

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 08-048

In the Matter of:
Unitil Corporation and Northern Utilities, Inc.
Joint Petition for Approval of Stock Acquisition

Direct Testimony

of

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1 Fitchburg, Massachusetts area. Over the past 20 years or so I have been acquainted with
2 some of their gas supply and dispatch personnel through various trade group and supplier-
3 customer group meetings and am familiar with their operations. I would describe their gas
4 supply and gas dispatch staff then and now as knowledgeable, experienced and
5 professional. Fitchburg Gas has a gas distribution system that serves approximately 15,000
6 customers. Its supply portfolio, like many in New England, includes a mix of natural gas
7 pipeline, LNG and propane air supply.

8 **Q. Can you provide a brief description of the Northern and Granite Gas Supply**
9 **operations?**

10 **A.** Yes. Northern Utilities is a gas distribution company operating in the seacoast area of New
11 Hampshire and in Maine. Northern's primary access to pipeline gas supply is through
12 Granite's interstate pipeline that interconnects with Tennessee Gas Pipeline at Haverhill,
13 Massachusetts and with the Portland Natural Gas Transmission System at Newington, NH
14 and Westbrook, ME. The management of Northern and Granite gas supply, gas control,
15 gas dispatch and pipeline operations services have been provided by knowledgeable and
16 experienced personnel from NiSource companies, primarily Bay State Gas Company.
17 Northern serves approximately 52,000 customers in Maine and New Hampshire. Its supply
18 portfolio is made up primarily of natural gas pipeline supply with some LNG and propane
19 air capabilities.

20 **Q. Can you describe generally what Unitil's Energy Contracts, Gas Control, and Gas**
21 **Dispatch groups need to do to take on these functions to assume the operation of**
22 **Northern's Gas Supply, Gas Control and Gas Dispatch functions?**

1 **A.** Yes. Basically, the functions in these areas will be carried out by experienced Unitil
2 Service Corporation-Fitchburg gas personnel. The additional work load of managing
3 Northern’s gas supply related functions will require the Company to “scale-up”
4 employment levels in some areas, implement several systems conversions and modify
5 some practices and procedures but the work itself will be similar to what is currently being
6 done by existing Unitil staff.

7 **Q.** **Do you have any comments on Unitil’s readiness to assume the gas operations of**
8 **Granite’s pipeline?**

9 **A.** I will make a few observations. First, the Company has noted that it will retain the services
10 of the six experienced Granite operations employees whose duties relate to operations and
11 maintenance issues with the pipeline and who currently work directly for Granite. The
12 Company has also stated it may contract for outside expert services that are currently
13 provided by the NiSource pipeline group for issues related to FERC, DOT and other areas
14 where interstate pipeline expertise may be needed. On an interim basis, under the
15 provisions of the transition services agreement, Unitil will be able to call upon NiSource,
16 and its pipeline group for its expertise, if necessary. Lastly, Unitil’s Energy Contracts, Gas
17 Control, and Gas Dispatch groups expect to utilize the Granite system just as their
18 counterparts at Northern/Bay State Gas have done in the past and are now doing.

19 **Q.** **Has Unitil demonstrated to Staff that it has the experienced and related management**
20 **personnel necessary to operate Northern’s Gas Supply, Gas Control, and Gas**
21 **Dispatch functions?**

22 **A.** Yes it has. After review of Company testimony, data responses related to the Energy

1 Contracts, Gas Control and Gas Dispatch functional groups, including pertinent sections of
2 the business integration plan, plus further exploration of these issues during technical
3 sessions and an on-site visit/meeting with key management and functional group personnel
4 responsible for these specific assignments at the Unitil corporate facilities in Hampton, I
5 believe the Company personnel in these groups already have, or the Company can obtain,
6 the managerial and technological knowledge and experience needed to manage these
7 functions from the Northern operations. My reasons are explained below.

