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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

April 8, 2010 - 10:01 a.m.
Concord, New Hampshire

RE: DG 10-051
NATIONAL GRID NH:
Summer 2010 Cost of Gas Adjustment.

PRESENT: Commissioner Amy L. Ignatius, Presiding

Sandy Deno, Clerk

APPEARANCES: Reptg. National Grid NH:
Steven V. Camerino, Esq. (McLane, Graf...)

Reptg. Residential Ratepayers:
Rorie Hollenberg, Esq.
Kenneth E. Traum, Asst. Consumer Advocate
Office of Consumer Advocate

Reptg. PUC Staff:
Matthew J. Fossum, Esq.
Stephen P. Frink, Asst. Dir. - Gas/Water Div.
Robert Wyatt, Gas & Water Division

Court Reporter: Steven E. Patnaude, LCR No. 52

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E X H I B I T S

3

EXHIBIT NO.

D E S C R I P T I O N

PAGE NO.

4

1

Summer 2010 Cost of Gas Adjustment
filing (03-15-10)
(CONFIDENTIAL & PROPRIETARY)

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Summer 2010 Cost of Gas Adjustment
filing (03-15-10)
[REDACTED - for public use]

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Revised Summer 2010 Cost of Gas
filing (04-05-10)
(CONFIDENTIAL & PROPRIETARY)

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Revised Summer 2010 Cost of Gas
filing (04-05-10)
[REDACTED - for public use]

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Revised Testimony of Ann E. Leary
(04-05-10)

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Response to Data Request Staff 1-7

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National Grid's response to
Tech Session Data Requests, Set 1,
Request No. Tech 1-1

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1 P R O C E E D I N G

2 CMSR. IGNATIUS: I'd like to open this
3 hearing in docket DG 10-051, which is a cost of gas filing
4 by National Grid. On March 15th, 2010, EnergyNorth
5 Natural Gas, doing business as National Grid New
6 Hampshire, filed with the Commission its proposed cost of
7 gas rates for the period May 1, 2010 through October 31,
8 2010, and proposed modifications as well to its hedging
9 policy.

10 Let's start with appearances please.

11 MR. CAMERINO: Good morning,
12 Commissioners. Steve Camerino, from McLane, Graf,
13 Raulerson & Middleton, on behalf of EnergyNorth Natural
14 Gas, doing business as National Grid New Hampshire.

15 CMSR. IGNATIUS: Good morning.

16 MS. HOLLENBERG: Good morning. Rorie
17 Hollenberg and Ken Traum here for the Office of Consumer
18 Advocate.

19 CMSR. IGNATIUS: Good morning.

20 MR. FOSSUM: And, good morning. Matthew
21 Fossum, from the Staff of the Public Utilities Commission.
22 With me this morning are Bob Wyatt and Steve Frink from
23 Commission Staff.

24 CMSR. IGNATIUS: Good morning. As you

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1 can see, we've had some unexpected scheduling conflicts,
2 and Chairman Getz and Commissioner Below cannot be here
3 this morning. I wanted to tell you our plan for today and
4 get your comments. Because cost of gas cases move
5 quickly, we did not want to reschedule the hearing unless
6 we had to. And, so, our expectation is that I would
7 preside today. We'd ask for an expedited transcript from
8 Mr. Patnaude, and Chairman Getz and Commissioner Below
9 both review, read the entire transcript, all of the
10 documents, and participate in the decision-making.

11 But you have a right under the statute,
12 under RSA 363:17, to request what they call a "full
13 commission", which is defined as "two of the three", if
14 you wish. And, so, I don't want to force you to go
15 forward today with just myself presiding, but assure you
16 that, if we do go forward, it's not just me, it's all
17 three participating, and give you an opportunity to let me
18 know whether that's acceptable.

19 Is there anyone who would request that
20 we reschedule for a opportunity to have more than just
21 myself preside?

22 (No verbal response)

23 CMSR. IGNATIUS: Seeing none, I think we
24 can go forward, and I appreciate that. And, Mr. Patnaude,

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1 I appreciate your assistance in that.

2 Is there an expectation of witnesses
3 from anyone other than National Grid today?

4 MS. HOLLENBERG: No.

5 MR. FOSSUM: No.

6 CMSR. IGNATIUS: All right. And, we
7 have no intervenors. The OCA is a participant, but I'm
8 not aware of any other intervention. All right. We have
9 a publication affidavit? In the file, thank you very
10 much. Are there any other preliminary matters before we
11 begin?

12 (No verbal response)

13 CMSR. IGNATIUS: Seeing none, Mr.
14 Camerino.

15 MR. CAMERINO: Thank you, Commissioner.

16 The Company proposes to call all three of its witnesses as
17 a panel. And, our intention is just to authenticate their
18 testimony and then make them available for
19 cross-examination. So, if that's acceptable, the Company
20 would ask its three witnesses take the stand.

21 CMSR. IGNATIUS: Please do. Thank you.

22 MR. CAMERINO: Okay. The Company calls
23 Theodore Poe, Jr., Stephen McCauley, and Ann Leary. And,
24 while they're getting situated, I've provided to the Clerk

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1 five documents that we plan to mark as exhibits. And, I'm
2 just going to read them into the record.

3 The first one is the March 15th
4 confidential cost of gas filing by the Company, which
5 includes testimony of all three witnesses. Exhibit 2 for
6 identification would be the March 15th redacted filing.
7 Exhibit 3 for identification would be the April 5th update
8 of that filing in confidential form. And, just to assist
9 the Clerk, the confidential ones have a label that says
10 "confidential" and the redacted ones have no label. So,
11 that's how you can tell them apart.

