

**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

DG 21-144

NORTHERN UTILITIES, INC.

**Petition for Approval of Seventh Amendment to Special Contract
With Foss Manufacturing Company, LLC**

**SUPPLEMENTAL PREFILED DIRECT TESTIMONY OF
MICHAEL SMITH
AND
CHRISTOPHER GOULDING**

September 9, 2022

1 **I. Introduction**

2 **Michael Smith**

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

4 A. Michael Smith, Director, Field Services, Northern Utilities (“Northern”), 376 Riverside
5 Industrial Parkway, Portland, Maine 04103.

6 **Q. Did you submit Prefiled Direct Testimony in this docket on December 29, 2021?**

7 A. Yes.

8 **Christopher Goulding**

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

10 A. Christopher Goulding, Director of Rates and Revenue Requirements, Unitil Service Corp.
11 (“Unitil Service”), 6 Liberty Lane West, Hampton, New Hampshire 03842.

12 **Q. Please describe your education, background and experience.**

13 A. In 2000, I was hired by NSTAR Electric & Gas Company (“NSTAR”, now Eversource
14 Energy) and held various positions with increasing responsibilities in Accounting, Corporate
15 Finance and Regulatory. I was hired by Unitil Service in early 2019 to perform my current job
16 responsibilities. I earned a Bachelor of Science Degree in Business Administration from
17 Northeastern University in 2000, and a Master’s Degree in Business Administration from Boston
18 College in 2009.

1 **Q. Have you previously testified before this Commission?**

2 A. Yes. I have testified before the New Hampshire Public Utilities Commission (“the
3 Commission”) on various financial, ratemaking and utility regulation matters, including utility
4 cost of service and revenue requirement analysis. I have also testified before the Maine Public
5 Utilities Commission and Massachusetts Department of Public Utilities on similar matters on
6 several occasions.

7 **II. Purpose of Supplemental Testimony**

8 **Q. What is the purpose of this supplemental testimony?**

9 A. The purpose this supplemental testimony is to provide additional support for the Petition
10 for Approval of Seventh Amendment to Special Contract with Foss Manufacturing Company,
11 LLC (“Foss”) that Northern filed with the Commission on December 29, 2021. This
12 supplemental testimony updates certain information contained in Mr. Smith’s Prefiled Direct
13 Testimony, and addresses issues raised in the Commission’s order entitled “Commencement of
14 Adjudicative Proceeding and Notice of Prehearing Conference” issued February 23, 2022 in this
15 docket. More specifically, this supplemental testimony addresses: relevant current economic
16 and market conditions; the steps Foss has taken pursuant to the Checklist for Economic
17 Development and Business Retention Discounted Rates approved in Docket No. DR 91-172 by
18 Order No. 20,882 (issued June 23, 1993), including the energy audit Foss filed on December 29,
19 2021, pursuant to Order No. 26, 107 (issued February 28, 2018); information regarding Foss’s
20 intent to transition away from relying primarily on natural gas to fuel its operations; and how

1 Northern's recent rate case, Docket No. DG 21-104 impacts the calculation of Northern's
2 marginal costs to serve the load required by Foss under the special contract.

3 **III. Relevant Current Economic and Market Conditions**

4 **Q. Please describe current economic and market conditions relating to the special**
5 **contract extension that is the subject of this docket.**

6 A. In a letter to Northern dated December 20, 2021 (Schedule NU-9), Foss described the
7 economic and market conditions, and special circumstances it was facing which supported the
8 extension of its special contract with Northern for transportation service. By letter dated
9 September 7, 2022, submitted herewith as Schedule NU-12 (Confidential and Redacted), Foss
10 reiterated that one of the most critical cost factors impacting its New England operations is the
11 cost of energy – both natural gas and electricity. Energy costs comprise a significant portion of
12 Foss's total operating costs, and the recent natural gas and electricity price spikes in 2022 have
13 put even greater pressure on Foss and its business decisions relative to jobs and capital
14 investment. As indicated in Schedule NU-12, the discount from tariffed rates in the special
15 contract materially enhances Foss's ability to retain and create future jobs and correspondingly
16 enhances New Hampshire's economic base.

