

STATE OF NEW HAMPSHIRE
Before the
PUBLIC UTILITIES COMMISSION

DOCKET NO. DG 08-048

UNITIL CORPORATION

AND

NORTHERN UTILITIES, INC.

JOINT PETITION

for

APPROVAL OF STOCK ACQUISITION

DIRECT TESTIMONY OF

DAVID K. FOOTE
AND
FRANCIS X. WELLS

March 31, 2008

1 **Q. MR. FOOTE, PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is David K. Foote. My business address is 6 Liberty Lane West,
3 Hampton, NH 03842.

4

5 **Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS.**

6 A. I am employed by Unitil Service Corp. (“Service Corp.”) as Vice President,
7 managing the Energy Contracts Department. Service Corp. provides management
8 and administrative services to the operating subsidiaries of Unitil Corporation
9 (“Unitil”), including Unitil Energy Systems, Inc. (“UES”) and Fitchburg Gas and
10 Electric Light Company, d/b/a Unitil (“FG&E”). I am also Senior Vice President
11 of FG&E and of UES. I received my Bachelor of Science Degree in Mechanical
12 Engineering from Northeastern University in 1970 and my Masters in Business
13 Administration from Northeastern University in 1980. I began my full-time
14 employment with FG&E in 1970 as an Associate Engineer and held positions of
15 increasing responsibility, becoming Vice President responsible for Engineering
16 and Operations in 1980. In late 1984, I began work at Service Corp. in my
17 current position. I am a member of the Board of Directors for the Northeast Gas
18 Association (“NGA”) and Unitil’s representative on the NEPOOL Participants
19 Committee. I am also a member of the NGA Gas Supply Task Force and the
20 Electric/Gas Operations Committee, a coordination committee between NGA and
21 ISO-New England. I also represent FG&E as a member of the New England
22 Tennessee Gas Pipeline Customer Group.

1

2 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE STATE OR FEDERAL**
3 **REGULATORY COMMISSIONS?**

4 A. Yes. I have testified on numerous occasions before the New Hampshire
5 Public Utilities Commission ("the Commission"). I have also testified before
6 the Massachusetts Department of Public Utilities ("MDPU") and the Federal
7 Energy Regulatory Commission.

8

9 **Q. MR. WELLS, PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

10 A. My name is Francis X. Wells. My business address is 6 Liberty Lane West,
11 Hampton, NH, 03842.

12

13 **Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS.**

14 A. I am employed by Service Corp. as Senior Energy Trader in the Energy Contracts
15 Department. I received my Bachelor of Arts Degree in both Economics and
16 History from the University of Maine in 1995. I joined Service Corp. in
17 September 1996 as an Analyst, assisting in the planning and operation of both
18 electric power and natural gas supply portfolios. Since January 2001, I have
19 worked as a Senior Energy Trader in the Energy Contracts Department. I have
20 responsibilities in the area of energy supply acquisition, including natural gas
21 supply procurement, electric default service purchasing, regulatory reporting,
22 budgeting, and long-term supply planning.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE STATE OR FEDERAL**
2 **REGULATORY COMMISSIONS?**

3 A. Yes. I have testified before the Commission many times, on energy supply
4 matters.

5

6 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

7 A: The purpose of our testimony is to provide an overview of Unitil's energy supply
8 management experience and to discuss Unitil's process to transition the
9 management of gas supply for Northern Utilities, Inc. ("Northern") from Bay
10 State Gas Company ("Bay State") to Unitil. We begin by providing an overview
11 of Unitil's energy supply management experience, including the principles that
12 underlie Unitil's approach to portfolio management. We then describe Unitil's
13 current gas supply system for FG&E and we compare and contrast Northern's
14 system. Lastly, we conclude by providing an overview of Unitil's process for
15 assuming control of Northern's supply system.

16

17 **Q PLEASE BROADLY DESCRIBE UNITIL'S UTILITY SUBSIDIARIES.**

18 A As described in the testimony of Mr. Collin, Unitil's principal business is the
19 retail distribution of electricity and natural gas through its two utility subsidiaries:
20 UES and FG&E. UES is an electric utility with an operating franchise in the
21 southeastern seacoast and capitol city areas of New Hampshire. FG&E is a

1 combination gas and electric utility with an operating franchise in the greater
2 Fitchburg area of north central Massachusetts.

