

NORTHERN UTILITIES, INC.

NEW HAMPSHIRE DIVISION PREFILED TESTIMONY OF FRANCISCO C.

DAFONTE

1 Q. Please state your name and business address.

2 A. Francisco C. DaFonte. My business address is 300 Friberg Parkway,  
3 Westborough, MA 01581.

4 Q. By whom are you employed and in what capacity?

5 A. I am a Director, Gas Management Services for NiSource Corporate Services  
6 representing Bay State Gas Company ("Bay State") and Northern Utilities, Inc.  
7 ("Northern" or "the Company").

8 Q. Please summarize your educational background and professional experience.

9 A. I received a Bachelor of Science Degree in Mathematics from the University of  
10 Massachusetts at Amherst in 1985. I was subsequently hired by Commonwealth  
11 Gas Company (now NSTAR Gas Company), where I was employed primarily as  
12 a supervisor in gas dispatch and gas supply planning for nine years. In 1994, I  
13 joined Bay State and its affiliate Northern as a Gas Resource Marketing Analyst.  
14 In May 1996, I was promoted to Director of Gas Control. In July 2001 I was  
15 given the title of Director, Energy Supply Services and in July 2008 I was given  
16 my current title of Director, Gas Management Services.

17 Q. Are you a member of any professional organizations?

18 A. Yes. I am a member of the Northeast Energy & Commerce Association, the  
19 American Gas Association, the National Energy Services Association and the  
20 New England Canada Business Council.

21 Q. Have you previously testified before any regulatory or governmental bodies?

22 A. Yes, I have testified in a number of proceedings before the Massachusetts  
23 Department of Public Utilities, the New Hampshire Public Utilities Commission,

1 the Maine Public Utilities Commission, the Indiana Utility Regulatory  
2 Commission and the Federal Energy Regulatory Commission.

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

4 A. The purpose of my testimony in this proceeding is to describe the manner in  
5 which Northern met the natural gas requirements of its firm customers during the  
6 2007-2008 winter season and to describe the manner in which Northern will meet  
7 the natural gas requirements of its firm customers during the 2008-2009 winter  
8 season.

9

10 **2007 - 2008 WINTER SEASON**

11 Q. From whom did Northern purchase its firm pipeline natural gas during the 2007-  
12 2008 winter season?

13 A. Northern purchased its firm pipeline natural gas from multiple  
14 producers/marketers with which it had firm short-term, long-term and spot  
15 contracts.

16 Q. For the 2007-2008 winter season, what was the total firm daily upstream  
17 transportation capacity available to Northern?

18 A. Northern had a total of 100,000 MMBtu per day of firm daily transportation  
19 capacity on Granite State Gas Transmission which transports Northern's firm  
20 supplies to its citygate.

21 Q. Have you prepared an exhibit that shows, during the 2007-2008 winter season, the  
22 daily volumes of the various gas supplies that were distributed to Northern's  
23 customers?

24 A. Yes. That data is shown in Exhibit A.

25 Q. Have you prepared a summary, which shows the supply balance for the 2007-  
26 2008 winter season?

27 A. Yes. That summary is shown in Exhibit B.

1 Q. During the 2007-2008 winter season, what was the volume of LP-air produced by  
2 Northern?

3 A. During the 2007-2008 winter season, Northern did not produce any LP-air.

4 Q. Did Northern have any propane volumes under contract for the 2007-2008 winter  
5 season?

6 A. No, Northern did not have any propane under contract for the 2007-2008 winter  
7 season. Northern had its propane inventory full prior to the winter and  
8 determined that its firm customers did not require any incremental propane supply  
9 during the winter.

10 Q. Would you describe for the Commission the 2007-2008 winter in terms of  
11 severity?

12 A. Overall, the 2007-08 winter season was approximately 1-2% warmer than normal.  
13 The first third of the winter, November through December, was approximately 6-  
14 7%% colder than normal. However, the historically coldest months of January  
15 and February were approximately 8-9% warmer than normal.

