

1 **I. Introduction**

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

3 A. Michael Smith, Manager, Business Services, Northern Utilities, 1075 Forest Ave,
4 Portland, Maine 04104.

5 **Q. Please describe your employment responsibilities.**

6 A. My responsibilities include retaining, expanding and attracting business within
7 Northern Utilities' service territories. I am the point of contact with Northern's
8 designated key business and industrial customers, and I am responsible for insuring
9 quality service and opening business communications to counter competitive pressures.
10 In addition, I am responsible for managing Unutil's business development representatives
11 working within our commercial and industrial markets.

12 **Q. Please describe your education and employment background.**

13 A. I received a Bachelor of Science in Mechanical Engineering Technology in 1989
14 from Wentworth Institute of Technology in Boston, Massachusetts. From 1989 to 1996, I
15 was employed at Northrop, Devine and Tarbell in Portland, Maine. While there I worked
16 as a consulting engineer focusing on energy projects. In 1996, I began my career with
17 Northern Utilities and have held several positions in which I have been responsible for
18 managing Northern's industrial and key account customers in New Hampshire and
19 Maine.

20 **II. Purpose of Testimony and Description of Schedules**

21 **Q. What is the purpose of your testimony in this docket?**

1 A. The purpose of my testimony is to present information to support Northern's
2 proposal for extending the terms and conditions of an existing Special Contract for firm
3 transportation service with Foss Manufacturing Company, LLC. ("Foss" or "the
4 Customer") for two (2) additional years beyond the Contract's stated expiration date of
5 February 29, 2010.

6 **Q. Does your testimony include input from other individuals employed by**
7 **Northern Utilities?**

8 A. Yes. My testimony includes information supplied by James L. Harrison of
9 Management Applications Consulting who contributed the marginal cost of service
10 information used in this filing.

11 **Q. Please identify the documents that are submitted with this prefiled testimony.**

12 A. The following Schedules are submitted with this prefiled testimony:

13 Schedule NU-1-1: Special Firm Transportation Agreement;

14 Schedule NU-1-2: Amendment of Agreement;

15 Schedule NU-1-3: Second Amendment of Agreement;

16 Schedule NU-1-4: Third Amendment of Agreement;

17 Schedule NU-1-5: Letter Agreement (March 8, 2005)

18 Schedule NU-1-6: Letter from Paul Koroski, CFO, Foss Manufacturing
19 Company (February 2, 2010);

20 Schedule NU-1-7: Fourth Amendment of Agreement;

21 Schedule NU-1-8: Letter Agreement (February 4, 2010); and

1 Schedule NU-1-9: Summary Results of Marginal Cost of Service
2 Analysis

3 **Q. Are you familiar with the provisions of the Special Contract and the three**
4 **amendments to the Special Contract that are submitted with this filing as Schedules**
5 **NU-1-1, NU-1-2, NU-1-3 and NU-1-4, respectively?**

6 A. Yes. I worked directly with the Customer to negotiate the initial Special Contract
7 in 1999 and the Amendments of Agreement.

8 **Q. Please describe the circumstances that led to the negotiation and execution of**
9 **the initial Special Contract (Schedule NU -1-1).**

10 A. Foss is Northern's second largest customer. It has a manufacturing facility
11 located in Hampton, New Hampshire which employs over 300 people and produces
12 specialty fibers and engineered fabrics. Foss has been a customer of Northern Utilities
13 since 1988. In May of 1999, Foss switched to transportation service and began
14 purchasing gas through a third party supplier. At that time, Foss had multiple alternative
15 fuel capabilities. Prior to the execution of the Special Contract, this fuel switching
16 capability had resulted in substantial reductions in Foss's natural gas usage. Although
17 Foss had significantly increased its gas consumption during the times when summer rates
18 applied, it was not expected to do so during the times when winter season rates applied,
19 given the Customer's fuel switching capabilities. Northern negotiated the Special
20 Contract in October, 1999 to obtain more of the Customer's load year round on firm
21 service at a competitive price while minimizing the risks for Northern and its other
22 customers.