17 **IV. Checklist for Economic Development and Business Retention Discounted Rates**

18 **Q. Please describe the steps Foss has taken pursuant to the Checklist for Economic**
19 **Development and Business Retention Discounted Rates approved in Docket No. DR 91-172**

1 **by Order No. 20,882 (issued June 23, 1993) (“the Checklist”), including the energy audit**
2 **Foss filed on December 29, 2021, pursuant to Order No. 26, 107 (issued February 28, 2018).**

3 A. The first checklist item concerns whether the Customer is pursuing or has received to the
4 fullest extent possible, all other appropriate forms of assistance, including but not limited to
5 assistance for state and local financing and tax, training and relocation assistance, before or in
6 conjunction with a special contract filing with the Commission. As indicated in Schedules NU-9
7 and NU-12, Foss has pursued other forms of assistance in addition to its special contract with
8 Northern. Foss has worked with the Town of Hampton to reassess Foss’s property for tax
9 valuation purposes which has yielded savings over the last three years, and which will continue
10 through 2024. Foss has approached the State of New Hampshire and in March 2021 spoke with
11 the Department of Business and Economic Affairs about a number of issues, including assistance
12 with hiring new employees. *See* Schedule NU-9, p. 3. Foss has also reached out to the
13 Department of Energy to seek its advice and support, and is committed to participating to the
14 fullest extent possible in appropriate forms of assistance that become available. *See* Schedule
15 NU-12, p. 2.

16 The second checklist item concerns whether the Customer commits to participating in
17 those utility Demand-Side Management (“DSM”) programs for which it has qualified, and
18 certifies that it has had an energy audit, and the extent to which it has implemented or will
19 implement the audit recommendations. Although Foss is ineligible for any of Northern’s DSM
20 programs because it does not pay the Local Delivery Adjustment Clause, Foss is committed to
21 continuous improvement of its energy usage and a rigorous pursuit of capital cost investments

1 that are justified by reasonable payback periods. *See* Schedule NU-9. Foss has committed to
2 making significant capital expenditures for energy efficiency and energy-related projects in
3 2022, as described in Schedule NU-9 (Confidential). Foss has indicated that it is determined to
4 make every reasonable effort to decrease its energy bills, and has devoted considerable attention
5 to improving the efficiency of its manufacturing infrastructure. *See* Schedule NU-12, p. 1 and
6 Schedule NU-9, p. 2.

7 Foss has conducted an energy audit in compliance with Commission Order No. 26,107
8 issued February 28, 2018 in Docket No. DG 16-855. Foss summarized the energy audit in a
9 filing with the Commission made on September 7, 2021 in DG 16-855, noting that it had
10 replaced an inefficient steam chiller, replaced high bay lighting fixtures, replaced fluorescent
11 lighting fixtures, added a properly sized compressor and replaced DC motors with more efficient
12 AC motors. *See* Schedule NU-9, p. 3. On December 29, 2021, Foss filed its audit report with the
13 Commission in DG 16-855, along with a Utility Study prepared by Waldron Engineering &
14 Construction, Inc. which focused on: (1) operation of the combined heat and power plant; (2)
15 energy efficiency improvements; and (3) thermal load uncertainty. Foss is actively addressing
16 these issues as explained in Confidential Schedule NU-12, p. 2, and the Commission has closed
17 Docket No. DG 16-855.

18 The third checklist item concerns whether the discounted rates exceed Northern's long-
19 run marginal costs over the length of the contract. As Mr. Goulding explains below, and as
20 demonstrated in Schedule NU-11 (Supplemental), Foss meets this checklist item.

1 The fourth checklist item concerns whether Northern’s discounted rate offering is
2 consistent with its integrated resource plan. Foss is a capacity-assigned delivery service
3 customer, whose demand was included in the forecast presented in Northern’s last Least Cost
4 Integrated Resource Plan. Northern has made numerous upstream pipeline capacity decisions
5 with the expectation that this customer’s demand will continue. Losing this customer could
6 potentially result in lower utilization of existing upstream pipeline capacity and higher allocation
7 of pipeline demand cost to remaining customers. Because the marginal revenue from the special
8 contract exceeds marginal cost (as explained by Mr. Goulding below), the special contract
9 provides benefits to Northern.

10 The fifth checklist item concerns whether the discount will have any apparent material
11 adverse competitive consequences with respect to other New Hampshire firms. Foss’s
12 competition in the United States is from companies located in Georgia and the Carolinas which
13 benefit from significantly lower energy costs, lower labor and freight costs, and lower tax
14 burdens. *See* Schedule NU-9, pp. 1-2. Because Foss does not compete with other New
15 Hampshire companies in its market sector, the discounted rate under the special contract would
16 not create material adverse competitive consequences to other New Hampshire firms.

17 The sixth checklist item concerns whether the Customer is creating or retaining a
18 specified number of jobs, or is materially enhancing its ability to create future jobs. As indicated
19 in the confidential versions of Schedules NU-9 and NU-12, Foss remains committed to
20 increasing its current labor force by a specified amount.

1 The seventh checklist item concerns whether the new, expanded or retained load uses at
2 least 650 MCF (or approximately 6,695 therms) of natural gas per month, unless it can be
3 demonstrated that lesser amounts are warranted. The retained load under the special contract
4 well exceeds this amount. The special contract requires Foss to use and/or pay Northern for
5 transportation services for a minimum of 2,400,000 therms of natural gas annually. This equates
6 to 200,000 therms monthly which vastly exceeds the above-referenced checklist figure.

