

REDACTED

STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION

In the matter of

Valley Green Natural Gas, LLC

Docket No. DG 15-155

Petition for Approval of Franchise in City of Lebanon and Town of Hanover

DIRECT TESTIMONY

OF

Dr. Pradip K. Chattopadhyay  
Assistant Consumer Advocate/Rate and Market Policy Director

January 15, 2016

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

2    A.     My name is Pradip K. Chattopadhyay. My business address is 21 South Fruit Street,  
3    Suite 18, Concord, New Hampshire. I am employed as the Assistant Consumer Advocate/Rate  
4    and Market Policy Director with the New Hampshire Office of Consumer Advocate (OCA).

5    **Q.     Please describe your formal education and professional experience.**

6    A.     I have a Ph.D. in Economics from the University of Washington, Seattle, which I earned  
7    in 1997. I have also taken courses in City and Regional Planning with applications to Energy  
8    Planning from Ohio State University in 2001-02. I have taught several courses in economics at  
9    the University of Washington as an instructor and adjunct faculty at its Business School. I am  
10   also associated with the Southern New Hampshire University (SNHU) as an adjunct faculty,  
11   where I teach several courses in economics.

12           From March 1998 to October 1999, I was a consultant with the National Council of  
13   Applied Economic Research, New Delhi, India. From November 1999 to August 2001, I was  
14   the Economist at the Uttar Pradesh Electricity Regulatory Commission (UPERC) in India, and  
15   advised UPERC on tariff issues. From September 2001 to June 2002, I worked at the National  
16   Regulatory Research Institute, Columbus, Ohio, as a graduate research associate while pursuing  
17   advanced courses in Energy Planning in the City and Regional Planning Program at Ohio State  
18   University. From June 2002 to July 2002, I worked at the World Bank, Washington D.C. as a  
19   short-term consultant/intern with its Energy and Water Division.

20           I worked at the New Hampshire Public Utilities Commission (Commission) from August  
21   2002 to January 2007 in the capacity of a utility analyst. My responsibilities at the Commission  
22   as an analyst were in electric utility issues including analyzing and advising the Commission on

1 rate design, cost of capital issues, wholesale market issues, and other regional matters. I briefly  
2 worked at the Massachusetts Department of Telecommunications and Energy (later reorganized  
3 into Department of Public Utilities (MA-DPU)) starting in January 2007 as an Economist. At  
4 MA-DPU, I represented the staff and examined gas demand estimation and forecasting,  
5 decoupling issues, and environmental remediation matters. I returned to the Commission in June  
6 2007 to join its Telecom Division as its Assistant Director, and continued in that position until  
7 December 2010. I was also helping other divisions as an expert witness in economics-related  
8 issues as well as advising the Commission on regional electric matters including FERC  
9 jurisdictional issues. I joined the Commission's Regional Energy Division in January 2010 as  
10 the Regional Energy Analyst, and was advising the Commission in that capacity until I joined the  
11 Antitrust and Utilities Division, Office of the Minnesota Attorney General, in August 2013. I  
12 came back to New Hampshire in March 2014 and worked as an individual consultant until the  
13 end of August, 2014, representing the Minnesota Attorney General. I joined Liberty Utilities at  
14 the end of August, 2014 as a Forecasting Analyst for its Energy Procurement Department. I  
15 worked with Liberty Utilities for about three months, before starting my own consultancy firm.  
16 In December 2014, I joined the OCA as its Rate and Market Policy Director. I was later  
17 appointed the Assistant Consumer Advocate.

18 **Q. Have you previously provided testimony before this Commission?**

19 A. Yes.

20 **Q. In which dockets did you provide testimonies before this Commission?**

21 A. I provided testimony before the Commission in the following dockets:

- DE 03-200 – rate design testimony which was about delivery rates for retail ratepayers of Public Service of New Hampshire (PSNH);
- DE 06-028 - cost of capital testimony which was also about PSNH’s delivery rates;
- DT 07-027 - competition testimony in retail telephony;
- DG 08-009 - cost of equity testimony which related to gas delivery rates of National Grid NH;
- DE 09-035 - cost of equity testimony in the matter of electric distribution rates (PSNH).
- DG 14-380 – approval of firm transportation agreement (Liberty Utilities)

**Q. Have you ever provided testimonies and affidavits before other Commissions?**

A. Yes. I have testified on cost of capital before the Minnesota Public Utilities Commission in dockets G008/GR-13-316 and GR 13-617. I have also provided an affidavit before the Federal Energy Regulatory Commission in a FERC Docket ER 09-14-000 on NSTAR’s petition for ROE incentive adders on behalf of the New England Conference of Public Utilities Commissioners (NECPUC).

**Q. What is the purpose of your testimony in this proceeding?**

A. The purpose of my testimony is to state the OCA’s position on the petition by Valley Green Natural Gas, LLC (Valley Green) requesting a franchise in the City of Lebanon and Town of Hanover, as it particularly relates to the interests of residential customers.

**Q. Please briefly discuss the Company’s request for the aforementioned franchise?**

1 A. The franchise request involves Valley Green Natural Gas, LLC (regulated) purchasing  
2 LNG from Gulf Oil Limited Partnership (Gulf) through a long-term arrangement. It also

3 [REDACTED]

4 [REDACTED] Valley Green proposes to use TRI-

5 MONT to operate and maintain the distribution system, which will be built to sell natural gas to

6 anchor customers initially, with subsequent expansion as apposite [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED] For greater detail see the pre-filed direct testimony of James

10 Campion and Company's responses to data requests from Staff (Supplemental responses to Staff

11 1-2 (Attachment 1), Supplemental Response to Staff 3-2 (Attachment 2), and Response to Staff

12 3-9 (Attachment 3)).