8 **Q. Are there similarities between Northern's Gas Supply, Gas Control and Gas Dispatch**
9 **functions and those currently managed by Unitil?**

10 **A.** Yes. As noted in Company witness Francis Wells' testimony, and reiterated here by Staff,
11 both Companies have a supply portfolio mix of long-haul and short-haul interstate pipeline
12 contracts, underground storage contracts, natural gas supply contracts from Gulf, Canadian
13 and New England sources and LNG and LPG peaking liquids contracts from DOMAC and
14 regional propane suppliers. Although Unitil's gas operations serve a smaller distribution
15 system than that of Northern, Northern is still a relatively small gas distribution company.
16 Both Fitchburg and Northern gas operations have similar load shapes that require similar
17 supply strategies. Both Northern and Fitchburg gas operations operate similar-sized LNG
18 and propane-air peakshaving plants to help meet peak demand and both monitor system
19 flows and pressures with a SCADA system.

20 **Q. Can you describe more specifically the primary areas of responsibility of these**
21 **functional groups and what your findings were in this assessment?**

22 **A.** Yes. First, within the Energy Contracts function my inquiries focused on specific tasks

1 including load forecasting, contract administration, gas supply portfolio management, gas
2 resource planning, gas cost accounting, historical data collecting and record keeping,
3 resource optimization, and cost of gas regulatory filings.

4 **Q. In your opinion does the Energy Contracts functional group have knowledge,**
5 **experience and tools in place to perform the tasks required to manage a gas supply**
6 **portfolio similar to Northern's?**

7 **A.** Yes. On June 25, 2008 I met with Rob Furino, Director of Energy Contracts and his staff
8 at Until's corporate headquarters in Hampton. I had a two-page outline of topics I planned
9 to explore with the gas supply functional groups and was able to cover the topics during my
10 visit. Mr. Furino and his staff have many years of gas supply related experience with
11 Fitchburg and/or other external gas industry related operations. Until provides a good
12 work environment for the Energy Contracts team and the functional group appears to have
13 the necessary hardware and software tools to perform their assignments.

14 For example, the Energy Contracts group performs long range load forecasting using an
15 econometric regression methodology similar to that used by both Northern and
16 EnergyNorth Natural Gas, Inc. The Company has experience filing integrated resource
17 plans with the Massachusetts DPU. The Energy Contracts group has experience in
18 forecasting and contracting for a mix of resources to meet pipeline and storage
19 requirements in addition to seasonal, peaking, base load, swing and spot purchased gas
20 supply for its Fitchburg gas operations. The Energy Contracts group uses the SENDOUT®
21 forecast model, as does Northern. It also works with other functional groups within the
22 Company on cost of gas filings and internal budgeting forecasts. The tracking of gas

1 contract activity, purchases, costs, volumes, etc., is currently done on spreadsheets, but the
2 Company is looking into upgrading to a gas supply management system. The Company
3 provided Staff with a list of gas supply vendors that it typically solicits bids from to meet
4 gas supply requirements. As one would expect, the list is quite similar to the supply
5 vendor lists of Northern and EnergyNorth. All gas supply related energy contracts are kept
6 on file in the Company's Hampton office.

7 **Q. Does the Energy Contracts group have a system for approval of gas supply related**
8 **invoices for payment prior to sending them to the accounts payable department?**

9 **A.** Yes. The Energy Contracts group and the Gas Dispatch Supervisor review and reconcile
10 all gas supply related invoices to contract terms and to actual gas dispatch records prior to
11 submitting them for payment processing. Most of the gas supply and dispatch records are
12 currently kept in spreadsheets, but, as noted earlier, the Company is exploring options to
13 upgrade to a more secure supply data management system. All gas supply invoices will be
14 kept at Company facilities in Hampton and gas control and gas dispatch records will likely
15 be kept at Northern's former operations center in Portsmouth, where the Company plans to
16 locate those functions.

17 **Q. Does the Energy Contracts group have the experience to optimize its gas supply**
18 **resources for the benefit of customers?**

19 **A.** Yes. Both the Energy Contracts and Gas Dispatch groups work to optimize the supply
20 resources of the Fitchburg Gas operations through least cost dispatch, capacity release, off-
21 system sales and on-system interruptible sales.