12 So, Exhibit 1 is the March 15
13 confidential; Exhibit 2 is the March 15th redacted;
14 Exhibit 3 is the April 5 confidential update; Exhibit 4 is
15 the April 5 redacted update, neither of those updates have
16 testimony included with them; and, then, Exhibit 5 would
17 be Ms. Leary's revised testimony filed on April 5. That's
18 the only testimony that changes with the update. And,
19 I've got an extra copy of that.

20 CMSR. IGNATIUS: I'm not sure I have
21 that.

22 MR. CAMERINO: I can give you that.

23 CMSR. IGNATIUS: Thank you.

24 (The documents, as described, were

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1 herewith marked as Exhibits 1 through 5,
2 respectively, for identification.)

3 MR. CAMERINO: So, when I question the
4 witnesses about or when counsel for the Staff or the
5 Consumer Advocate questions the witnesses about their
6 testimony, that can be found in Exhibits 1 or 2 for Mr.
7 McCauley and Mr. Poe, for Ms. Leary, you should refer to
8 that Exhibit 5.

9 CMSR. IGNATIUS: And, because I have not
10 read Ms. Leary's testimony, somehow it wasn't in my file,
11 if any summary of what that is containing would be helpful
12 to me.

13 MR. CAMERINO: Yes.

14 CMSR. IGNATIUS: Thank you.

15 MR. CAMERINO: Summary of the overall
16 testimony or just of the changes?

17 CMSR. IGNATIUS: Just whatever was in
18 the April 5th that was changed.

19 MR. CAMERINO: Okay.

20 (Whereupon Theodore Poe, Jr., Ann E.
21 Leary, and Stephen A. McCauley were duly
22 sworn and cautioned by the Court
23 Reporter.)

24 THEODORE POE, JR., SWORN

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[WITNESS PANEL: Poe|Leary|McCauley]

1 ANN E. LEARY, SWORN

2 STEPHEN A. McCAULEY, SWORN

3 DIRECT EXAMINATION

4 BY MR. CAMERINO:

5 Q. Okay. I'm going to just take each of you one at a
6 time, starting with Mr. Poe and moving down to Ms.
7 Leary. Mr. Poe, would you identify yourself for the
8 record please.

9 A. (Poe) Yes. My name is Theodore Poe, Jr., National
10 Grid, 40 Sylvan Road, Waltham, Mass.

11 Q. And, what's your position with the Company?

12 A. (Poe) I am Manager in Gas Load Forecasting.

13 Q. And, what's your overall role with regard to this
14 filing in this case?

15 A. (Poe) I prepared the customer requirements and sendout
16 forecast that is input to the cost of gas filing.

17 Q. And, the filing that was made on August 15th [March
18 15th?], which is marked as "Exhibits 1" and "2" that
19 contains prefiled testimony with your name on it. Are
20 you familiar with that testimony?

21 A. (Poe) Yes, I am.

22 Q. And, was that prepared by you or under your direction?

23 A. (Poe) Yes, it was.

24 Q. And, is it true and correct to the best of your

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[WITNESS PANEL: Poe|Leary|McCauley]

- 1 knowledge and belief?
- 2 A. (Poe) Yes, it is.
- 3 Q. Thank you. Mr. McCauley, would you state your name and
4 business address for the record please.
- 5 A. (McCauley) I'm Steven A. McCauley, 100 East Old Country
6 Road, Hicksville, New York.
- 7 Q. And, what's your position with National Grid?
- 8 A. (McCauley) I'm the Director of Origination and Hedging.
- 9 Q. And, what was your role with regard to the filing that
10 the Company made in this case?
- 11 A. (McCauley) Preparing the modifications to the hedging
12 cost of -- commodity cost of gas hedging.
- 13 Q. Okay. And, the March 15th filing by the Company
14 contains testimony with your name on it. Was that
15 testimony prepared by you or under your direction?
- 16 A. (McCauley) Yes, it was.
- 17 Q. And, is that testimony true and correct to the best of
18 your knowledge and belief?
- 19 A. (McCauley) Yes, it is.
- 20 Q. Ms. Leary, would you state your name and business
21 address for the record please.
- 22 A. (Leary) Yes. My name is Ann Leary. I work at 40
23 Sylvan Road, Waltham, Mass. 02451.
- 24 Q. And, what's your position with National Grid?

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[WITNESS PANEL: Poe|Leary|McCauley]

- 1 A. (Leary) I am Manager of Pricing for New England.
- 2 Q. And, what's your position -- what's your
3 responsibilities with regard to the filing in this
4 case?
- 5 A. (Leary) I'm here today to explain the proposed 2010 off
6 peak cost of gas factor that will be effective on May
7 1st, 2010.
- 8 Q. And, are you the person who has overall responsibility
9 with regard to the schedules that were filed in this
10 case?
- 11 A. (Leary) Yes, I do.
- 12 Q. Okay. And, you also prepared testimony with the March
13 15th filing, is that correct?
- 14 A. (Leary) That is correct.
- 15 Q. As well as revised testimony filed on April 5th?
- 16 A. (Leary) That is correct.
- 17 Q. And, with the changes that are in the April 5th
18 testimony, is the filing and your testimony true and
19 correct to the best of your knowledge and belief?
- 20 A. (Leary) Yes, it is.
- 21 Q. Okay. Would you summarize for the Commission what
22 changed from April -- from your March 15th testimony to
23 your April 5th testimony and explain why those changes
24 occurred.

