



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

Docket No. DG 13-251

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Winter 2013-14 Cost of Gas Filing

**DIRECT TESTIMONY
OF
FRANCISCO C. DAFONTE**

January 31, 2014

1 **Q. Mr. DaFonte, please state your name, business address and position with Liberty**
2 **Utilities (EnergyNorth Natural Gas) Corp. d/b/a/Liberty Utilities (“EnergyNorth” or**
3 **“the Company”)**

4 A. My name is Francisco C. DaFonte. My business address is 11 Northeastern Boulevard,
5 Salem, New Hampshire 03079. My title is Sr. Director, Energy Procurement.

6

7 **Q. Mr. DaFonte, please summarize your educational background, and your business and**
8 **professional experience.**

9 A. I attended the University of Massachusetts at Amherst where I majored in Mathematics
10 with a concentration in Computer Science. In the summer of 1985 I was hired by
11 Commonwealth Gas Company (now NSTAR Gas Company), where I was employed
12 primarily as a supervisor in gas dispatch and gas supply planning for nine years. In 1994, I
13 joined Bay State Gas Company (now Columbia Gas of Massachusetts) where I held various
14 positions including Director of Gas Control and Director of Energy Supply Services. At the
15 end of October 2011, I was hired as the Director of Energy Procurement by Liberty Energy
16 Utilities (New Hampshire) Corp. and promoted to Sr. Director in July 2013. In this
17 capacity, I provide gas procurement services to EnergyNorth.

18

1 **Q. Mr. DaFonte, are you a member of any professional organizations?**

2 A. Yes. I am a member of the Northeast Energy & Commerce Association, the American Gas
3 Association, the National Energy Services Association and the New England Canada
4 Business Council.

5
6 **Q. Mr. DaFonte, have you previously testified in regulatory proceedings?**

7 A. Yes, I have testified in a number of proceedings before the New Hampshire Public Utilities
8 Commission including previously in this Docket No. DG 13-251, the Massachusetts
9 Department of Public Utilities, the Maine Public Utilities Commission, the Indiana Utility
10 Regulatory Commission and the Federal Energy Regulatory Commission.

11
12 **Q. Mr. DaFonte, what is the purpose of your testimony in this proceeding?**

13 A. The purpose of this testimony is to provide some background and insight as to why the
14 purchased natural gas costs for the Company have escalated beyond what was reasonably
15 predictable.

16
17 **Q. Mr. DaFonte, would you describe the firm pipeline transportation contract portfolio
18 that the Company now holds?**

19 A. The Company currently holds firm transportation contracts on Tennessee Gas Pipeline
20 (106,833 Dth/day) and Portland Natural Gas Transmission (1,000 Dth/day) to provide a

1 daily deliverability of 107,833 Dth/day to its city gate stations. These contracts provide
2 delivery of natural gas from four sources.

3
4 First, the Company holds firm transportation contracts to allow for delivery of up to 8,122
5 Dth/day of Canadian supply originating at Niagara, NY; Dawn, Ontario; and PNGTS at
6 Pittsburgh, NH.

7
8 Second, the Company holds firm transportation contracts to allow for delivery of up to
9 21,596 Dth/day of domestic supply from the US Gulf Coast and Marcellus producing
10 regions.

11
12 Third, the Company holds firm transportation contracts to allow for delivery of up to 28,115
13 Dth/day of domestic supply from underground storage fields in the New York/Pennsylvania
14 area or the purchase of flowing supply in or downstream of Tennessee Zones 4 and 5.

15
16 Lastly, the Company holds firm transportation contracts to allow for delivery of up to
17 50,000 Dth/day of firm supply from Tennessee's Dracut receipt point located in Dracut,
18 Massachusetts.

1 **Q. Please describe the source of gas supplies used with these firm transportation**
2 **contracts.**

3 A. The firm transportation contracts that interconnect at the Canadian border source firm gas
4 supplies from both Eastern and Western Canada. The Company's domestic long-haul firm
5 transportation contracts source firm gas supplies primarily from the U.S. Gulf Coast during
6 the winter period and also provide access to natural gas supplies in the Marcellus Shale.
7 Supplies purchased at the Dracut, MA receipt point, on the other hand, are considered
8 market area supplies and can originate from any of a number of locations including Canada,
9 the U.S. Gulf Coast, and LNG terminals.

10

11 **Q. Can you describe the winter weather in the Company's service territory since the start**
12 **of the winter season?**

13 A. The actual weather in the Company's service territories has been much colder than normal.
14 The weather since November 1 to date is approximately 8.5% colder than normal which is
15 approaching the Company's design weather model which is calculated at 10.9 percent
16 colder than normal.

