

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

EnergyNorth Natural Gas, Inc. d/b/a KeySpan)
Energy Delivery New England) DG 07-101
)

SURREBUTTAL TESTIMONY OF

Elizabeth D. Arangio

ON BEHALF OF

**ENERGY NORTH NATURAL GAS, INC. d/b/a
KEYSPAN ENERGY DELIVERY NEW ENGLAND**

February 1, 2008

1 **Q. Please state your name and business address.**

2 A. My name is Elizabeth D. Arangio. My business address is 52 Second Avenue,
3 Waltham, MA 02451.

4 **Q. Did you previously file testimony in this docket?**

5 A. Yes. I filed direct testimony on September 14, 2007.

6 **Q. What is the purpose of your surrebuttal testimony?**

7 A. The sole purpose of my surrebuttal testimony is to address one issue raised in the
8 testimony of Staff witnesses John B. Adger, Jr. and Yavuz Arik. Specifically,
9 Messieurs Adger and Arik recommended that EnergyNorth Natural Gas, Inc d/b/a
10 KeySpan Energy Delivery New England (the "Company") show that supplies will be
11 available on a firm basis at the inlet to the Concord Lateral on terms that are
12 competitive with its on-system options for peaking supplies.

13 **Q. Can the Company make that showing?**

14 A. Yes. By way of background, as part of its annual planning process, the Company
15 must secure gas supplies before the start of the peak season period (November
16 through March). Typically, the Company sends to potential gas suppliers a Request
17 for Proposal ("RFP") in which it seeks bids to supply the Company's natural gas
18 needs at certain locations. The RFP is sent to approximately 45 gas suppliers. (The
19 Company's most recent RFP Recipient List is provided as Attachment EDA-2). Over
20 the past several years, the Company has solicited bids specifically for gas at Dracut,

1 MA. Approximately 10 suppliers have provided responses to the Dracut RFP. In
2 response to Staff's testimony, the Company has contacted four vendors who are active
3 suppliers at Dracut and who the Company has done business with to inquire about the
4 terms and conditions on which they would be willing to supply the Company's gas
5 supply needs, including peak-period supplies associated with the Concord Lateral, for
6 the 2009/10 heating season.

7 **Q. How did you approach the suppliers?**

8 A. First, each supplier was provided the background as to why we were calling, i.e. as part
9 of the DG 07-101 open docket, whereby the Company is seeking Commission approval
10 of the Concord Lateral Project and in order to do so must provide expected future
11 pricing at Dracut. Each was told that EnergyNorth was seeking market intelligence for
12 gas supply at Dracut for the 2009/2010 peak season. The need for the resource was
13 presented as a baseload supply for up to 20,000 MMBtu/day for December, January and
14 February, with the ability to swing up by an additional 10,000 MMBtu/day with the
15 following parameters: December 2009: 10,000 MMBtu/day for up to 6 days, January
16 2010: 10,000 MMBtu/day for 1 day and February 2010: 10,000 MMBtu/day for up to 3
17 days. The baseload component represents the Company's current purchase at Dracut on
18 its existing Zone 6 to Zone 6 capacity of 20,000 MMBtu/day. The "swing" component
19 represents the *minimal* need of the new capacity based on the need identified in the
20 Company's response to Data Request Staff 1-18.

1 **Q. How did the suppliers respond?**

2 A. Attachment EDA-3 provides a summary of the responses. Three of the four suppliers
3 contacted were willing to provide such information. One supplier did not provide any
4 information in light of the fact that the supplier fully expects new LNG supplies to
5 enter the region by 2009/10 yet was not fully comfortable of the effect on pricing at
6 Dracut. The indicative pricing which the Company did receive for the services varied
7 depending on the load factor of the need. All of the suppliers quoted prices on a
8 NYMEX plus basis for the baseload supplies. The quotes for the “swing” service
9 varied in structure and price. It is important to note that this pricing is not binding
10 and will undoubtedly change over time.