16 Q. Did Northern experience a new peak throughput during this period?

17 A. No. Northern did not experience a new peak throughput. Northern's peak day  
18 was 103,205 MMBtu and occurred on January 3, 2008. The historical peak for  
19 Northern of 114,631 MMBtu occurred on January 15, 2004.

20 Q. What impact did this type of winter have on Northern?

21 A. The colder than normal start to the winter resulted in heavier usage of  
22 underground storage volumes relative to plan, however, the warmer than normal  
23 weather during January and February somewhat offset this increase. Overall,  
24 underground storage utilization was slightly greater than the prior winter period.

25 Q. How did the winter weather pattern impact commodity prices?

26 A. NYMEX prices began the winter in the low \$7 range and remained there through  
27 January's contract expiration as a result of near normal weather throughout the

1 country. Beginning with the February contract, NYMEX prices began a steady  
2 climb throughout the winter as colder weather made its way through many parts  
3 of the country and crude oil prices continued their climb to all time highs. The  
4 winter period NYMEX contract peaked for April at \$9.57. Spot prices in New  
5 England were higher than normal during November and December due to the  
6 colder than normal weather but leveled off in January before following the  
7 NYMEX higher throughout the remainder of the winter period.

8 Q. Please explain Northern's strategy relating to the use of underground storage.

9 A. Northern's underground storage capacity in MichCon through DTE Energy  
10 Trading (DTE) (formerly CoEnergy Trading Company) has been 5,134,000  
11 MMBtu with a withdrawal rate of 34,000 MMBtu/day. This equates to 151 days  
12 of service. Northern attempts to use this contract whenever possible from  
13 November through March; however, the DTE contract is also Northern's primary  
14 balancing resource and must be used to manage load swings due to weather  
15 fluctuation. As explained later in my testimony, Northern has replaced its storage  
16 exchange agreement with DTE with its own Washington 10 storage contract. This  
17 new storage will be used in a similar fashion. Northern also has available from  
18 Tennessee Gas Pipeline ("TGP") under its rate schedule FS-MA storage capacity  
19 of 259,337 MMBtu with a maximum daily firm transportation capacity of 2,653  
20 MMBtu, which equates to a 98-day service. Based on normal weather patterns,  
21 one would expect that the FS-MA storage volumes would be most likely utilized  
22 from mid-November through mid-March.

23 Q. Within operational limitations, why does Northern attempt to fully utilize its  
24 storage volumes during the winter season?

25 A. Northern attempts to fully utilize its storage volumes during the winter period:  
26 first, to meet its firm requirements in lieu of more expensive supplemental  
27 supplies; second, to allow Northern to refill the storage inventory during the

1 summer months when less costly pipeline supplies are typically available; and  
2 third, to avoid pipeline balancing penalties by utilizing storage injection and  
3 withdrawal flexibility.

4 Q. What volumes did Northern withdraw from its underground storage inventory  
5 during the 2007-2008 winter season?

6 A. Northern's storage inventory withdrawals for the 2007-2008 winter season were  
7 3,730,329 MMBtu in total. This translates into an overall utilization of 69 percent  
8 of available storage. Exhibit B provides detailed utilization of each of Northern's  
9 storage inventories.

10 Q. During the 2007-2008 winter season, was Northern able to secure any additional  
11 pipeline citygate spot gas supplies in addition to its firm contractual supplies?

12 A. Yes, during the November through April period, Northern was able to secure  
13 539,347 MMBtu of citygate spot market supplies in addition to its firm  
14 contractual supplies.

15 Q. Have you prepared an exhibit, which summarizes these purchases by Northern?

16 A. Yes, and that data is presented in Exhibit C.

17 Q. Within operating limits, did Northern utilize its full allocation of pipeline gas on  
18 all days that supplemental gas was required?

