

NORTHERN UTILITIES

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, Energy Supply Services for NiSource Corporate Services
6 representing Bay State Gas Company (“Bay State”), Northern Indiana Public
7 Service Company (“NIPSCO”) and Northern Utilities, Inc. (“Northern” or “the
8 Company”).

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

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

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

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

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

1 A. Yes, I have testified in a number of proceedings before the Massachusetts
2 Department of Public Utilities, the New Hampshire Public Utilities Commission,
3 the Maine Public Utilities Commission, the Indiana Utility Regulatory
4 Commission and the Federal Energy Regulatory Commission.

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

6 A. The purpose of my testimony in this proceeding is to describe the manner in
7 which Northern met the natural gas requirements of its firm customers during the
8 2006-2007 winter season and to describe the manner in which Northern will meet
9 the natural gas requirements of its firm customers during the 2007-2008 winter
10 season.

11

12

2006 - 2007 WINTER SEASON

13 Q. From whom did Northern purchase its firm pipeline natural gas during the 2006-
14 2007 winter season?

15 A. Northern purchased its firm pipeline natural gas from Granite State and six (6)
16 producers/marketers with which it had firm contracts.

17 Q. For the 2006-2007 winter season, what was the total firm daily upstream
18 transportation capacity available to Northern?

19 A. Northern had a total of 100,000 MMBtu per day of firm daily transportation
20 capacity on the upstream pipeline that transports Northern's firm supplies to its
21 citygate.

22 Q. Have you prepared an exhibit that shows, during the 2006-2007 winter season, the
23 daily volumes of the various gas supplies that were distributed to Northern's
24 customers?

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

26 Q. Have you prepared a summary, which shows the supply balance for the 2006-
27 2007 winter season?

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

2 Q. During the 2006-2007 winter season, what was the volume of LP-air produced by
3 Northern?

4 A. During the 2006-2007 winter season, Northern did not produce any LP-air.

5 Q. Did Northern have any propane volumes under contract for the 2006-2007 winter
6 season?

7 A. No, Northern did not have any propane under contract for the 2006-2007 winter
8 season. Northern had its propane inventory full prior to the winter and
9 determined that its firm customers did not require any incremental propane supply
10 during the winter.

11 Q. Would you describe for the Commission the 2006-2007 winter in terms of
12 severity?

13 A. Overall, the 2006-07 winter season was approximately 5% warmer than normal.
14 The first half of the winter, November through mid-January, was approximately
15 20% warmer than normal. However, the second half of the winter was
16 approximately 10% colder than normal.

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

18 A. No. Northern did not experience a new peak throughput. Northern's peak day
19 was 112,679 MMBtu and occurred on March 6, 2007. The historical peak for
20 Northern of 114,631 MMBtu occurred on January 15, 2004.

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

22 A. The warm weather, particularly at the outset of the winter period, resulted in
23 reduced underground storage utilization and very little supplemental supplies
24 being utilized.

25 Q. How did the extremely warm winter impact commodity prices?

26 A. NYMEX prices peaked at \$8.31 for the December NYMEX contract expiration
27 and then dropped dramatically to \$5.84 for the January contract as a result of the

1 extreme warm weather during the first half of the winter. The NYMEX contract
2 rebounded in February through April where it settled in a tight range of \$7.33 -
3 \$7.56 for all three months as colder than normal weather returned. Spot prices in
4 New England were very reasonable due to the lack of cold weather and were
5 typically in the \$7.00 - \$10.00 per MMBtu range throughout the winter period. In
6 summation, prices for the 2006-2007 winter period started out relatively high in
7 anticipation of cold weather but dropped significantly when cold weather did not
8 materialize before rebounding somewhat as the cold weather arrived late in the
9 season.

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

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

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

24 A. Northern attempts to fully utilize its storage volumes during the winter period:
25 first, to meet its firm requirements in lieu of more expensive supplemental
26 supplies; second, to allow Northern to refill the storage inventory during the
27 summer months when less costly pipeline supplies are typically available; and

1 third, to avoid pipeline balancing penalties by utilizing storage injection and
2 withdrawal flexibility.

3 Q. What volumes did Northern withdraw from its underground storage inventory
4 during the 2006-2007 winter season?

5 A. Northern's storage inventory withdrawals for the 2006-2007 winter season were
6 3,424,787 MMBtu in total. This translates into an overall utilization of 63 percent
7 of available storage. Exhibit B provides detailed utilization of each of Northern's
8 storage inventories.

9 Q. During the 2006-2007 winter season, was Northern able to secure any additional
10 pipeline citygate spot gas supplies in addition to its firm contractual supplies?

11 A. Yes, during the November through April period, Northern was able to secure
12 1,014,202 MMBtu of citygate spot market supplies in addition to its firm
13 contractual supplies.

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

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

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

18 A. Yes. With the exception of minor usage on a few days to prevent excessively high
19 BTU content in the LNG tank

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

21 A. Yes, the comparison of two Exhibits, Exhibits A and D, demonstrates this point.
22 Exhibit A lists those days when supplemental supplies of LP-air and LNG were
23 utilized. Exhibit D sets forth Northern's purchase of pipeline gas on those days.