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[WITNESS PANEL: Poe|Leary|McCauley]

1 A. (Leary) Yes. We primarily just made one major change
2 in the filing. What it is is we updated the NYMEX
3 pricing. The NYMEX strip has gone down since we made
4 our initial filing on March 15th. At that point, we
5 had used a 15-day NYMEX strip that had ended on March
6 10th. This had an average NYMEX pricing over the
7 summer period of about \$5.00 a decatherm. We looked at
8 the current NYMEX, for a 15-day average ending -- I
9 think we used March 31st, and the NYMEX there had gone
10 down to \$4.38. As a result of this decrease in the
11 NYMEX, it ended up having a direct correlation to the
12 decrease in the cost of gas factor that we were
13 proposing.

14 So, initially, for example, we had
15 proposed a cost of gas factor for the residential
16 customers of 72.09 cents per therm. We -- excuse me.
17 We initially proposed on March 15th a COG factor for
18 our residential customers of 77.84 cents per therm. We
19 are now proposing a cost of gas factor for residential
20 customers of 72.09 cents per therm.

21 In terms of the bill impacts, I think,
22 initially, we were looking at a 17 percent bill impact
23 for residential heating customers. We are now down to
24 about an 11 and a half percent bill impact for

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[WITNESS PANEL: Poe|Leary|McCauley]

1 residential heating customers as compared to last
2 summer.

3 Q. Is it fair to say that the changes in your testimony
4 then relate to an updating of the proposed rates in
5 this proceeding and the bill impacts that result from
6 that?

7 A. (Leary) That is correct.

8 Q. So, where those numbers appeared in the first
9 testimony, they have now got the adjusted new figures?

10 A. (Leary) That is correct.

11 Q. Can you just very briefly explain, you said that this
12 all came about because of a change in the NYMEX strip,
13 can you just explain conceptually how the NYMEX strip
14 is used in the cost of gas filing? In other words, why
15 is it relevant at all?

16 A. (Leary) Yes. All of our commodity contracts, we use
17 the NYMEX futures strip to project out what our
18 commodity costs are going to be over the summer period.
19 So, by using this updated forecast pricing, it had
20 ended up changing all of the commodity pricing.

21 MR. CAMERINO: Thank you. That
22 concludes my direct examination.

23 CMSR. IGNATIUS: Thank you.

24 Ms. Hollenberg.

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[WITNESS PANEL: Poe|Leary|McCauley]

1 MS. HOLLENBERG: Thank you. Good
2 morning, panelists.

3 CROSS-EXAMINATION

4 BY MS. HOLLENBERG:

5 Q. I have a couple of questions for you, Mr. McCauley,
6 I'll start with. Are you aware of some recent
7 developments with the Energy Information Administration
8 that had been reported in the news related to how it
9 reports to the public its gas production estimates?

10 A. (McCauley) I'm familiar with the article that came out
11 a day or so ago, yes.

12 Q. Okay. And, would it be fair to say that there was some
13 concern raised that the gas production estimates were
14 too high?

15 A. (McCauley) The concerns of the article were, yes. That
16 they were overestimating smaller producers, yes.

17 Q. Okay. Do you know if that has any impact or do you
18 expect that that will have any impact on future costs
19 of gas prices in the near-term future covered by this
20 period of time that we're reviewing now?

21 A. (McCauley) For the period that we have now, I don't
22 know if it will have a major impact. It would be more
23 of a long-term impact. We did see, when that article
24 came out, and I don't know if the two were correlated,

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[WITNESS PANEL: Poe|Leary|McCauley]

1 but, when that article did come out, we did see an
2 immediate jump in the NYMEX forward curves right after
3 that article did come out. But, since that, they
4 peaked and they now have actually come back down. So,
5 I think the market has looked at this information,
6 reviewed it, tried to understand what the impact would
7 be to the prices itself, and then all the market
8 participants themselves felt that it was not as
9 significant as what the article had led it to believe.
10 If prices were to have continued going up, maybe there
11 was more concern. But I think the market has digested
12 the information and understood what the impact would
13 be.

14 Q. Okay. And, if I could, I'd like to show you your
15 response to Staff 1-7.

16 MS. HOLLENBERG: And, Commissioner, if I
17 could have this marked for identification, I believe this
18 would be Exhibit 6 please.

19 CMSR. IGNATIUS: Yes. We will mark this
20 for identification as "Exhibit --

21 MS. DENO: Six.

22 CMSR. IGNATIUS: -- 6", thank you.

23 (The document, as described, was
24 herewith marked as Exhibit 6 for

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[WITNESS PANEL: Poe|Leary|McCauley]

1 identification.)

2 BY MS. HOLLENBERG:

3 Q. Do you recognize this response to Staff 1-7?

4 A. (McCauley) Yes, I do.

5 Q. And, in your testimony, you propose some changes to the
6 commodity cost of gas hedging done by the Company.
7 And, you were asked in this Staff 1-7 if that proposed
8 change had been in place, "beginning with May 2008,
9 what would the resulting credits/charges [be] to the
10 corresponding cost of gas periods?" And, you provided,
11 in your response, the impact that those changes would
12 have had on prior periods, is that correct?

13 A. (McCauley) That's correct.

14 Q. And, it shows that, in 2008, there would have been \$526
15 worth of credits to customers, right?

16 A. (McCauley) That's correct.

17 Q. And, approximately, or what it says is "\$11,313" worth
18 of charges?

19 A. (McCauley) Correct.

20 Q. Thank you. How is the -- the other issue that you
21 talked about in your testimony was recovering the
22 difference between the carrying charge on collateral
23 compared to the short. Was it between the collateral
24 charges that you actually recover or are charged by the

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[WITNESS PANEL: Poe|Leary|McCauley]

1 companies you're interacting with? Maybe you could
2 just summarize that better than me.

3 A. (McCauley) Sure. This is the result of that summary of
4 the difference.

5 Q. Uh-huh.

6 A. (McCauley) What we -- what's looked at is how much
7 money the Company has either provided to a counterparty
8 in the form of collateral or has received.