1 **Q.** Please summarize the terms and conditions under which Northern is
2 **currently providing service to Foss.**

3 A. The Special Firm Transportation Agreement dated October 28, 1999 (Schedule
4 NU -1-1) together with the Third Amendment of Agreement (Schedule NU-1-4) establish
5 the contractual service and payment obligations. Northern is currently obligated to
6 transport and deliver to the Customer during any Gas Day up to a Maximum
7 Transportation quantity of 15,500 therms. However, such transportation and delivery is
8 limited to no more than 860 therms per hour. In each contract year, the Customer is
9 required to use and/or pay Northern for the transportation services for a minimum of
10 2,400,000 therms of natural gas. The Customer is currently required to pay a monthly
11 customer charge of \$, a monthly minimum fixed charge for the first 200,000 therms or
12 less of \$, resulting in a minimum annual payment of \$. Monthly volumes above
13 200,000 therms are billed at the following rates:

- 14 • Quantities between 200,000 and 300,000 therms: \$ per therm
- 15 • Quantities between 300,000 and 400,000 therms: \$ per therm
- 16 • All quantities over 400,000 therms: \$ per therm

17 In addition to the above-described service and payment provisions, the Customer is
18 subject to all of the other charges and fees set out in Northern's General Terms and
19 Conditions and Transportation Terms and Conditions as are in effect from time to time
20 (unless otherwise specified in Article 3 of the Special Contract).

21

1 **Q. Please describe the initial term of the Special Contract and any extension**
2 **thereof.**

3 A. Commission Order No. 23,381 dated January 6, 2000 in Docket DG 99-171
4 approved the initial Special Contract for a five (5) year term and required that the
5 provisions of the Special Contract describing the term thereof be revised to require
6 Commission approval for any extension period beyond five (5) years. The Amendment
7 of Agreement dated January 11, 2000 (submitted herewith as Schedule NU-1-2) was
8 executed in compliance with Commission Order No. 23, 381. It provides that the initial
9 term of the contract is five (5) years from the Service Commencement Date which is
10 described in Article 5 of the Special Contract. Foss and Northern entered into a Second
11 Amendment of Agreement (submitted herewith as Schedule NU-1-3) effective March 1,
12 2005 to extend the term of the Special Contract until February 29, 2010. The Second
13 Amendment to Agreement (Schedule NU-1-3) states that Commission approval is
14 required to effectuate an extension of the Special Contract beyond the stated expiration
15 date of February 29, 2010. The Commission approved the Second Amendment of
16 Agreement in Order No. 24,478 issued July 1, 2005 in Docket DG 05-065. That Order
17 also approved the Third Amendment of Agreement (submitted herewith as Schedule NU-
18 1-4) which increased the minimum payment requirements of the initial Special Contract.

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1 **Q. Please explain the circumstances that led to the execution of the Second and**
2 **Third Amendments of Agreement.**

3 A. The original Special Contract expired on February 28, 2005. Foss and Northern
4 executed the Second Amendment of Agreement (Schedule NU-1-3) dated March 1, 2005
5 to extend the Special Contract term for another five (5) years until February 29, 2010.

6 By letter agreement dated March 8, 2005 (Schedule NU-1-5), Foss and Northern agreed
7 that if the Commission did not approve the Second Amendment of Agreement in form
8 and substance acceptable to Northern and Foss, the rate for transportation service

9 rendered from March 1, 2005 would be Northern's applicable rate schedule and that
10 Northern would recalculate the charges for services rendered since March 1, 2005 and
11 Foss would be responsible for those charges. On April 1, 2005, Northern filed a Petition

12 and supporting documents with the Commission seeking approval of the Second
13 Amendment of Agreement. In that filing, Northern explained that the Customer's desire
14 for cost certainty and Northern's commitment to continue to provide firm transportation

15 service were the primary reasons for Northern's willingness to negotiate a contract
16 extension for five (5) more years at the 2000 rates expressed in the initial Special
17 Contract. The filing also indicated that there were no system improvements needed to

18 continue serving the Customer under the amended Special Contract and that revenues
19 generated under the amended Special Contract would clearly exceed the annual marginal
20 cost revenue requirement. The filing further stated that the Amended Special Contract

21 provides Northern with a continued guaranteed revenue stream that may escalate with

1 inflation through the application of an annual inflation escalator provision, and that this
2 guaranteed revenue stream benefits both Northern and its ratepayers.

3 Staff's investigation of the April 1, 2005 filing led it to conclude that an increase
4 in the Special Contract rate would be appropriate because the value of service to Foss had
5 increased slightly from when the initial Special Contract rates were established and
6 because the actual usage over the five years of the Special Contract greatly exceeded the
7 must-take provisions of the Special Contract. At Staff's request, Northern approached
8 Foss regarding an increase in the minimum payment requirements. Foss agreed to the
9 proposed increase and, along with Northern, executed the Third Amendment of
10 Agreement (Schedule NU-1-4) reflecting the increased rate. On July 1, 2005, the
11 Commission issued Order No. 24,478 approving the Second Amendment of Agreement
12 (extending the contract term to February 29, 2010 and subjecting the contract rates to an
13 annual inflation adjustment) and the Third Amendment of Agreement (which increased
14 Foss's minimum payment obligations).