17

18 **Q. Has this cold weather affected other parts of the country?**

19 A. Yes. The severe cold weather has gripped the nation with record setting low temperatures
20 in many locations particularly in January. As an example, Liberty's other natural gas
21 distribution companies have seen unprecedented cold weather: in its Georgia service

1 territory the weather has been 43% colder than normal; in its Midstates service territories
2 encompassing the states of Missouri, Iowa and Illinois, the weather for January has been
3 21% colder than normal; and for its service territory in Massachusetts the weather for
4 January has been 9% colder than normal.

5
6 **Q. Can you describe the New England pipeline and supply infrastructure and what**
7 **impact extreme cold weather has on the ability for this infrastructure to meet the peak**
8 **demands in New England?**

9 A. The New England market is served primarily by 5 pipelines: Tennessee Gas Pipeline;
10 Algonquin Gas Transmission (AGT); Iroquois Gas Transmission (IGT); Portland Natural
11 Gas Transmission System (PNGTS); and Maritimes and Northeast Pipeline (M&NE). The
12 Tennessee and AGT pipelines bring gas to New England from the south reaching as far
13 back as the Gulf Coast and running through Marcellus shale. IGTS brings gas supplies in
14 from Canada. Unfortunately, these pipelines are fully subscribed and there is insufficient
15 capacity to serve peak demand requirements of all customers including LDCs and power
16 plants. In contrast the newest pipelines, PNGTS and M&NE, do have capacity that is
17 underutilized as a result of a lack of supply coming in from Canada.

18 In addition to the capacity/supply limitations, the historical LNG import volume used to
19 augment the peak period demand has dropped off considerably due to the traditionally
20 higher price paid by other countries for the LNG cargoes.

1 **Q. Mr. DaFonte, given the lack of capacity/supply infrastructure coupled with the severe**
2 **cold weather, can you describe the impact on natural gas prices in New England?**

3 A. Natural gas prices in the New England market have reached unprecedented levels on
4 multiple occasions in the spot market as well as for baseload monthly supplies. The spot
5 market prices have soared to \$100 per Dth on several occasions and during the 7-day period
6 from January 22-28 spot prices averaged almost \$51 per Dth. Additionally, the price for a
7 baseload purchase of gas for the month of January was \$21.35 and is expected to be over
8 \$30 for the month of February. These prices have never been seen in the New England
9 market and certainly could not have been predicted.

10
11 **Q. Mr. DaFonte, are you aware of any similar price spikes in other parts of the country?**

12 A. Yes. The severe cold weather that has gripped the country along with pipeline constraints
13 and compressor outages has resulted in historically high gas prices in the New York/New
14 Jersey and Mid-Atlantic market that reached over \$140 per Dth. In addition, the Chicago
15 market area also reached historically high pricing over \$60.

16
17 Because the severe weather was so far reaching and coincident across multiple regions, it
18 put a strain on pipeline infrastructure resulting in numerous pipeline operation flow orders
19 (OFO). These OFO's put further constraints on supply movement and contributed to the
20 higher spot gas prices and has also led to an increase in the NYMEX futures price of over
21 \$1.40 in the last month.

1 **Q. Mr. DaFonte, are there any ways the company could have mitigated these price**
2 **spikes?**

3 A. No, the price spikes could not have been mitigated. The current hedging program is
4 intended to minimize price volatility with regard to supply area purchases. In fact, all swaps
5 and options entered into by the Company for its hedging program are based on the Henry
6 Hub pricing point for natural gas futures contracts located in the supply area in Louisiana.
7 The Henry Hub price and correlating NYMEX price is seen as setting the “basis” price for
8 the North American natural gas market. As such, any purchases made in the market area,
9 such as New England, must reflect the cost to deliver the gas to the ultimate purchase
10 location, known as the “basis differential” from the Henry Hub or NYMEX. This basis
11 differential is impacted greatly by pipeline restrictions or limitations in getting gas to a
12 specific market area as well as the increased demand in that market area as a result of
13 weather. This is the very reason why natural gas prices spiked to record highs in the New
14 England market and other regions across the country so far this winter. The fact is that there
15 is much more demand than pipeline capacity available to serve the New England market
16 during the peak winter periods. Thus, while spot market prices were above \$100 in the
17 Northeast, the Henry Hub spot price never got higher than \$5.69 per Dth.

18
19 To summarize, while the current hedging program focuses on minimizing futures price
20 volatility, it cannot hedge against price spikes attributable to a run up in the basis
21 differential.

1

2 **Q. Does this conclude your direct prefiled testimony in this proceeding?**

3 A. Yes, it does.