CNG along with the reliability of LNG. It is necessary for Valley Green to have a competitive service offering to incent customers to sign up. A competitive service requires the economies afforded by a CNG -base supply. Given current oil and CNG prices, this is not possible with an LNG-only supply, as Valley Green proposes. In an email message to me, Mr. Campion acknowledged that the proposed system design will force the use of LNG as a base fuel rather than a back-up fuel: "… a LNG tank and vaporizer sized as a back-up and capable of supporting my peak demand would be a large stranded investment if it wasn't used and the inventory isn't turned over." *See* Attachment TE-2.

NGA is also concerned that, as a utility, Valley Green cannot meet its responsibility to its customers to provide service at just and reasonable rates if it does not adhere to a policy of procuring supply through a truly competitive process. When gas is procured from a transmission pipeline, a utility can easily compare the prices at various hubs and the transportation tariffs of various pipelines and obtain a least-cost supply of gas. There is no similar transparent market for either trucked CNG or LNG. However, there are highly competitive markets for both CNG and LNG, and the only way to assure the best price for customers is to solicit bids through a competitive procurement process.

Although Valley Green indicates that it may entertain supply bids at some future time, its agreement with Gulf always gives Gulf the right to match a competitor's bid and, therefore, to retain Valley Green's business. *See* Attachment TE-3. Clearly this is not open, competitive bidding. It is unlikely that serious bids will be made by companies who know that a competitor (i.e. Gulf) will be able to see and match their bids. Moreover, Gulf has no incentive to make the lowest possible bid since it will always know how low it must go in order to retain Valley Green's business.

Lastly, RSAs 378:38 and 378:40 require that Valley Green file with the Commission a least cost integrated resource plan in order to obtain Commission approval of rates and charges. Because Valley Green has not filed that plan, it is impossible to determine whether the Gulf supply contract is the least cost supply resource for the proposed LDC operation, whether Valley Green's rates would be just and reasonable, or whether its franchise proposal would be for the public good.

Q. Please describe any communications that NG Advantage may have had with representatives of Valley Green on the issue of competitively procured gas supply for the Hanover/Lebanon franchise area.

A. When I first read newspaper stories about Jay Campion's plan to bring natural gas distribution service to the Hanover/Lebanon area, I thought it was a great opportunity both for the institutions and residents there and, possibly, for NG Advantage as well. My assumption was that there would be competitive bidding for fuel supply to the LDC and I expected strong competition at least from XNG, a competitor of NGA, which currently has a contract to supply Dartmouth Hitchcock.

I met with Mr. Campion in Hanover in December of 2014. He told me why LNG would be needed to meet the Commission's requirement for backup fuel supply and I talked about the cost- benefit advantages of CNG. At the time, neither of us realized how low oil prices would fall. Mr. Campion said that he would be talking to NGA "and other potential suppliers" as he put his plan together.

Mr. Campion reinforced this in a follow up email dated December 19, 2014. He wrote: "I understand and agree with your concept of supporting my anticipated base line energy use with CNG. However, a LNG tank and vaporizer sized as a back-up and capable of supporting my peak demand would be a large stranded investment if it wasn't used and the inventory isn't turned over. And, if my location is to be my islands' source for natural gas I will need to have capacity [to] provide back-up storage for everyone, whether it gets to them by pipeline, pressurized tanks or liquid mini-systems...I guess what I'm saying is that I fully expect to use a supply of both densities and if possible, sell both densities to match island customer need. I will need strategic partnerships with both to do it properly." *See* Attachment TE-2.

We scheduled a follow up meeting at Clean Energy offices in Concord, New Hampshire on January 21, 2015. Mr. Campion came with two people from Valley Green's engineering firm, and representatives from Clean Energy were also present. Mr. Campion reiterated his intention to talk with multiple suppliers and said he would get back to us with estimates of volumes over time and other requirements so that we could give him indicative pricing. We also discussed the possibility of Clean Energy providing vehicle fueling at the gas island.

After this meeting, Mr. Drew Drummond, Business Development Manager of Clean Energy, followed up with an e-mail to Mr. Campion indicating that Clean Energy and NG Advantage have a viable combined CNG and LNG sourcing solution for Valley Green's proposed Hanover/Lebanon LDC and that they would be providing pricing when Valley Green is ready. *See* Attachment TE- 4.