15 **Q. Please explain the circumstances that led to the execution of the Fourth**
16 **Amendment of Agreement (Schedule NU-1-7) and the instant filing.**

17 A. Northern recently informed Foss that the Special Contract as amended is
18 scheduled to expire at the end of February and that, at that time, Foss would take service
19 from Northern under tariff rates. Foss responded with a letter dated February 2, 2010
20 (Schedule NU-1-6) requesting that a filing be made with the Commission to extend the
21 Special Contract as amended. In support of its request, Foss stated that if it reverted to

1 tariff rates, the company's operations and job security at Foss's Hampton facility would
2 be adversely affected. Foss noted that it employs 319 employees whose wages have an
3 economic impact to the State of New Hampshire. Foss also advised Northern that the
4 State of New Hampshire, through the Business Finance Authority and Coastal Economic
5 Development Corporation, has assisted Foss with \$ in loans to acquire a state of the art
6 production line to improve operational efficiencies to maintain jobs and to keep Foss
7 competitive with its competition located in other areas where utility costs are lower. Foss
8 further states that it is trying to preserve jobs that benefit New Hampshire but that if tariff
9 rates go into effect, Foss would have to seriously consider eliminating some skilled
10 associate positions. In reaction to Foss's circumstances, Northern and Foss executed the
11 Fourth Amendment to Agreement to extend the existing terms under which firm
12 transportation service is being provided to Foss for two (2) additional years, i.e. until
13 February 29, 2012.

14 The instant filing was made because the Second Amendment of Agreement
15 expressly states that any further extension of the Special Contract beyond February 29,
16 2010 requires Commission approval in a form and substance acceptable to Northern and
17 Foss.

18 **Q. Has Northern performed an analysis of its long-run marginal costs of serving**
19 **the customer? If so, please describe that analysis.**

20 A. Yes. Northern has updated its most recently filed marginal cost study. The
21 marginal cost study was originally developed to support unbundling and has since been

1 used as a basis for computing the floor price used in connection with special contracts.
2 Marginal costs can be easily updated. They can be estimated from one year to the next
3 by simply escalating the prior period marginal costs. This fact stems from the
4 economist's fixed charge rate used to convert capital investments into annual carrying
5 charges. Unlike a conventional fixed payment mortgage, payments to recover fixed costs
6 rise in nominal dollars. Similarly, marginal operating and maintenance (O&M) expenses
7 can be estimated by simply applying an appropriate escalation factor to the prior measure
8 of marginal O&M expenses. The results of Northern's prior marginal cost study were
9 updated to current price levels by identifying the customer-related and capacity-related
10 unit costs, escalating to current levels and multiplying by Foss's billing units to compute
11 the marginal costs to provide delivery service.

12 **Q. Please explain whether the price to be paid by Foss during the two (2) year**
13 **extension of the Special Contract proposed in this filing is above Northern's long-**
14 **run marginal cost to serve this Customer.**

15 A. The price for the two year extension period exceeds the estimated marginal costs
16 to provide service over the proposed extension period. Based on current rates, minimum
17 annual contract revenues of \$ are generated, exceeding the marginal costs estimate
18 presented on Schedule NU 1- 9 of \$. In 2009, revenues of \$ were generated from
19 terms of gas use. During each year of the contract extension, costs are subject to
20 the same escalation factor; therefore revenues will continue to exceed the marginal costs.

1 **Q. Based on your analysis, do you believe that extending the Special Contract**
2 **for two additional years will allow Foss to gain an unfair advantage over its**
3 **competitors?**

4 A. No. Foss indicates that it has gone through difficult economic times during the
5 past few years and was saved from bankruptcy when the Alinian Capital Group
6 purchased the company in May, 2006. Foss states that behind raw materials and labor,
7 energy costs are its third largest expense. Foss indicates that it faces competition from
8 companies located in areas (i.e. North Carolina, South Carolina and Georgia) where labor
9 and utility costs are less than in New Hampshire.

10 **Q. Does Northern know whether Foss has taken steps to reduce its energy**
11 **consumption?**

12 A. Foss's letter of February 2, 2010 (Schedule NU-1-6) states that over the past
13 three (3) years, it has invested in replacing light fixtures and adding motion sensors.
14 Because Foss produces its own electricity, it is not eligible for any electric utility rebates
15 for fixture appliances, and therefore it has funded these projects on its own. It has also
16 used an outside engineering firm to identify over 30 energy saving projects throughout
17 the factory that will significantly reduce costs and maintain a skilled workforce. In
18 December 2009, the Business Finance Authority secured funding in the amount of \$
19 to address three (3) of these projects which consist of motor upgrades which are projected
20 to save over \$ annually.