9 Q. Uh-huh.

10 A. (McCauley) And, the dollar amount here is calculated,
11 if the Company needs to provide collateral to a
12 counterparty, it would have to borrow money at a
13 short-term cost. It now gives the money to the
14 counterparty, who puts it into an account. And, they
15 will, like any bank, would give us interest for the
16 money that they held for the period. The interest that
17 is paid is not the same in every contract that's
18 negotiated in every ISDA -- I'm sorry, there's a master
19 agreement in ISDA, I-S-D-A, we negotiate what rate will
20 be paid for funds held. And, that's typically a fed
21 fund overnight rate, which is typically a very low
22 rate.

23 Q. Uh-huh.

24 A. (McCauley) So, we look at what our costs were to

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[WITNESS PANEL: Poe|Leary|McCauley]

1 borrow, versus what we're really being paid for that
2 money, the difference in that interest rate, multiplied
3 by the dollar amount that has been provided in the form
4 of collateral for each and every day. And, each and
5 every day, whatever collateral is held by each
6 counterparty, that dollar amount is calculated every
7 day, and this would be the result of that.

8 Q. And, as you proposed it for New Hampshire, how does
9 Grid handle it in other jurisdictions?

10 A. (McCauley) The Company is, like in this case, in its
11 rate -- in each one of its rate cases, is looking to
12 get the same type of recovery. We currently have --
13 are getting recovery in our Rhode Island jurisdictions,
14 and we're working in the other jurisdictions to get the
15 same type of recovery.

16 Q. Okay. I'm not sure who wants to handle this, I'm
17 thinking maybe Ms. Leary, but the impact on the
18 Settlement Agreement in DG 07-129 and DG 09-050,
19 regarding occupant accounts. If you could just
20 summarize the financial impact on the Summer 2010 cost
21 of gas, as well as the projected Winter 2010-11 cost of
22 gas?

23 A. (Leary) Yes. As a result of the settlement with the
24 occupant accounts, the Company actually had, for the

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[WITNESS PANEL: Poe|Leary|McCauley]

1 period 2008 through 2009, a disallowance and had to
2 reduce its cost of gas. For the summer period, we
3 reduced the cost of gas by \$31,121. In this upcoming
4 winter cost of gas filing, we will have to include a
5 disallowance of 116,154. The details of that
6 disallowance calculation can be found in Tab 14 of the
7 filing.

8 MS. HOLLENBERG: Thank you. I don't
9 have any other questions. Thank you so much.

10 CMSR. IGNATIUS: Thank you. Mr. Fossum.

11 MR. FOSSUM: Thank you.

12 BY MR. FOSSUM:

13 Q. Ms. Leary, beginning in your revised testimony, which I
14 believe is Exhibit 5, on Page 6 of that testimony, you
15 reference the six month NYMEX future strip as of March
16 31, 2010. Do you see that?

17 A. (Leary) Yes, I do.

18 Q. And, is the NYMEX strip that you're referencing there,
19 is that the monthly settlement prices for that day or
20 is that a 15 day average? What does that number
21 represent?

22 A. (Leary) Yes. That number is actually a 15 day average.
23 If you turn to Tab 7 of the filing, I think if you look
24 at Bates stamp Page 047, you will see the -- what we've

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[WITNESS PANEL: Poe|Leary|McCauley]

1 done is we've looked at the NYMEX strips over the past
2 15 days ending March 31st for the period May 2010
3 through October 2010.

4 Q. Thank you. And, you said that, as a result of the
5 change in that strip price, there were changes to the
6 cost of gas for this docket. Have all of the schedules
7 that were impacted by that change been, in fact,
8 updated?

9 A. (Leary) Yes. In fact, that's why the Company submitted
10 an entire refiling of all the attachments and exhibits.

11 Q. Now, in relation to the 2009 Summer Cost of Gas, can
12 you confirm that the PUC Audit Staff has reviewed the
13 reconciliation for that period?

14 A. (Leary) Yes, they have.

15 Q. And, to your knowledge, did the Audit Staff identify
16 any exceptions in its review?

17 A. (Leary) Their report said there were no exceptions.

18 Q. Thank you. Turn to Mr. Poe.

19 A. (Poe) Good morning.

20 Q. Good morning. In the, I guess, the original redacted
21 filing, Exhibit 2, in your testimony, on Page 9, --

22 A. (Poe) Yes, sir. I'm there.

23 Q. Okay. You reference a supply resource associated with
24 the Concord Lateral there?

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[WITNESS PANEL: Poe|Leary|McCauley]

- 1 A. (Poe) That's correct.
- 2 Q. As I believe -- and that is Package 1 of the Asset
3 Management Agreement?
- 4 A. (Poe) Yes. There were two packages, 1 and 2, uh-huh.
- 5 Q. As to Package 1, and you note that it was available for
6 the 2009 and '10 winter period, and that it's to be
7 available for May and October of this summer period.
8 Could you just confirm, on Schedule 1, which is Bates
9 Page Number 002, what the line number is for that
10 supply resource that you reference?
- 11 A. (Poe) Just a moment please.
- 12 Q. Sure.
- 13 A. (Poe) With regard to purchases on the Concord Lateral,
14 that would be Dracut supplies, and on Bates Page 002,
15 which is Schedule 1, Page 1 of 4, "Dracut Supply-Swing"
16 is Line 25.
- 17 Q. Thank you.
- 18 A. (Poe) You're welcome.
- 19 Q. And, in reviewing this schedule, is this resource
20 available for other months in the summer period as
21 well?
- 22 A. (Poe) There was no maximum monthly obligation specified
23 for the off-peak period months. However, the Company
24 could call on that supply, if needed, and could be

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[WITNESS PANEL: Poe|Leary|McCauley]

1 agreed with Repsol, or else there are numerous other
2 supplies that would be available at the Dracut pooling
3 point. So, the volumes that you see on Line 25 of said
4 schedule may not represent the Repsol volumes, but

5 there would be purchases at Dracut.