3

4 **Q: PLEASE DESCRIBE UNITIL'S EXPERIENCE IN UTILITY SUPPLY**
5 **PORTFOLIO MANAGEMENT.**

6 A: Service Corp. manages the procurement process of energy supply for its local
7 distribution company affiliates FG&E and UES. In terms of electric supply, both
8 FG&E and UES have been restructured to allow for retail choice. In this
9 restructured environment, Service Corp. procures fixed-price, load-following
10 power supplies for both companies under state commission-approved processes.
11 Prior to the restructurings, which were implemented in 1998 for FG&E and in
12 2003 for UES, Service Corp. managed diverse power supply portfolios for both
13 companies.

14

15 In terms of natural gas supply, Service Corp. manages gas supply procurement
16 for FG&E. FG&E's gas supply portfolio, which is described in more detail later,
17 includes transportation pipeline, storage, and supply contracts, as well as local
18 Liquefied Natural Gas ("LNG") and propane facilities to meet peak requirements.
19 FG&E's retail gas customers are also eligible for retail choice. During many
20 years of managing natural gas supply, Service Corp. has developed experience
21 and understanding of the gas supply and capacity markets and has developed and
22 applied principles that guide the management of its supply portfolios. In support

1 of its natural gas supply portfolio management efforts, Service Corp. uses New
2 Energy Associates' Sendout[®] resource optimization software to evaluate supply
3 source alternatives, weather patterns and supply cost budgeting. Sendout[®] is used
4 by Bay State for similar purposes. Service Corp. periodically prepares and files
5 FG&E's Gas Integrated Resource Plans ("IRP") with the ("MDPU") which
6 outlines its planning processes and standards. FG&E's latest IRP was filed on
7 September 29, 2006 and Unitil received an approval order on March 6, 2008 in
8 DTE/DPU 06-83. As a result of its supply management experience, Service Corp.
9 has developed an extensive understanding of the natural gas and electricity
10 markets that we currently operate in and maintains a professional staff that is
11 experienced and knowledgeable in these areas.

12

13 **Q: PLEASE DESCRIBE THE PRINCIPLES UNITIL APPLIES TO GAS**
14 **SUPPLY PORTFOLIO MANAGEMENT?**

15 A: The principles Unitil applies to portfolio management are designed to provide
16 reliable service at the best possible cost while maintaining flexibility to respond to
17 changing demands, as might be associated with customer migration to third party
18 supply and weather variations. These principles include maintaining a reliable
19 and flexible planning process, identifying resources and acquisition procedures
20 that result in appropriate demand and supply side resources, and maintaining a
21 portfolio of both long-term and short-term resources to enable meeting firm
22 customer needs even as market conditions and demand requirements change.

1 Reliability of gas supply is enhanced by maintaining geographical diversity of
2 supply basins and the use of local production capability to supplement pipeline
3 supplies. Portfolio management also involves giving proper consideration to non-
4 price factors associated with gas supply and transportation contracts, including
5 supply reliability and flexibility and supplier creditworthiness. Service corp.
6 procures all of its supply requirements through open, competitive bid processes
7 that are designed to minimize costs while maintaining reliability and flexibility
8 for its customers. Service Corp. manages FG&E's gas supply and transportation
9 portfolio to reliably meet its projected total design cold winter, design day, and
10 cold snap sendout requirements.

11

12 **Q: PLEASE BRIEFLY DESCRIBE THE FG&E GAS SUPPLY SYSTEM.**

13 FG&E's natural gas system has a design peak day sendout requirement of
14 approximately 22,000 Dth and annual weather normalized sendout requirements
15 of approximately 2.2 million Dth per year. FG&E is connected to the Tennessee
16 Gas Transmission System ("Tennessee") and FG&E's firm transportation
17 contracts with Tennessee provide FG&E the ability to source natural gas supplies
18 from the Gulf of Mexico, from Tennessee's storage area in Pennsylvania, and at
19 the interconnection of Tennessee and the PNGTS. FG&E's portfolio of
20 Tennessee natural gas transportation contracts has a maximum daily deliverability
21 to FG&E's city gate of 14,057 Dth. FG&E also has contracted for Tennessee
22 storage with a total capacity to store 323,703 Dth and a maximum withdrawal of

