

DG 16-855
NORTHERN UTILITIES, INC.
PETITION FOR APPROVAL OF SIXTH AMENDMENT TO
SPECIAL CONTRACT WITH FOSS MAUFACTURING COMPANY, LLC
SUPPLEMENTAL PREFILED TESTIMONY OF
MICHAEL SMITH, PAUL KOROSKI, AND BILL CUMMINGS

1 **I. INTRODUCTION**

2 **Q. Please state your name, the name of your employer, your title, and business address,**
3 **and describe your position with the company.**

4 A. Paul Koroski: I work for Foss Performance Materials LLC (“Foss” or “the Company”),
5 located at 11 Merrill Industrial Drive Hampton NH holding the position of Treasurer.

6

7 Bill Cummings: I work for Foss Performance Materials LLC located at 11 Merrill
8 Industrial Drive Hampton NH holding the position of Vice President and General
9 Manager.

10

11 Michael Smith: I hold the position of Manager, Business Services for Northern Utilities,
12 Inc. d/b/a Unitil. My principal office is at 376 Riverside Industrial Parkway, Portland,
13 Maine 04103. As Manager, Business Services, my responsibilities include retaining,
14 expanding and attracting business within Northern Utilities’ service territories. I am the
15 point of contact with Northern’s designated key business and industrial customers, and I
16 am responsible for insuring quality service and opening business communications to
17 counter competitive pressures. In addition, I manage other field sales representatives in
18 our New Hampshire and Maine Division service territories.

19

1 **Q. What is the purpose of your supplemental testimony?**

2 A. The purpose of this testimony is to present additional information in support of
3 Northern’s proposal for extending the terms and conditions of an existing Special Firm
4 Transportation Agreement (“Special Contract”) for Delivery Service (a.k.a.
5 “transportation service”) with Foss Manufacturing Company, Inc. for five (5) additional
6 years beyond the Special Contract’s current expiration date of February 28, 2018 with
7 five (5) one-year optional evergreen renewals

8 **II. SUPPORT FOR THE SPECIAL CONTRACT**

9 **Q. Please describe any steps that Foss has taken to mitigate its operating costs in New**
10 **Hampshire, including any assistance in addition to or in conjunction with the**
11 **Special Contract.**

12 A. Foss has consistently sought to improve efficiencies in its New Hampshire operations.
13 For example, the Company, with the assistance of the New Hampshire Business Finance
14 Authority (“BFA”) and the Coastal Economic Development Commission (“CEDC”),¹
15 acquired a [REDACTED] low interest loan in 2008 to purchase and install the Company’s
16 “J-Line,” a new state-of-the-art production line in the Company’s Hampton, New
17 Hampshire facilities. This production line, which produces approximately [REDACTED] lbs of
18 fiber per hour, replaced two older lines producing approximately [REDACTED] lbs per hour each.
19 The added efficiency of this line supported Foss’s efforts to become cost competitive in

¹ Specifically, the BFA loaned money to the CEDC, which re-lent it in turn to Foss.

1 the Indoor – Outdoor Flooring Industry and enabled the Company to introduce a new
2 moldable felt program to the Automotive Industry.

3 In 2010, the BFA and CEDC again assisted Foss by extending a [REDACTED] low interest
4 Energy Improvement loan.² Foss used these funds to implement an electric distribution
5 upgrade, add a transformer, install new AC motor drives, and install new lighting for the
6 Company’s facilities warehouse. The Company completed all of these initiatives to
7 improve energy efficiency in the Hampton facility. Several years later, in 2012, the BFA
8 and CEDC again provided a total of approximately [REDACTED] in low-interest financing
9 for production line upgrades (a new brush loom for the Company’s C line) and a working
10 capital term loan, which replaced a higher interest letter of credit related to a financing
11 arrangement to take out a previous lender to Foss.