6 Q. Okay. Thank you. Turning back to your testimony, on
7 Page 11 of your testimony?

8 A. (Poe) Okay.

9 Q. Beginning up at about Line 4, you compare the 2010
10 Summer sendout requirements to the same period in 2009,
11 and show a difference of approximately it looks like
12 about a million therms from the prior period forecast.

13 Now, does sendout here include both firm sales and
14 transportation volume?

15 A. (Poe) This would be the firm sales to the sales
16 customers only.

17 Q. And, have you compared the sendout forecast to the
18 normalized and actual results from the same period last
19 year?

20 A. (Poe) Yes. Typically, during our forecasting period,
21 we would establish a reference point, which would, for
22 the first figure, the 24 million therm figure for May
23 2009 through October 2009, that would have been
24 established based on the off-peak period 2008. We

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[WITNESS PANEL: Poe|Leary|McCauley]

1 would then make a forecast from that reference point,
2 and then, for the next off-peak period, make a forecast
3 for the new forecast period, and do a comparison as
4 well just as a bench check -- benchmark, to make sure
5 that our forecasting processes are adequate in
6 capturing what we're seeing. The difference here is
7 much larger than we usually see. And, I would
8 attribute it to, first of all, the reference point for
9 the 24 million therm figure was just prior to the huge
10 economic downturn that we have seen. So, we had made
11 our best guess at the time as to what the impact would
12 be. And, now that we have observed a year of it, the
13 forecast that we have of 23 million therms for this
14 off-peak period is better judged based on what our
15 observations are.

16 MR. FOSSUM: Just one moment please.

17 WITNESS POE: Certainly.

18 (Atty. Fossum conferring with Mr.
19 Frink.)

20 BY MR. FOSSUM:

21 Q. Would the Company be willing, beginning with this
22 coming winter's filing, to add to this section of
23 testimony an additional comparison to prior period
24 normalized actual results?

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[WITNESS PANEL: Poe|Leary|McCauley]

1 A. (Poe) So, if I understand what you're saying, my
2 testimony shows a normalized forecast figure for one
3 off-peak period ago, so the off-peak period 2009. And,
4 the next line item would then be what the actual
5 normalized figure would have been for 2009?

6 Q. Yes.

7 A. (Poe) Yes.

8 Q. Thank you.

9 A. (Poe) You're welcome.

10 Q. All right.

11 CMSR. IGNATIUS: Mr. Fossum, is that
12 something you're asking for --

13 MR. FOSSUM: Prospectively, not as part
14 of this filing.

15 CMSR. IGNATIUS: Thank you.

16 BY MR. FOSSUM:

17 Q. Now, Mr. McCauley, you have, in your testimony,
18 outlined a number of proposed changes to the Company's
19 -- we'll call it the Company's "Hedging Program".
20 Could you explain, fairly briefly, just sort of the key
21 points of the existing program for a comparison?

22 A. (McCauley) Sure. The key points of the existing
23 program, how we determine what the hedge volume we
24 would be doing for the season, would be we looked at 67

[WITNESS PANEL: Poe|Leary|McCauley]

1 and a half percent of what was the forecasted baseload
2 purchases for each -- for each month, and that is what
3 determined our hedge volume. And, that was calculated,
4 since we start our execution of a particular winter 18
5 months in advance of the winter, we were really looking
6 at a forecast that is almost two years in advance of
7 that particular winter. So, that's how we determined,
8 we looked at what our purchases were, since the NYMEX
9 hedge that we use hedges those baseload purchases,
10 that's what we were looking at was the baseload
11 purchases in each one of the months during the
12 wintertime.

13 Q. You said you used the "NYMEX hedge", is that the
14 Company's primary hedging instrument?

15 A. (McCauley) What we do is we look at what is ultimately
16 the physical price that the customers will pay, where
17 they're paying it historically, and then you look to
18 see what derivative mechanism is available for you to
19 most effectively hedge that price. And, since most of
20 our gas supplies are purchased, or a lot of our
21 supplies are purchased in regions that are very closely
22 correlated to NYMEX, it becomes a very effective hedge.
23 In the analysis that we do in the past for those
24 locations are typically in the 97 or upper, I'll say,

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[WITNESS PANEL: Poe|Leary|McCauley]

1 greater than 95 percent effectiveness on those hedges.
2 So, even though the NYMEX doesn't hedge the full
3 purchase price, there's a basis component. It really
4 hedges a very, very large percent of the price risk
5 itself. So, it reduces the amount of transactions that
6 one might have to do, reduces the efficiency of basis
7 hedges, when you're trying to do a basis hedge, since
8 it's not as liquid as the NYMEX is. So, we're hedging,
9 for all practical purposes, near 100 percent of the
10 price risk.

11 Q. And, in so doing -- and, has the Company reviewed this
12 existing program to determine the cost and impact on
13 rate volatility?

14 A. (McCauley) Yes. What the Company does is it measures
15 volatility by looking at the change in price from month
16 to month to month within the wintertime.

17 Q. And, could you please describe, I guess fairly briefly,
18 both the internal and external costs, to the extent
19 that you have any, in your Hedging Program?