19 A. Yes, With the exception of two days during which the Lewiston LNG facility was  
20 utilized for volume and pressure support.

21 Q. Have you prepared an Exhibit to demonstrate this point?

22 A. Yes, the comparison of two Exhibits, Exhibits A and D, demonstrates this point.  
23 Exhibit A lists those days when supplemental supplies of LP-air and LNG were  
24 utilized. Exhibit D sets forth Northern's purchase of pipeline gas on those days. It  
25 is important to note that non-capacity exempt firm transportation volumes are not  
26 included in Northern's Exhibit D although Northern does provide a company  
27 managed supply service to these customers.

1 Q. Would you describe the results of Northern's hedging program implemented for  
2 the 2007-2008 winter COG period?

3 A. As described in my testimony submitted last year prior to the 2007-2008 winter  
4 COG period, Northern planned to hedge 40% of its pipeline supply requirements  
5 through non-discretionary hedges utilizing NYMEX Futures contracts and an  
6 additional 7% through the execution of four of the predetermined discretionary  
7 price targets for November 2007, December 2007, March 2008 and April 2008.  
8 As a result of the hedging program, Northern's New Hampshire Division  
9 ratepayers realized a net financial loss of \$198,537, which was passed through as  
10 a debit to the COG.

11

12 **2008-2009 WINTER SEASON**

13 Q. Do you anticipate any change to Northern's gas resource portfolio during the  
14 2008-2009 winter season?

15 A. Yes, I do. In accordance with the terms of Northern's peaking contract with Duke  
16 Energy Trading and Marketing, the maximum daily quantity will increase to  
17 47,000 MMBtu/day and the annual contract quantity will increase from 792,000  
18 MMBtu to 1,081,000 MMBtu.

19 Q. Are there any additional changes to Northern's portfolio?

20 A. Yes. Northern has replaced its DTE/CoEnergy storage exchange service with  
21 Northern leased storage from the Washington 10 storage facility in Michigan. In  
22 addition, Northern has contracted for Vector Pipeline capacity that allows  
23 Northern to inject and withdraw directly into and out of the Washington 10  
24 storage facility. The Washington 10 service provides Northern with maximum  
25 daily withdrawal quantities similar to those in the prior DTE/CoEnergy exchange  
26 agreement and match the downstream capacity on Vector, TransCanada and  
27 PNGTS. However, the Washington 10 service provides for a maximum storage

1 quantity of 3.4 Bcf compared to 5.1 Bcf under the DTE/CoEnergy exchange  
2 agreement. This smaller storage space better fits Northern's historical seasonal  
3 storage requirement.

4 Q. Are there any changes to Northern's transportation contracts.

5 A. No.

6 Q. Within operating limits, is it Northern's intention to purchase its full daily  
7 allocation of pipeline natural gas on all days when the requirements of Northern's  
8 firm customers are equal to or greater than Northern's daily allocation of pipeline  
9 natural gas?

10 A. Yes, it is.

11 Q. If normal weather is experienced during the 2008-2009 winter season, how much  
12 underground storage does Northern plan to utilize?

13 A. After allowing for fuel gas retention, Northern estimates that 3,332,547 MMBtu  
14 of underground storage gas will be utilized to meet the normal winter  
15 requirements of its firm customers.

16 Q. Will Northern continue to monitor its ability to "segment" capacity from TGP?

17 A. Yes. Northern will continue to monitor the level of its ability to "segment", or  
18 create incremental short haul capacity paths by subdividing existing firm capacity  
19 on TGP, and reflect such analysis in future estimates of underground storage and  
20 spot gas availability.

21 Q. Will Northern fill its propane storage tanks prior to November 1, 2008

22 A. Northern does not anticipate having to purchase any volumes to fill its propane  
23 storage inventory as Northern did not use any propane inventory in the prior  
24 winter period..