24 Q. Would you describe the results of Northern's hedging program implemented for
25 the 2006-2007 winter COG period?

26 A. As described in my testimony submitted last year prior to the 2006-2007 winter
27 COG period, Northern planned to hedge 40% of its pipeline supply requirements

1 through non-discretionary hedges utilizing NYMEX Futures contracts and an
2 additional 2% through the execution of one of the predetermined discretionary
3 price targets for April 2007. As a result of the hedging program, Northern's New
4 Hampshire Division ratepayers realized a net financial loss of \$1,774,657, which
5 was passed through as a debit to the COG. The financial loss realized in the 2006-
6 2007 winter COG period had a direct correlation to the extremely warm start to
7 the winter period.

8

9 **2007-2008 WINTER SEASON**

10 Q. Do you anticipate any change to Northern's gas supply portfolio during the 2007-
11 2008 winter season?

12 A. Yes, I do. In accordance with the terms of Northern's peaking contract with Duke
13 Energy Trading and Marketing, the maximum daily quantity will remain at
14 36,000 MMBtu/day but the annual contract quantity will increase from 756,000
15 MMBtu to 792,000 MMBtu.

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

17 A. No.

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

19 A. No.

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

24 A. Yes, it is.

25 Q. If normal weather is experienced during the 2007-2008 winter season, how much
26 underground storage does Northern plan to utilize?

1 A. After allowing for fuel gas retention, Northern estimates that 3,798,250 MMBtu
2 of underground storage gas will be utilized to meet the normal winter
3 requirements of its firm customers.

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

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

9 Q. Will Northern fill its propane storage tanks prior to November 1, 2007?

10 A. Yes. Northern will purchase an adequate volume of propane on the spot market
11 this summer to ensure that its propane storage tanks are full by November 1,
12 2007.

13 Q. If normal weather is experienced during the 2007-2008 winter season, how much
14 LP-air gas does Northern plan to utilize?

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

17 Q. For purposes of this proceeding, what is Northern estimating will be the inventory
18 cost of its propane supply for the 2007-2008 winter season?

19 A. Northern is estimating that the inventory cost will be \$0.76 per gallon. This
20 propane price is equivalent to a product price of \$8.2757 per MMBtu. Assuming
21 fuel for vaporization of 2.55%, the cost to produce propane-air is estimated to be
22 \$8.4923 per MMBtu.

23 Q. Will Northern fill its LNG storage tanks prior to November 1, 2007?

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

1 Q. Have you prepared a summary of the manner in which Northern estimates that it
2 will meet the normal and design winter requirements of its customers during the
3 2007-2008 winter season?

4 A. Yes, and the results of those summaries are set forth in Exhibits E and F. Exhibit
5 E presents the resources needed to satisfy Northern's normal demand for the
6 2007-2008 winter period. New Hampshire's allocated shares of these resources to
7 meet normal winter requirements are presented in the Gas Cost Exhibit section
8 filed with the testimony of Ronald D. Gibbons.

9

HEDGING PROGRAM

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

12 A. Yes. Northern will continue to minimize price volatility via the hedging program
13 approved by the New Hampshire Commission via Order No. 24,037, on August
14 16, 2002.

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

16 A. Northern will physically hedge approximately 63% of its requirements through its
17 underground storage, LNG and propane supplies. Of the remaining 37%, 40%
18 will be hedged under the non-discretionary portion of the plan and an additional
19 6% will be hedged through the execution of five of the predetermined
20 discretionary price targets for November 2007 (first and second tiers), December
21 2007, March 2008 and April 2008. Thus, 46% of the remaining 37% of pipeline
22 supply requirements, or 17.02% of total normal winter period requirements, will
23 be hedged through a combination of non-discretionary and discretionary hedges.
24 When combined with the physical hedges described above, Northern will have
25 80.02% of its total normal winter period requirements hedged either physically or
26 financially. At these hedged levels Northern's customers should be fairly well

1 insulated from the impact of any significant natural gas price spikes and thus
2 avoid any associated need to significantly revise the cost of gas rate, i.e., COG.

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

4 A. Yes. Pursuant to Commission Order No. 24,037 in DG 02-137, the Commission
5 encouraged the Company to monitor and if appropriate recommend new target
6 prices of the discretionary component of the hedging program in the semiannual
7 COG proceedings. These price triggers are based on trigger points set at the 65th,
8 35th and 20th percentiles of a matrix of NYMEX traded futures contracts analyzed
9 by Risk Management Inc. (RMI), an independent broker used by the Company.
10 The RMI price matrix is adjusted for inflation and weighted, with 20% of the
11 price being attributed to the most recent year (short-term) and 80% being
12 attributed to the last four years (long-term). This scaled distribution gives the
13 matrix a slight bias toward recent prices, allowing for greater market sensitivity to
14 the current environment. This market sensitivity is needed because these weighted
15 prices are broken into deciles for the purposes of developing meaningful buy or
16 trigger points. Exhibit G presents the RMI Matrix that sets forth the price triggers
17 per MMBtu of \$7.99, \$7.15 and \$6.60 for the 65th, 35th and 20th percentile,
18 respectively.

19 Q. Mr. DaFonte, does this complete your direct prefled testimony in this
20 proceeding?

21 A. Yes, it does.