1 **Q. Has Northern evaluated whether the Customer continues to have viable fuel**
2 **switching options?**

3 A. Yes. Foss has the capability of utilizing No. 2 oil and natural gas at its facilities
4 which include process ovens, boilers for heat and process, a 5.3 megawatt cogeneration
5 turbine and 3.5 megawatts of reciprocating engines for cogeneration. Foss has the
6 following on-site fuel storage capability: 50,000 gallons of No. 2 oil. Foss decides
7 which fuel to burn based primarily on price. Although Foss clearly has the ability to
8 displace its natural gas consumption with an alternate fuel, at the present time, that option
9 does not appear to be economically viable because the current price of No. 2 oil is higher
10 than natural gas.

11 **Q. Based on your analysis, do you have an opinion as to whether extending the**
12 **Special Contract for two additional years is just and consistent with the public**
13 **interest?**

14 A. Yes. I believe that Foss's situation continues to present special circumstances
15 which render departure from Northern's tariff rates and conditions to be just and
16 consistent with the public interest. Foss states that it is doing its part to be a successful
17 manufacturer and to preserve jobs that benefit New Hampshire in a challenging business
18 climate that continues to see reduced employment as companies look to move their
19 operations elsewhere. Foss states that if were to pay Northern's tariff rates, its cost
20 savings from recent facility investments would be reduced and Foss would be forced to
21 seriously consider eliminating skilled associate positions. Retaining Foss's load under

1 the Special Contract for two more years provides benefits to Northern and its customers
2 because the annual revenues under the Special Contract exceed Northern's long-run
3 marginal costs of serving this Customer. Thus, retaining Foss as Northern's customer
4 will continue to keep the average system costs of transporting gas applicable to all of
5 Northern's firm customers lower than it would be if Northern were to lose this Customer.
6 In addition, the Special Contract helps Foss to remain competitive and to continue its
7 operations in New Hampshire without layoffs, which contributes to the state's economy.

8 **Q. What rates will Northern charge Foss in the event that the Commission does**
9 **not approve the Fourth Amendment of Agreement?**

10 A. Northern and Foss have signed a letter agreement (Schedule NU-1-8) similar to
11 the March 8, 2005 letter agreement that states that if the Commission does not approve
12 the Fourth Amendment to Agreement in a form and substance acceptable to both
13 Northern and Foss, the rate for transportation service from March 1, 2010 forward is and
14 shall be Northern's applicable rate schedule, Commercial and Industrial Firm Delivery
15 Service—High Annual Use, Low Winter Use, Rate T-52. The letter agreement also
16 states that in the event the Commission does not approve the Fourth Amendment of
17 Agreement, Northern shall recalculate the charges for transportation services rendered
18 since March 1, 2010 and Foss shall be responsible for such charges.

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

20 A. Yes.

1 **I. Introduction**

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

3 A. Michael Smith, Manager, Business Services, Northern Utilities, 1075 Forest Ave,
4 Portland, Maine 04104.

5 **Q. Please describe your employment responsibilities.**

6 A. My responsibilities include retaining, expanding and attracting business within
7 Northern Utilities' service territories. I am the point of contact with Northern's
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17 Northern Utilities and have held several positions in which I have been responsible for
18 managing Northern's industrial and key account customers in New Hampshire and
19 Maine.

20 **II. Purpose of Testimony and Description of Schedules**

21 **Q. What is the purpose of your testimony in this docket?**

Northern Utilities, Inc.
Extension of Special Contact with Foss Manufacturing Company
Prefiled Testimony of Michael Smith
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UNREDACTED/CONFIDENTIAL VERSION

1 A. The purpose of my testimony is to present information to support Northern's
2 proposal for extending the terms and conditions of an existing Special Contract for firm
3 transportation service with Foss Manufacturing Company, LLC. ("Foss" or "the
4 Customer") for two (2) additional years beyond the Contract's stated expiration date of
5 February 29, 2010.

6 **Q. Does your testimony include input from other individuals employed by**
7 **Northern Utilities?**

8 A. Yes. My testimony includes information supplied by James L. Harrison of
9 Management Applications Consulting who contributed the marginal cost of service
10 information used in this filing.

11 **Q. Please identify the documents that are submitted with this prefiled testimony.**

12 A. The following Schedules are submitted with this prefiled testimony:

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