Despite reminders from me and David Lavoie, NGA's Vice President of business development, Valley Green never provided us with the volumes and other requirements data that we needed to develop indicative pricing.

Ironically, Valley Green has asserted that NG Advantage failed to provide Valley Green with pricing data. In response to a data request from Staff in this docket, Valley Green asserts that "Valley Green attended a presentation at Clean Energy's office in Concord after it purchased NG Advantage but Clean Energy never followed up with pricing for Valley Green." *See* Attachment TE-3.

However, the record reveals that this statement is not completely accurate. On May 22, 2015, David Lavoie wrote to Mr. Campion asking "is it a good time for us to talk again?" *See* Attachment TE-5.

Mr. Campion wrote back on May 22, 2015: "I have a required prior to SEC filing, publicly noticed information meeting on the 28th. After the first of June my primary focus will be major customer commitments. When we move beyond MOU level conversations, integrating supply options will be in play. Vehicle fueling will likely proceed on a separate track. In either case, I will try to being (sic) in NG/clean at the earliest appropriate time. Thanks for the continued interest. I will be in touch. Jay". *See* Attachment TE-5.

Notwithstanding Mr. Campion's email to Mr. Lavoie on May 22, 2015 indicating that he would bring NGA/Clean Energy "in at the earliest appropriate time," it is clear from Valley Green's May 15, 2015 franchise petition that Valley Green had already committed to an LNG-only supply solution. When I learned of this, I contacted Scott Brown of New Energy Capital by phone and expressed my concern about the over-reliance on LNG. He put me in touch with Ken Stanley of Tri-Mont engineering, who I contacted by email on June 15, 2015 regarding my concern about the LNG-only approach. *See* Attachment TE-6.

When I received no reply from Mr. Stanley, I called Mr. Brown back. He told me that Tri-Mont felt that CNG had no role to play in Valley Green's Hanover/Lebanon franchise proposal.

The point of my testimony is not that Valley Green owes anything to NGA; it does not. What is important for the Commission to know is that Valley Green has been not been responsible in seeking competitive supply bids and assuring ratepayers the best price for their fuel, and that Valley Green pursued a sole source LNG supply contract while representing to NGA that it would engage in competitive solicitations for both LNG and CNG. Moreover, Valley Green's failure to provide necessary volumes and requirements information to NGA made it impossible for NGA to provide indicative pricing information which would have allowed Valley Green to judge the cost effectiveness of the Gulf contract.

Q. Please state NG Advantage's position regarding whether granting Valley Green's petition is in the public interest.

A. NGA's position is that the Commission should award a franchise for a gas island LDC in the Hanover/Lebanon area but that it should not grant Valley Green's petition without substantial changes to make the project economically feasible (which we believe it is not with LNG as the primary source of natural gas), and to assure ratepayers of the best possible commodity price.

Q. If the Commission awards a gas island LDC franchise for the Hanover/Lebanon area, what if any conditions does NG Advantage believe the Commission should impose?

A. NGA believes that two conditions ought to be attached to any franchise granted for a gas island LDC in New Hampshire:

1. A competitive process must be followed for trucked delivery of natural gas to the gas island (either LNG or CNG). The reason for this condition is that in the absence of the transparency that exists with gas pipeline purchases, neither the utility nor the Commission can be certain that ratepayers are paying a

reasonable price for trucked LNG or CNG without competitive bidding. Fortunately, both the LNG and CNG trucking businesses are fiercely competitive so there should be multiple bids. For best results, bids should be allowed that reflect scenarios in which the truckers own the storage and offloading equipment and in which the utility owns these assets.

2. At its inception, the LDC system must be designed to use both CNG and LNG or it will be uncompetitive with today's oil prices, and generally uncompetitive with trucked delivery of CNG directly to the anchor customers. If the anchor customers don't sign up for LDC service, there will be no service for anyone. The exact mix of CNG and LNG should at least partially be determined during the bidding process or dynamically as prices change.

Q. Does this conclude your testimony?

A. Yes.

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