12 Foss has also worked to identify non-operational ways to mitigate costs in addition to its
13 Special Contract with Unitil. In 2009, Foss established a relationship with Wachovia
14 Bank (now Wells Fargo Capital Finance) and in doing so substantially reduced the
15 interest rate that it paid for its credit facility, consisting of a revolving loan and a term
16 loan. The Company also worked with the Town of Hampton beginning in 2010 to revalue
17 its property and reduce taxes paid to the Town. Property taxes decreased approximately
18 [REDACTED] from 2010 to 2016, a significant annual savings for the Company. In 2015, Foss

² In 2008 and 2009, Foss applied for approximately [REDACTED] in energy efficiency improvement grants and loans through the USDA Rural Development Renewable Energy Systems grant program. Participation in the program required that a bank provide a guaranteed loan for 2/3 of the cost, with the USDA providing a grant to cover the remaining third of the cost. Foss’s financials at the time could not support a bank loan for 2/3 of the amount sought, and had to withdraw from the program in each year.

1 negotiated an amendment to its property lease agreement that eliminated a rental override
2 on sales. This saved the Company approximately [REDACTED] in 2015 and approximately
3 [REDACTED] in 2016. Foss has also benefited from work opportunity tax credits generated
4 from new hires. This has resulted in savings in 2015 of [REDACTED] and [REDACTED]. The credits
5 are applied to the Company's federal tax returns.

6 **Q. Does Foss qualify for any demand-side management programs?**

7 A. No, Foss does not qualify for any demand-side management programs through Northern
8 Utilities. Under the Special Contract, Foss is exempt from paying the Local Delivery
9 Adjustment Clause (LDAC) through which Northern recovers Energy Efficiency
10 program costs. Because Foss does not pay into this program they do not qualify for any
11 incentives .

12 **Q. Has Foss performed an energy audit at its facilities?**

13 A. Yes. Foss engaged Waldron GDS ASSOCIATES Inc. in 2009 to conduct an energy audit
14 at its Hampton, New Hampshire facilities. The Company conducted the audit in
15 connection with its application to the USDA Rural Development Renewable Energy
16 grant program described in footnote 1 above, and it ultimately provided the basis for the
17 improvements funded by the low interest Energy Improvement loan from the BFA and
18 CEDC.

19

1 **Q. What steps has Foss taken to implement the recommendations that resulted from**
2 **the audit?**

3 A. As explained above, Foss used these funds implement an electric distribution upgrade,
4 add a transformer, install new AC motor drives, and install new lighting for the
5 Company's facilities warehouse. The Company completed all of these initiatives to
6 improve energy efficiency in the Hampton facility.

7 **Q. Will the Special Contract enable Foss to create or retain jobs, or materially enhance**
8 **the company's ability to create future jobs, in New Hampshire?**

9 A. Foss currently employs approximately 435 employees. In the last decade, the Company
10 has added approximately 135 jobs at its New Hampshire facilities. Improvements that
11 Foss has made to its facilities have materially enhanced the Company's ability to create
12 and retain jobs in New Hampshire, and the Company anticipates that it will retain its
13 existing work force level and add new jobs during the term of the Special Contract.

14 **Q. Is there a minimum load requirement in the Special Contract, and does the**
15 **Company's actual monthly demand meet this load?**

16 A. Yes. In each contract year, Foss is required to use and / or pay Northern for the
17 transportation services for a minimum of 2,400,000 therms of natural gas, or 200,000
18 therms (~20,000 MCF) per month. Foss's demand consistently exceeds this monthly load
19 requirement.

1 **Q. Is the Special Contract related to any new facilities or operations requiring new**
2 **permitting?**

3 A. No. The Special Contract is not related to any new facilities, and the Company does not
4 require any new permitting for the Special Contract to take effect.

5 **Q. Are Foss's natural gas requirements a significant portion of the Company's**
6 **operating costs?**

7 A. Yes. Energy costs are the Company's third-highest expense, behind materials
8 procurement and labor costs. Natural gas costs make up approximately [REDACTED] of the
9 Company's energy costs.