22 **Q. Does the Energy Contracts group have any experience in hedging its gas supply**

1 costs?

2 A. The Company does have hedging experience where it will hedge up to 50% of its Fitchburg
3 Gas operations base load requirements, month-to-month. This strategy is not the same as
4 Northern's Commission approved hedging plan. The Company has identified Northern's
5 approved price hedging policy in its business integration plan as an area that the gas supply
6 management functional team needs to be fully familiar with prior to the acquisition. Staff
7 will be monitoring this activity as it always has, regardless of whether Northern or Unitil is
8 making the decisions.

9 Q. **In your opinion do the Gas Control and Gas Dispatch functional groups have the
10 knowledge and experience to assume those responsibilities of Northern's operations?**

11 A. Yes. Although I did not visit the Fitchburg gas operations, I was able to meet in Hampton
12 with the Company's Director of Advanced Grid Operations, Justin Eisfeller, and the Gas
13 Dispatch Supervisor, Cindy Rivers, both of whom are involved with the management of
14 these functions.

15 Q. **Please provide a brief description of Unitil's Gas Control and Gas Dispatch functions.**

16 A. The Gas Control function for Unitil, as with Northern, monitors gas flows, pressures, and
17 Btu values via a SCADA system. It also maintains and operates the LNG and propane air
18 gas production on-site peakshaving facilities. It is important to note here that based on
19 discovery responses from the Company, it appears that Northern's experienced
20 peakshaving plant operators will continue in those responsibilities post-acquisition.
21 The Gas Dispatch function involves among other things gas nominations with pipelines,
22 tracking of nominated and schedule gas flows, gas dispatch data record keeping and

1 supply-related invoice reconciliations. These tasks involve monthly and daily routines
2 where gas nominations need to be set up in data tracking spreadsheets or in a data
3 management system that is updated as needed throughout the month with gas volume and
4 price information. At month-end this data is used to provide corporate accounting with
5 timely gas supply related cost estimates for financial reporting and as a tool to reconcile
6 and approve supply related invoices as they come in to the Company. Another daily task
7 for the Gas Dispatch function is to run a daily sendout forecast model using the latest
8 weather forecast data, and match daily forecast demand with available supply. Next-day
9 and intra-day gas supply nominations are made as needed with the interstate pipelines and
10 current-day volumes are checked to verify all gas is scheduled with the pipelines. The
11 daily forecast model is a collaboration of both Energy Contracts and Gas Dispatch
12 functions and utilizes regression equations of base load, seasonal and heat load coefficients
13 with daily degree day forecasts to predict load. I am familiar with the methodology and
14 was favorably impressed with the functional team members' understanding and knowledge
15 of the model. Gas Control and Gas Dispatch work together to monitor gas system demand
16 and maintain gas operations within acceptable interstate pipeline system imbalance
17 tolerances. All of these tasks currently done by Unitil are also required to operate
18 Northern's Gas Supply and Gas Dispatch functions.

19 **Q. Where does the Company plan to locate the Gas Control and Gas Dispatch functional**
20 **groups, systems and records?**

21 **A.** It is my understanding the Company plans to locate the Gas Control and Gas Dispatch
22 functions, systems and records where Northern's operations center is currently located in

1 Portsmouth.

2 **Q. Does the Company have the experience to manage unbundled transportation**
3 **customers and third-party suppliers of these accounts?**

4 **A.** Yes. The Energy Contracts and Gas Dispatch functions are both involved in the
5 management of the unbundled transportation customers in its Fitchburg service territory
6 under the provisions of Fitchburg's Gas Tariff General Terms and Conditions. New
7 Hampshire's unbundled transportation requirements are quite similar to those in
8 Massachusetts.

9 **Q. Are there areas where Unitil will need to be prepared to implement Northern's gas**
10 **supply related policies and practices upon taking over Northern's Gas Supply, Gas**
11 **Control or Gas Dispatch functions?**

12 **A.** Yes. Unitil will need to adopt Northern's approved hedging policy. If the Company were
13 to modify the hedging policy, as with any existing policy approved by the Commission,
14 Commission approval of the new proposal(s) will be required. The Company will need to
15 adhere to affiliate transactions rules with regard to its business with Granite and any other
16 affiliate companies. The Company will also be expected to provide leadership within the
17 PNGTS shipper group in FERC interventions such as Northern is now providing in the
18 PNGTS rate case with FERC.