7 The eighth checklist item concerns whether the Customer has obtained all applicable
8 permits before the rate goes into effect. It appears that this checklist item is inapplicable to Foss,
9 as Foss has been operating at its current location for many years and does not need any
10 additional permits to continue operating under the special contract extension that is the subject of
11 this docket.

12 The ninth checklist item concerns whether the Customer's natural gas requirements are a
13 significant portion of the customer's operating costs. As indicated in Schedule NU-12, energy
14 costs make up a significant portion of Foss's total operating costs, and as indicated in Schedule
15 NU-9 (Confidential), gas costs alone represented a large percentage of the non-labor total
16 operating costs for the Foss facility in the last two years.

17 The last checklist item concerns whether the special contract contains detailed terms and
18 conditions, including the effective date, contract length, date of termination, definition of terms,
19 notice of termination provisions, type and amount of service (i.e., firm, interruptible,
20 supplementary), metering and billing provisions, insurance and/or liability requirements, force
21 majeure conditions and date of execution with titles, addresses and phone numbers of

1 signatories. As demonstrated by Schedules NU-1, NU-2, NU-4 through NU-8, and NU-10, the
2 Special Contract, taken together with all subsequent amendments, substantially meets this
3 checklist item.

4 **V. Foss's Intent to Transition Away from Primarily Relying on Natural Gas**

5 **Q. What is your understanding of Foss's intent to transition away from relying**
6 **primarily on natural gas to fuel its operations.**

7 A. As indicated in Schedule NU-9, over the past several years, Foss has focused a significant
8 effort on transitioning away from relying primarily on natural gas to fuel its manufacturing
9 operations. In 2017, Foss worked with Unitil to install a new transformer that would assist Foss
10 with using electricity to conduct its operations, but that effort did not address Foss's total
11 manufacturing capacity. As a result, in order to achieve full redundancy in case of a supply
12 disruption and greater flexibility to react to natural gas price volatility, Foss is currently working
13 with Unitil to install a second transformer. Unitil's engineering team is in the process of
14 finalizing design, cost estimates, and equipment lead times in order to submit a final proposal to
15 Foss for the requested transformer addition.

16 **VI. Impact of Northern's Recent Rate Case on Calculation of Northern's Marginal**
17 **Costs to Serve Foss's Load Under the Special Contract**

18 **Q. Please describe how Northern's recent rate case, Docket No. DG 21-104 impacts the**
19 **calculation of Northern's marginal costs to serve the load required by Foss under the**
20 **special contract.**

1 A. As part of its recent rate case, Docket No. DG 21-104, Northern submitted a marginal
2 cost of service study developed by Ronald Amen and John Taylor of Atrium Economics which
3 supported the distribution rates proposed in the rate proceeding. Schedule NU-11
4 (Supplemental) submitted herewith has been updated to account for a revision made to the cost
5 of service during the rate case proceeding. Additionally, Schedule NU-11 (Supplemental) has
6 been updated to reflect the actual escalation factor for calculating the marginal cost estimate, and
7 the adjustment to the special contract rate that occurred on March 1, 2022. The resulting
8 estimated annual cost to serve this Customer in February 2022 dollars is shown on Schedule NU-
9 11 (Supplemental) Page 1 of 2.

10 **Q. Based on the above-described marginal cost calculation, please explain whether the**
11 **prices and revenues to be paid by Foss under the Seventh Amendment to Special Contract**
12 **will exceed Northern's estimated marginal costs to serve Foss.**

13 A. As shown in Schedule NU-11 (Supplemental), the estimated annual revenue to be paid by
14 Foss under the Seventh Amendment exceeds Northern's estimated marginal cost to serve Foss.

15 **VII. Conclusion**

16 **Q. Based on current conditions, including the information presented in this**
17 **supplemental testimony, do you continue to believe, as stated in Mr. Smith's Prefiled Direct**
18 **Testimony at page 18, that approving the Seventh Amendment to the Foss Special Contract**
19 **is just, reasonable and in the public interest?**

1 A. Yes. Foss's competitive situation continues to present special circumstances which
2 permit departure from Northern's tariff rates. As demonstrated above, Foss meets all of the
3 Commission's competitive checklist criteria for special contracts and is implementing measures
4 recommended in its energy audit. Retaining Foss's load under the special contract provides
5 benefits to Foss as well as to Northern's other customers because the annual special contract
6 revenue is expected to exceed Northern's marginal cost to serve Foss. Thus, retaining Foss as
7 Northern's customer should continue to keep the average system cost of transporting gas to all of
8 Northern's firm customers lower than if Foss were no longer a Northern customer. In addition,
9 extending the special contract helps Foss to remain competitive with out-of-state manufacturers
10 and to continue its operations in New Hampshire which contributes positively to the state's
11 economy.

12 **Q. Do you have anything further to add to your supplemental testimony?**

13 A. No, not at this time.

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