10 **Q. What sort of growth has Foss experienced during the period of time that the Special**
11 **Contract has been in place?**

12 A. Since 2006, the Company has doubled its sales in New Hampshire and added
13 approximately 135 jobs that help economically support local New Hampshire
14 communities.

15 **Q. Do the Special Contract rates exceed Northern's projected long-run marginal costs**
16 **over the length of the Special Contract?**

17 A. Yes. As shown on Attachments 1 and 2, the estimated annualized 2018 marginal cost
18 (floor) for customer-related expenses is \$3,769 while the proposed annualized monthly
19 customer charges of the Special Contract are \$7,257; and the estimated annualized 2018
20 marginal cost (floor) for non-customer-related expenses is \$481,996 while the proposed

1 annualized monthly usage charges of the Special Contract are \$500,594, including
2 annualized minimum fixed charges of \$254,132. The 24018 marginal costs are taken
3 from the study filed in the Company's current base rate case proceeding, DG 17-070,
4 escalated to 2018 dollars.

5 **Q. Please explain how the Special Contract and the rates set forth therein are**
6 **consistent with Northern's most recent Integrated Resource Plan.**

7 A. Northern's Integrated Resource Plan (IRP) involves long-term capacity planning to
8 ensure reliable access to supply resources, which are located upstream of Northern except
9 for the LNG plant in Lewiston, at a reasonable cost. Foss is a customer whose demand is
10 part of Northern's resource planning, and is subject to mandatory assignment of capacity
11 from Northern. Capacity assignment is not impacted by the proposed Special Contract
12 rates. The proposed rates are for service on Northern's distribution system and unrelated
13 to the activities associated with the IRP.

14 **III. THE SALE OF FOSS MANUFACTURING COMPANY, LLC'S HAMPTON**
15 **DIVISION**

16 **Q. Has there been a recent change in ownership of Foss Manufacturing Company,**
17 **LLC's Northern (Hampton) Division?**

18 A. Yes. AstenJohnson Holdings, Ltd, a global supplier of innovative products and technical
19 solutions, acquired the Northern Division of Foss Manufacturing, LLC (i.e., the New
20 Hampshire facility) on July 25th, 2017. The Northern Division of Foss Manufacturing,
21 LLC is now Foss Performance Materials LLC.

1 **Q. Does the sale include Foss Manufacturing Company, LLC's Company's Georgia**
2 **division?**

3 A. No.

4 **Q. In its letter to Unitil dated November 3, 2016 (Schedule NU-8), Foss Manufacturing**
5 **Company, LLC compares the cost of doing business in Georgia and New**
6 **Hampshire, and suggests that it could move its operations out of New Hampshire if**
7 **regular tariff rates take effect. Does Foss still maintain that moving its facilities is a**
8 **potential option if the Special contract is not approved?**

9 A. Foss Performance Materials, LLC is a legally separate and distinct company from Foss
10 Manufacturing Company, LLC after the July 25, 2017 transaction. Foss Performance
11 Materials, LLC does not own, and is no longer affiliated with, Foss Manufacturing,
12 LLC's Georgia operations. However, Foss Performance Materials, LLC's competitors
13 operate manufacturing facilities in states such as Missouri and South Carolina with lower
14 energy costs than New Hampshire and lower overall costs of doing business. It is
15 essential that Foss Performance Materials, LLC's Hampton, New Hampshire operations
16 be as cost-effective as possible if the Company is to continue making investments in the
17 Hampton facility and adding and retaining jobs in New Hampshire. Future equipment
18 purchases and future hiring increases in Hampton may be deferred, or a new Foss
19 Performance Materials, LLC facility may be established in another state or country if
20 FPM cannot remain cost competitive in its New Hampshire operations.

21

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

2 **A. Yes it does.**