1 4,807 Dth per day. In addition, FG&E has peaking facilities to locally produce
2 7,200 Dth per day of liquefied natural gas and 10,581 Dth of propane-air. FG&E
3 has contracted with trucking companies to transport the fuel for these local
4 facilities and has experience in coordinating with such trucking companies in
5 order to maintain adequate inventory at the local peaking facilities.

6

7 Consistent with Unitil's portfolio principles, FG&E's interstate pipeline capacity
8 with Tennessee is contracted through a series of staggered contracts. The
9 contracts each have five-year terms consistent with Tennessee's tariff, including
10 rights of first refusal on future renewals. The flexibility of the staggered portfolio
11 of transportation contracts provides FG&E with the opportunity to adjust its
12 delivery capacity should reliability and economics justify such a change.

13

14 **Q: PLEASE BRIEFLY DESCRIBE YOUR UNDERSTANDING OF THE**
15 **NORTHERN'S GAS SUPPLY SYSTEM.**

16 A: Northern's natural gas system has a design peak day sendout requirement of
17 approximately 126,000 Dth and annual weather normalized sendout requirements
18 of approximately 13.8 million Dth per year. Northern has access to gas supply
19 markets in the Gulf of Mexico, the northeastern and mid-continental United
20 States, and both western and eastern Canada through its portfolio of natural gas
21 transportation contracts. Transportation contracts with Tennessee and Texas
22 Eastern Transmission provide access to the Gulf of Mexico and to the

1 northeastern United States, while contracts with Vector Pipeline, Union Pipeline,
2 the TransCanada Pipelines, Iroquois Gas Pipeline, and the Portland Natural Gas
3 Transmission System ("PNGTS ") provide access to western Canada and the mid-
4 continental United States. Access to the eastern Canadian market, including
5 future LNG supplies, is gained through Northern's interconnects with the
6 Maratimes and Northeast ("M&NE") pipeline, which ships natural gas produced
7 in the Sable Island production area and future LNG supplies to the United States.
8
9 Northern recently contracted for a major physical storage asset with Washington
10 Storage Corporation as a winter supply source from the mid-continental
11 region. Currently, Northern has access to an off-system peaking supply contract
12 with Duke Energy Trading & Marketing ("DETM"). This ten-year contract ends
13 November 1, 2011. This contract is significant to Northern's plan for meeting its
14 design day, winter, and cold snap requirements. It is our understanding that
15 NiSource Corporate Services Company ("NCSC") is actively reviewing and
16 pursuing alternative replacement supplies. Northern also operates local peaking
17 facilities, located in Maine, capable of producing 10,000 Dth per day of liquefied
18 natural gas and 4,000 Dth of propane-air.

19
20
21

1 **Q: WHAT ARE THE PRIMARY SIMILARITIES AND DIFFERENCES**
2 **BETWEEN THE TWO GAS SUPPLY PORTFOLIOS?**

3 A: While the Northern system is larger than the FG&E system in terms of annual and
4 peak day sendout requirements, both systems have similar portfolio management
5 principles. Both systems utilize firm transportation on interstate pipelines as their
6 primary capacity, both manage storage contracts, commodity supplies for both are
7 obtained under competitive bid processes and both operate local production
8 facilities for pressure support and as peaking supplies. Both systems also have
9 provisions allowing for retail choice under programs that allow for capacity
10 assignment to third party suppliers.

11

12 While FG&E is served by Tennessee, Northern is served by Granite State
13 Transmission System (“Granite”), which is an affiliate of Northern and is being
14 acquired by Unitil coincident with the acquisition of Northern. Granite is a small,
15 interstate pipeline that feeds Northern at thirty-one delivery points. Northern has
16 transportation capacity on several pipelines upstream of Granite, providing it with
17 more diverse supply resources. The tariff process and primary means of
18 conducting business is very similar for the US-based interstate pipelines that are
19 all regulated by the Federal Energy Regulatory Commission (“FERC”). FERC
20 has required that many business rules be standardized, including the posting of
21 operational information, nominations and capacity releases. Also, Northern

1 operates as a single system in Maine and New Hampshire, while FG&E's
2 operations are exclusively in Massachusetts.