20 A. (McCauley) Sure. External costs would be costs that
21 would be transaction costs, when -- if one was to put
22 these derivative positions on using a futures account,
23 with the futures account there would be transaction
24 costs specific for each execution. Since the Company

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[WITNESS PANEL: Poe|Leary|McCauley]

1 uses what's called "OTC", or over-the-counter swap
2 positions, which are bilateral agreements with
3 counterparties, there are no transaction costs
4 specifically with each transaction. The costs that may
5 occur were the collateral costs that we've recently
6 discussed. Once, if there is a credit exposure exceeds
7 what each one of the company and the counterparty
8 thinks is reasonable and establishes in their master
9 agreement, if the credit exposure exceeds that
10 threshold, then there is this collateral requirement
11 that we talked about just before. So, from an external
12 standpoint, those are really the types of costs that
13 you would see.

14 From an internal cost perspective, you
15 know, the Company has people that do the transactions,
16 monitor the transactions, does the reporting on it,
17 does the accounting, and those are all costs that are a
18 part of gas supply costs. They aren't specifically
19 categorized for just hedging itself, but it's a percent
20 of our total gas supply adjustment, or I apologize if
21 I'm not using the right term.

22 Q. You said it's "a percent of your total". I guess,
23 then, by way of comparison to the overall gas costs,
24 what would be the costs of administering this program?

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[WITNESS PANEL: Poe|Leary|McCauley]

- 1 A. (McCauley) In our winter cost of gas filing, there we
2 had a data request in there that we provided
3 information on there, and it was total, I mean it --
- 4 A. (Leary) Yes. I mean, we were looking at, I think if
5 you look at our total and direct gas costs, I think
6 they're around \$25,000 right now that we have in our
7 cost of gas filing, and hedging is only a piece of
8 that. Because, as Steve has explained, we don't really
9 monitor and track internally the cost of just the
10 Hedging Program. So, when you think about our gas
11 costs may be in the order of, I don't know, anywhere
12 from 75 to \$100 million over the last few years, we're
13 talking about 25,000, and only a portion of that is
14 responsible for the Hedging Program.
- 15 Q. So, just a very small portion of that?
- 16 A. (McCauley) Yes.
- 17 Q. And, what, to the extent that you are able to measure,
18 what has been the impact of this program on rate
19 volatility?
- 20 A. (McCauley) What we've looked at is we look at the
21 volatility of NYMEX from month to month to month within
22 the winter, and we use a, I would say, fairly common
23 analysis, which looks at the log normal price change
24 from month to month to month. And, if you look at

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[WITNESS PANEL: Poe|Leary|McCauley]

1 NYMEX volatility has been over the last couple of
2 years, it's been as high as 26 percent, and as low as
3 6.6 percent. And, if you look at the hedges that we've
4 put on, the hedge volume itself, that price of that
5 hedge volume has been a high of only 12.3 percent and a
6 low of 6.5 percent. So, from a volatility standpoint,
7 executing hedges could have a -- I'll say a significant
8 impact on the price that you're buying. Now, blend
9 that in with storage and then the volume that's not
10 hedged, and it's going to be somewhere in between that
11 26 percent from the max and 12 percent.

12 Q. Now, turning to some of the changes that you've
13 indicated you'd like to make to the program, the
14 Company has proposed to eliminate hedging of storage
15 injection. How would elimination of that impact the
16 costs or rate volatility?

17 A. (McCauley) Again, we looked at doing the same type of
18 analysis. We looked at what our hedges would have been
19 with the storage hedge included and without, and it was
20 less than a percent, as far as volatility is concerned.

21 Q. Now, when you say "less than a percent as far as
22 volatility is concerned", is that volatility of
23 customer rates or is that volatility -- what volatility
24 is that?

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[WITNESS PANEL: Poe|Leary|McCauley]

1 A. (McCauley) Again, it's a volatility of the hedge price
2 itself. So, it would even have a less of effect, once
3 you incorporate all other costs, storage, non-hedge
4 volume.

5 Q. Thank you. In addition to getting rid of hedges on
6 storage, you've also proposed reducing non-storage
7 hedging. What would the impact be of that reduction?

8 A. (McCauley) Again, I would look at the same thing. When
9 we're forecasting for next year, the volume percent
10 that we talked about reducing, if we had used our
11 current hedge calculation for the '10-11 winter, versus
12 the proposed, it's about a 6 percent change. So, I
13 don't know -- I don't know what the volatility is going
14 to be in the future just yet, so I can't tell you what
15 it's going to reduce it by. But the fact that we're
16 reducing our volume by 6 percent, it would have a, I
17 would imagine, a 6 percent impact on the hedge
18 volatility -- 6 percent of the hedge volatility itself,
19 so let's say 6 percent of that 12 percent that I
20 referenced before.

21 Q. Now, do you recall during the tech session that we had
22 on this docket the Company was asked to prepare a
23 schedule comparing the amount of fixed price supplies
24 under the current and proposed hedging policies? Do

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[WITNESS PANEL: Poe|Leary|McCauley]

1 you recall that request?

2 A. (McCauley) Tech 1-1, yes.

3 Q. And, that's where I was going. So, and as a result,
4 I'll let you look at this, is this the schedule that
5 the Company prepared in response?

6 A. (McCauley) Yes, it is.

7 MR. FOSSUM: I'd like to admit for
8 identification, I guess we're up to Exhibit 7, the
9 Company's response to Tech 1-1.

10 CMSR. IGNATIUS: So marked as Exhibit 7
11 for identification.

12 (The document, as described, was
13 herewith marked as Exhibit 7 for
14 identification.)

15 BY MR. FOSSUM:

16 Q. Now, the comparison that you prepared shows a decrease
17 in supply -- in fixed price supplies from 78 percent
18 down to 62 percent. Why was 62 percent selected as the
19 target amount?