19 **Q. Has the Company taken steps to learn the intricacies of Northern's gas supply**
20 **operations?**

21 **A.** Yes. The Company is becoming more familiar with Northern's gas supply operations
22 through meetings with key Northern managerial and technical staff and site visits to

1 Northern's facilities. For example, Unitil's Gas Dispatch Supervisor (Cindy Rivers) has
2 visited the Bay State/Northern gas control facility in Ludlow, MA to review Northern's gas
3 dispatch procedures and to get more familiar with those operations. Ms. Rivers informed
4 me that additional visits for her and her staff will take place throughout the transition
5 period.

6 Also, the transition services agreement between Unitil and NiSource will allow for Unitil
7 to call upon Northern's former managers and technological support staff as needed for
8 guidance in the areas.

9 **Q. Where does Staff see challenges for Unitil taking control of the gas supply functions**
10 **of Northern and what steps are being taken to resolve these issues?**

11 **A.** The Company is fortunate to have experienced people from its own gas operations plus
12 staff with previous experience from other companies in the gas industry carrying out these
13 functions. That said, Northern contracts with multiple interstate pipeline and storage
14 companies for its supply resource portfolio, and has more supply resource requirements
15 than Unitil's Fitchburg's gas operations. It will create additional work load for these
16 functional groups, possibly more complicated in some respects, but the work will be
17 similar to what the Company is already doing. One area where there will be increased
18 workload will be in setting up first-of-the-month gas supply purchase requirements,
19 pipeline and storage nominations and internal tracking worksheets or data management
20 system. Day-to-day changes during the month are typically more manageable. Other areas
21 of increased workload and new challenges will be tasks like operating within imbalance
22 tolerances on multiple pipelines, processing a larger number of gas supply resource

1 invoices each month, forecasting load in different geographic locations, and operating in
2 and under the gas rules and regulations of two new regulatory jurisdictions.

3 In addition, Unitil has stated that it has identified 700 business processes to be integrated
4 using input from 50 different integration teams. That statement indicates the magnitude
5 and complexity of the integration process. In relative terms, Unitil is not a large company
6 and does not have extensive recent experience implementing mergers and acquisitions.

7 Under these circumstances, the integration process will require especially competent,
8 disciplined and diligent direction from management and cooperation from NiSource if it is
9 to be completed successfully.

10 As a final comment, Unitil is acquiring the books and records of Northern and Granite.

11 Obtaining the records is one thing but retaining reasonable access to company records is a
12 different matter. This is another area in which Unitil will have to devote attention.

13 **Q. How does the Company plan to address the added workload?**

14 **A.** The Company will be adding staff where necessary to handle the added work and has
15 commented that, for some positions, it is receiving unsolicited resumes from experienced
16 gas industry people interested in exploring new opportunities with Unitil's gas business.

17 **Q. Do you support the conclusion that Unitil, with its Energy Contracts, Gas Control,**
18 **Gas Dispatch groups, together with the retained Granite operations personnel,**
19 **internal management and contracted external expertise will have the knowledge,**
20 **experience and systems in place to operate the Northern and Granite systems Gas**
21 **Supply, Gas Control, Gas Dispatch and pipeline functions after the Unitil acquisition**
22 **of Northern?**

1 A. Yes I do.

2 **Q. Is Commission Staff prepared to hold Unitil to the same high standards that it expects**
3 **now from Northern in its gas supply related functions?**

4 A. Yes. Commission Staff will be monitoring the Gas Supply, Gas Control and Gas Dispatch
5 functions as they relate to the normal course of regulatory reporting and filings and through
6 normal regulatory channels regardless of whether Northern or Unitil is in control of the
7 functions.

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

9 A. Yes, it does.