25 Q. If normal weather is experienced during the 2008-2009 winter season, how much  
26 LP-air gas does Northern plan to utilize?

1 A. If normal weather is experienced during the winter season, Northern does not plan  
2 to utilize any LP-air gas.

3 Q. For purposes of this proceeding, what is Northern estimating will be the inventory  
4 cost of its propane supply for the 2008-2009 winter season?

5 A. Northern is estimating that the inventory cost will be \$0.76 per gallon. This  
6 propane price is equivalent to a product price of \$8.27 per MMBtu. Assuming  
7 fuel for vaporization of 2.55%, the cost to produce propane-air is estimated to be  
8 \$8.49 per MMBtu.

9 Q. Will Northern fill its LNG storage tanks prior to November 1, 2008?

10 A. Yes, Northern will utilize any remaining volumes on the current Distrigas contract  
11 as well as spot liquid purchases to fill its LNG storage tanks.

12 Q. Have you prepared a summary of the manner in which Northern estimates that it  
13 will meet the normal and design winter requirements of its customers during the  
14 2008-2009 winter season?

15 A. Yes. The results of those summaries are set forth in Exhibits E and F. Exhibit E  
16 presents the resources needed to satisfy Northern's normal demand for the 2008-  
17 2009 winter period. New Hampshire's allocated shares of these resources to meet  
18 normal winter requirements are presented in the Gas Cost Exhibit section filed  
19 with the testimony of Ronald Gibbons.  
20

#### **HEDGING PROGRAM**

21 Q. Does Northern plan to hedge a portion of its anticipated pipeline purchases for  
22 this upcoming winter?

23 A. Yes. Northern will continue to minimize price volatility via the hedging program  
24 approved by the New Hampshire Commission in Order No. 24,037, on August 16,  
25 2002.

26 Q. How much of Northern's anticipated normal winter requirements will be hedged?



1 A. Northern will physically hedge approximately 54% of its requirements through its  
2 underground storage, LNG and propane supplies. Of the remaining 46%, 40%  
3 will be hedged under the non-discretionary portion of the plan. Thus, 18.4% of  
4 total normal winter period requirements will be hedged through non-discretionary  
5 hedges. When combined with the physical hedges described above, Northern will  
6 have approximately 72.4% of its total normal winter period requirements hedged  
7 either physically or financially. At these hedged levels Northern's customers  
8 should be fairly well insulated from the impact of any significant natural gas price  
9 spikes and thus avoid any associated need to significantly revise the cost of gas  
10 rate, i.e., COG.

11 Q. Has the Company established new price triggers for its hedging program?

12 A. Yes. Pursuant to Commission Order in Docket No. 2001-679, the price triggers  
13 of the discretionary component of the hedging program are re-established every  
14 six months, at the time of the seasonal COG filings. These price triggers are  
15 based on trigger points set at the 65<sup>th</sup>, 35<sup>th</sup> and 20<sup>th</sup> percentiles of a matrix of  
16 NYMEX traded futures contracts analyzed by Risk Management Inc. (RMI), an  
17 independent broker used by the Company. The RMI price matrix is adjusted for  
18 inflation and weighted, with 20% of the price being attributed to the most recent  
19 year (short-term) and 80% being attributed to the last four years (long-term). This  
20 scaled distribution gives the matrix a slight bias toward recent prices, allowing for  
21 greater market sensitivity to the current environment. This market sensitivity is  
22 needed because these weighted prices are broken into deciles for the purposes of  
23 developing meaningful buy or trigger points. Exhibit G presents the RMI Matrix  
24 that sets forth the price triggers per MMBtu of \$9.485, \$8.575 and \$8.09 for the  
25 65<sup>th</sup>, 35<sup>th</sup> and 20<sup>th</sup> percentile, respectively.

26 Q. Mr. DaFonte, does this complete your direct prefled testimony in this  
27 proceeding?

28 A. Yes, it does.