11 **Q. Do you have any other information regarding pricing at Dracut?**

12 A. Yes. The Company is a member of Northeast Gas Markets, a consortium of Northeast
13 LDC. Currently, the Company is negotiating with both Repsol North America, who
14 owns the Canaport LNG facility, and DOMAC, the Company’s current LNG supplier
15 and future LNG supplier via its Neptune LNG Project for firm gas supplies. The
16 Company did not feel it prudent to contact either of these entities to obtain indicative
17 pricing for this exercise at the risk of jeopardizing the negotiations not only for the
18 Company, but the entire consortium.

19 **Q. Is the pricing information confidential?**

20 A. The suppliers were willing to provide the pricing information only if the Company
21 provided the assurance of maintaining the confidentiality of their identity.

1 Furthermore, since the Company is currently in the midst of negotiating for gas
2 supplies for the 2008/09 season with other parties, the Company requests that the
3 pricing quotes remain confidential as well.

4 **Q. Is this pricing information consistent with your understanding of the market?**

5 A. Yes. The responses that were received from the suppliers are consistent with my
6 experience buying firm gas supplies delivered at Dracut. As noted above, however,
7 this pricing is indicative of what the market expects gas supplies to cost in 2009/2010
8 based on knowledge of today's market. Thus, there are likely costs built into these
9 quotes to allow for the unknowns of what may/may not materialize in the 2009/10
10 market at Dracut. This is evidenced by the wide range of pricing received.

11 **Q. In your opinion, would the Company obtain a better price for its supplies,
12 including the supplies necessary for the Concord Lateral, if it locked into a
13 contract now?**

14 No. In fact, for a number of reasons, it is my opinion that the indicative price quotes
15 represent conservatively high quotes for supplies at Dracut for the 2009/10 winter
16 season based on current market expectations. First, the Company regularly obtains
17 market outlooks that include pricing information for both the long-term and short-
18 term. The Company uses this information to help guide its decision making process
19 regarding its portfolio. The most recent studies/reports corroborate the market
20 expectation that due to incremental gas supplies entering the Northeast, the basis
21 price for gas supply is projected to decrease over time. Attached to this testimony are

1 recent reports/studies from a number of third-party sources which focus on market
2 fundamentals in both the near-term and long-term and the effects on natural gas
3 pricing. The attachments include:

4 Attachment EDA-4(Confidential): CERA Advisory Service Study:
5 Tyrannosaurus Rex; How the Rockies
6 Express Pipeline Will Reshape the North
7 American Gas Market

8 Attachment EDA-5 (Confidential): Goldman Sachs Study: Facts Have
9 Replaced Fears; Creating a bull-bull
10 market

11 Attachment EDA-6 (Confidential): Wood Mackenzie: North American
12 Natural Gas Infrastructure Investment,
13 Basis, and Market Issues: September
14 2007

15 Attachment EDA-7 (Confidential): Wood Mackenzie: North American Gas
16 Mid-Term Outlook: November 2007

17 Attachment EDA-8 (Confidential): PA Consulting Group: Modeling
18 Northeast Natural Gas Markets: Base
19 Case and Rockies Express Extensions

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1 Second, the volumes provided to the suppliers reflects minimum usage of the new
2 contract. The Company has not taken into account the effects of adding this contract
3 into its overall New Hampshire resource portfolio and the changes it would have on
4 existing resources. For example, the addition of the incremental Concord Lateral
5 capacity to the Company's portfolio could enable the Company to purchase supply at
6 Dracut in lieu of its current city-gate service. Also, the addition of the incremental
7 Concord Lateral capacity will allow the Company the opportunity to optimize the use
8 of its existing underground storage and supplement LNG and propane supplies,
9 including its dedicated LNG liquid contract with Distrigas. Based on these factors,
10 and my experience of purchasing gas supplies in the market, I would not recommend
11 locking in gas supplies at this time. In my opinion, it would be prudent to issue the
12 RFP for the necessary supply in the spring/summer of 2009 and enter into a contract
13 for the supply at that time.

14 **Q. Once the gas supply has been purchased, is there any other protection that**
15 **would affect the price paid by customers. ?**

16 A. Yes. Once the incremental Dracut volumes are purchased and under contract, they
17 would become part of the Company's overall supply portfolio and subject to the
18 Company's Commission-approved portfolio hedging program designed to mitigate the
19 volatility of supply prices inherent in the market.

20 **Q. Does this conclude your surrebuttal testimony?**

21 A. Yes.