20 A. (McCauley) Sixty-two (62) percent, if you look above on
21 that same -- the table that really is above what we
22 did, and 62 percent is a -- I'll say is an average of
23 the monthly percent hedge. So, we had "40 percent",
24 the fifth line down on the top table, so it's

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[WITNESS PANEL: Poe|Leary|McCauley]

1 "50 percent" in November, "66 percent" in December
2 through March, and then "50 percent" again in April.
3 And, what we -- why we ultimately get down to
4 62 percent is we were looking to have about two-thirds
5 of our portfolio hedged in the core winter months of
6 December, January, February, and March. And, that was
7 -- and, we're looking at 66 percent of the firm sales
8 load, where before we were looking at just the
9 purchases themselves. And, what we found is that, when
10 you start changing storage volumes and you make other
11 changes to the portfolio, you're going to have a
12 varying hedge percent. So, we're trying to be more
13 consistent from year to year by starting off with a
14 different baseline meeting firm sales, and then trying
15 to be more consistent from a hedge percentage, which
16 now includes -- that hedge percentage of 66 percent
17 will include storage, where we hadn't from -- that
18 created our target and any fixed price contracts that
19 we have. So, we're really trying to get back to a
20 balanced hedge and more consistent hedge percentage
21 from year to year.

22 In addition to that, there was some
23 concern about FPO participation and marketer
24 participation, and we wanted to make sure that we

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[WITNESS PANEL: Poe|Leary|McCauley]

1 weren't in a situation that the customers would be in a
2 excessively hedged position near 100 percent. So, we
3 looked at trying to take that into account also.

4 Q. Now, to the extent that you know, this 62 percent
5 average, how would that compare with hedges done by
6 other gas utilities?

7 A. (McCauley) What I have in my -- we're part of AGA, and
8 we participate in and we're a part of an AGA survey
9 each year, and we do get the results back from that. I
10 know that information is proprietary, but I assume I
11 can share at this point? I'm looking to my attorney.

12 Q. Well, I guess we don't need the specifics. I'm just
13 curious, as a matter of comparison.

14 A. (McCauley) And, I'll try, if I can, without sharing
15 information, if you look at what --

16 MR. CAMERINO: I think, if I can just
17 interrupt, I think you're -- I'm confident that you're
18 free to give a sense of where National Grid is relative to
19 other utilities, if you're not giving the specific data of
20 the other utilities, I don't think we're going to be in a
21 problem area.

22 CONTINUED BY THE WITNESS:

23 A. (McCauley) Okay. From the standpoint, we looked at
24 companies that were within the around 50 percent, so

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[WITNESS PANEL: Poe|Leary|McCauley]

1 let's just say 40 to 60 percent, and it's about near
2 50 percent of the AGA customers are hedging in that,
3 let's say, 40 to 60 percent range. So, I think, where
4 there are definitely companies that hedge more than
5 60 percent, and then there are definitely companies
6 that hedge less. But I would say that we are about
7 where most other utilities are that are AGA members.

8 BY MR. FOSSUM:

9 Q. Now, to the extent you know offhand, I guess, how would
10 the hedging done for EnergyNorth compare to the hedging
11 for other National Grid companies?

12 A. (McCauley) Again, there are slight differences with
13 each utility, but we try and use that two-thirds, to
14 make sure that our price hedge is about two-thirds of
15 our total portfolio going into the winter. So, it's --
16 they're very similar.

17 MR. FOSSUM: I have nothing further.

18 CMSR. IGNATIUS: Thank you.

19 BY CMSR. IGNATIUS:

20 Q. Mr. McCauley, while we're looking at Exhibit 7, can you
21 just explain a little bit more the starting point of
22 all of this? Are the numbers for the months that have
23 already passed actual numbers or are they a scenario of
24 what you would do, what numbers would look like under

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[WITNESS PANEL: Poe|Leary|McCauley]

1 this proposal?

2 A. (McCauley) Exhibit 7, I'm sorry, is that Tech 1-1?

3 Q. Yes.

4 A. (McCauley) Okay. 1-1, when we initially provided
5 similar information during a tech session, we did this
6 table based on what the forecast of what was filed
7 prior to the winter season. The Tech 1-1 asked us to
8 go back and look at "what was the volumes when we were
9 entering into these hedge transactions?" So, these
10 volumes here are the volumes that, when we created the
11 hedge volume that we were going to do, so this was
12 based on a forecast that was about two years old.

13 Q. All right. Thank you. Ms. Leary, I have a couple of
14 questions, looking at your March 15th testimony in
15 Exhibit 1, or 2, but I think there's nothing
16 confidential here, I don't believe. On Page 7, you
17 talk about a "prior period over collection", and end up
18 with a net resulting under collection, and I get lost.
19 So, can you just walk through how you get from an over
20 collection to an under collection and what's moving up
21 and down there?

22 A. (Leary) Yes. And, what we're trying to explain here
23 is, the off-peak filing that we had for 2009, we would
24 have had the reconciliation of our off-peak gas costs

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[WITNESS PANEL: Poe|Leary|McCauley]

1 for 2008. And, at that point, we had had a over
2 collection. The reason why, back in 2008, we had an
3 over collection had to do with the price volatility of
4 the gas during the summer. We actually had come in --
5 the gas prices were going through the roof. We had
6 come in and actually had made a special filing to
7 increase our cost of gas filing. After we had done
8 that, I think we did that maybe in June or July, after
9 we had made the filing, the price of the NYMEX again
10 began to fall. Because we had a cap, at that point in
11 time we had a cap on the amount -- on how much we could
12 lower our cost of gas factor, we were capped and we
13 ended up in an over collected position. We ran out of
14 time in September and October, and we didn't have
15 enough, the 45 day time, to come in and make a filing.
16 So, that caused a over collection of about like
17 \$2 million that was reflected in our filing last year.
18 We don't have that over collection this year. This
19 year, I think we ended up with a total net, it was
20 pretty close to zero, it was a very small number. So,
21 because of that, last year's cost of gas off-peak
22 factor was, you know, significantly lower, I think it
23 was in the tune of eight cents lower than it would have
24 been had we not had this huge over collection. So,

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[WITNESS PANEL: Poe|Leary|McCauley]

1 that's what's driving that.