13 **Q. Has Valley Green secured commitments from any anchor customer from the**  
14 **Lebanon and Hanover area yet?**

15 A. No. The Company recognizes that [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 **Q. Has Valley Green proposed natural gas service for residential customers?**

20 A. In the full built-out scenario as originally filed, [REDACTED]

21 [REDACTED]

22 [REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED] (see Attachment 4). These are just projections, and cannot be construed as definite plans from Valley Green to provide natural gas service to residential customers even several years after the inception of its franchise.

**Q. Please discuss issues that the OCA wants to highlight in this docket?**

A. The OCA lists three points for the Commission’s consideration. Utmost, the OCA contends that the requested franchise without commitments from anchor customers does not appear to be viable. Sufficient viability through securing anchor commitments from commercial and industrial customers is instrumental to ensure that future residential offerings under the requested franchise will be at rates that are just and reasonable. Second, if the Commission grants the requested franchise, it should ensure that the risks associated with imprudent investment are on the investors. Third, even though the two competing franchise requests are being addressed in separate paths, it is inevitable that the proceedings in dockets DG 15-155 and DG 15-289 impinge upon each other. A thorough examination will require addressing unique implications of a start-up entity being granted a franchise (DG 15-155) as opposed to an existing utility being granted the same franchise (DG 15-289).

**Q. Please explain why you believe that the requested franchise does not appear to be viable without commitments from anchor customers?**

A. We are particularly concerned about residential customers. Without sufficient commitments from anchor commercial and industrial customers, the Company’s analysis shows that the residential rates can be potentially so high that it cannot attract interest from residential

1 customers, especially in the current environment of declining propane and oil prices (see  
2 Company's supplemental response to Staff 3-2 (Attachment 2)). It is the OCA's position that at  
3 least [REDACTED] would be necessary for  
4 a viable franchise, especially keeping residential customers in mind. For commercial and  
5 industrial customers, the market for energy is generally adequately competitive. Residential  
6 customers, however, are more prone to be captive to regulated rates, once they avail service from  
7 a regulated service provider, and are more susceptible to unjust and unreasonable rates.  
8 Adequate commitments from anchor customers to begin with would significantly allay such  
9 concerns. The lack of any anchor commitments at this point (especially given the current market  
10 realities) does not augur well for the viability of the requested regulated franchise.

11 **Q. Please explain the OCA's position on investment risk?**

12 A. Starting a franchise involves investment. If the Commission grants the requested  
13 franchise to Valley Green, it should also carefully address the issue of what constitutes prudent  
14 investment. It should be understood right from the beginning that the Company will have to  
15 demonstrate the prudence of such investment. Any imprudent investment must be at the  
16 investors' risk, and should not be borne by ratepayers. We urge the Commission to convey that  
17 message unequivocally and be vigilant to that effect.

18 **Q. What implications of competing interests in the same franchise from a start-up  
19 company and an existing utility would the OCA want to highlight?**

20 A. First, even though Valley Green has opted for a separate track rather than being  
21 considered in the same proceedings with Liberty Utilities, the Commission will most likely have  
22 to compare the two petitions to conclude whether Valley Green or Liberty Utilities in particular

1 should be granted the franchise or not. OCA contends that a decision in one docket without  
2 considering the other docket is not possible in this instance. Second, there are obvious  
3 differences between an existing utility seeking the franchise as compared to a start-up entity that  
4 has implications for ratepayers. For example, if an existing utility is granted a new franchise,  
5 one has to be careful that existing customers are not unnecessarily cross subsidizing the  
6 customers in the new franchise territory, and stifling desirable competition, that otherwise a  
7 startup entity may be more capable of supporting. As for residential rates, cross-subsidization  
8 can be an issue even when a franchise is granted to a start-up company. Rates can be such that  
9 commercial and industrial (C&I) customers benefit from residential customers cross-subsidizing  
10 C&I customers. That potential though is significantly less when the franchise is seeking new  
11 residential customers, and is facing a fairly competitive environment. In the case of an existing  
12 utility adding franchise, however, the possibility of existing residential customers cross  
13 subsidizing the newly-franchised customers (including residential) is more real. It becomes  
14 imperative to properly estimate the stand-alone costs associated with a new franchise, to address  
15 the issue of reasonability of rates. Such an exercise is also necessary to ensure that the market  
16 for natural gas service remains competitive.

17 In contrast, there are potentially ample synergies that a well-managed preexisting utility can  
18 bring into the fray that can be leveraged to the advantage of all customers in the long-run.  
19 Typically, more experience in regulated utility business can lead to managerial and technical  
20 advantages, though that is not a forgone conclusion. Even a start-up company in the realm of  
21 regulated utility can be adequately capable given its prior track in other business activities, while  
22 an existing utility's track record may be ostensibly ordinary. Nevertheless, an experienced utility  
23 with a preexisting customer base and infrastructure can provide long-term advantages resulting



1 in desired cost-effectiveness that should be carefully understood. In granting approval to a  
2 particular company's request for the requested franchise, the Commission needs to carefully  
3 weigh the advantages and disadvantages of granting a franchise to a startup company relative to  
4 an existing utility.

5 **Q. Do you have any additional observation?**

6 **A.** I do. Whether the requested franchise is in public interest requires understanding the rate  
7 impact of company investments on each and every customer class, including the residential  
8 customer class. With demonstrable need, i.e., sufficient commitment initially from anchor  
9 customers (regardless of the class), the reasonableness of resulting rates for all customer classes  
10 is more likely.

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

12 **A.** Yes.