3
4 Northern is much more reliant upon pipeline deliveries than FG&E in order to
5 meet design peak day, cold snap and winter conditions due to the fact that
6 FG&E's system has much more local peaking capability relative to its design
7 peak day load. FG&E has 17,000 Dth of available local peaking and a design
8 peak day of 22,000 Dth, whereas Northern has 14,000 Dth of local peaking
9 capability relative to a peak day of 126,000 Dth.

10

11 **Q: PLEASE DESCRIBE UNITIL'S EXPERIENCE MANAGING A RETAIL**
12 **SUPPLIER CHOICE PROGRAM FOR NATURAL GAS CUSTOMERS.**

13 A: Service Corp. currently manages the various aspects of third party supply on
14 behalf of FG&E since Massachusetts is a retail choice state. In Massachusetts,
15 the retail choice program provides for mandatory slice-of-system capacity
16 assignment for pipeline, storage and peaking resources for customers that are (or
17 were) firm sales customers. New customers who opt to go directly to third party
18 gas supply are not subject to the mandatory capacity assignment. Information
19 regarding the full customer mix must be tracked to ensure that design cold winter
20 supplies are procured to meet the requirements of firm sales customers, and to
21 ensure that adequate capacity is available to meet the requirements of capacity-
22 assigned customers should they return to firm sales service.

1 Maine and New Hampshire have different retail choice provisions, particularly
2 regarding transportation capacity assignment. In New Hampshire, capacity is
3 assigned to retail suppliers on a slice of system basis, similar to the Massachusetts
4 program, whereas retail suppliers in Maine are only responsible for a portion of
5 capacity costs for the winter supply period. Although these programs may vary
6 by state, the requirements to manage them are similar.

7

8 **Q: PLEASE DESCRIBE UNITIL’S PLAN TO ASSUME CONTROL OF**
9 **NORTHERN’S GAS SUPPLY OPERATIONS.**

10 A: As discussed above, Service Corp. has the technical expertise and managerial
11 experience to manage Northern's gas supply portfolio and ensure the continued
12 provision of reliable gas supplies for Northern's customers. Service Corp. will be
13 expanding its energy supply staff, including the acquisition of additional expertise
14 or assistance as needed, to meet the needs of Northern's customers. NCSC and
15 Bay State have committed to working with Unitil during the transition period to
16 ensure a seamless change of control over the management of the gas supply for
17 Northern. Unitil is also currently investigating new gas supply data tracking
18 systems and plans to incorporate Northern’s gas supply data into the new systems.
19 This is a fluid process, which will evolve as Unitil gains more experience with the
20 specific day-to-day activities needed to transition gas supply from Bay State to
21 Unitil.

22

1 Unitil and NCSC have agreed to enter into a Transition Services Agreement
2 ("TSA") whereby NCSC will provide supply management services for Northern
3 for a period of up to six months following the closing as Unitil moves toward
4 assuming direct responsibility for the various functions currently performed by
5 NCSC and Bay State. The TSA will ensure continuity of service and efficient
6 operation of Northern's system during the peak season and during the transition of
7 this function to Unitil.

8

9 **Q: WHAT IMPACT WILL THE ACQUISITION HAVE ON NORTHERN'S**
10 **CURRENT GAS SUPPLY PORTFOLIO?**

11 A: The acquisition of Northern by Unitil will have no impact on Northern's gas
12 supply portfolio as all existing transportation and supply contracts will remain in
13 effect following the closing. As described earlier, NCSC will continue to provide
14 supply management services for a period of up to six months following the
15 closing and prior to the closing Unitil and NCSC and Bay State will coordinate to
16 facilitate a subsequent transition. Over time, supply arrangements will evolve as
17 existing contracts expire and new contracts are introduced.

18

19 **Q: DOES THAT CONCLUDE YOUR TESTIMONY?**

20 A: Yes, it does.

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