2 Q. So, we now come into an under collection of \$38,700?

3 A. (Leary) Right. Where we had the \$2 million over
4 collection the prior year.

5 Q. All right. And, then, you, on the next page, 8, you
6 talk about the "seasonal bill impacts", is the seasonal
7 bill May through October?

8 A. (Leary) That is correct.

9 Q. All right. So, those amounts of an impact in the
10 original testimony was \$59, that would have been over a
11 six-month period?

12 A. (Leary) That is correct. And, now, they're down to
13 \$40, I think, with the revised cost of gas factor.

14 Q. All right. Thank you. You also describe that, in
15 addition to the cost of gas adjustment, you have the
16 base rate bill increase going on at the same time,
17 correct?

18 A. (Leary) Yes. That was a very small change. We had
19 implemented the new base rates as a result of the rate
20 case in DG 08-009 back in July. So, for a few of the
21 months, let's say May and June, we would have had a
22 comparison of the temp. rates that were in effect back
23 in May and June of 2009.

24 Q. Mr. McCauley, a couple of questions about hedging.

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[WITNESS PANEL: Poe|Leary|McCauley]

1 Your testimony describes one of the reasons to look at
2 your hedging policy and volumes is the changes in the
3 Fixed Price offering, the number of customers who take
4 that program. Because you described a long time
5 period, 18 months out for hedging, how do you adjust if
6 customer preference changes again, and there is a
7 greater interest in Fixed Price than there has been
8 recently?

9 A. (McCauley) If there was another increase in the FPO
10 participation, we'd have to revisit the volume that
11 we're doing, and then have to adjust it again, if it's
12 a significant -- a significant increase. So, it would
13 just be something that we'd have to monitor.

14 Q. Is there a mechanism for monitoring that and working
15 with the Staff in monitoring those numbers, to make
16 sure that you don't get caught with it changing without
17 having had a chance to think it through? Do you report
18 routinely on those numbers or --

19 A. (McCauley) I would have to, as far as -- I don't report
20 those numbers. I typically get those numbers from Ann,
21 provides those to me, we take a look at them, see if
22 there has been any significant change in the percent,
23 and then we would have to make a recommended change,
24 like we are today.

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[WITNESS PANEL: Poe|Leary|McCauley]

- 1 A. (Leary) Just wanted to add, if I can add on though, in
2 terms of the FPO enrollment, we do cap the FPO
3 enrollment each year. We cap it, I can't remember if
4 it's 30 or 32 percent that we had in the filing. And,
5 I think that you're still hedging beyond that, in terms
6 of the amount of gas that you have hedged. So, we
7 should cover that, even if all 30 percent of the
8 customers took --
- 9 A. (McCauley) That's correct.
- 10 A. (Leary) -- enrolled in the program.
- 11 A. (McCauley) It would mean then there would be less for
12 the remaining customers.
- 13 A. (Leary) Correct.
- 14 Q. So, you don't see any risk in changing, for example,
15 taking the storage gas out of the picture for hedging,
16 you don't anticipate that you're in any way making
17 things any riskier as a result?
- 18 A. (McCauley) No.
- 19 Q. And, your description of storage gas being hedging that
20 is something of "a hedge of a hedge" was interesting.
21 Is that, in the industry generally, does storage gas
22 tend to be treated differently for hedging purposes?
- 23 A. (McCauley) I think people look at storage as another
24 means to hedge price. And, as I said, really what

[WITNESS PANEL: Poe|Leary|McCauley]

1 we're doing, when we're hedging the storage injections,
2 was just extending the time period in which that we
3 were locking up the price prior to the wintertime. So,
4 you're just, in essence, fixing the price before the
5 wintertime itself. But the industry does look at
6 storage and fixed price contracts as just one
7 component, in addition to financial hedges of a hedge
8 mechanism.

9 CMSR. IGNATIUS: All right. I have
10 nothing else. Thank you very much. Mr. Camerino, unless
11 there's any redirect?

12 MR. CAMERINO: No redirect.

13 CMSR. IGNATIUS: All right. Then, the
14 witnesses are excused. Ms. Hollenberg, no witnesses?

15 MS. HOLLENBERG: No thank you.

16 CMSR. IGNATIUS: And, Staff?

17 MR. FOSSUM: No.

18 CMSR. IGNATIUS: Thank you. Then, I
19 think we have only a question of whether to strike the
20 identifications on the exhibits, any objection to them
21 being introduced as full exhibits?

22 (No verbal response)

23 CMSR. IGNATIUS: Seeing none, we will
24 strike the identification and admit them as full evidence.

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1 And, turn to closing statements, unless there are any
2 other preliminary matters?

3 (No verbal response)

4 CMSR. IGNATIUS: If not, Ms. Hollenberg.

5 MS. HOLLENBERG: Thank you. The OCA
6 does not oppose the proposed cost of gas in this docket.
7 And, we thank the Staff and the Company representatives
8 and their counsel for working with us through this
9 proceeding.

10 CMSR. IGNATIUS: Mr. Fossum.

11 MR. FOSSUM: Thank you. Staff supports
12 the Company's filing, the proposed 2010 Summer Cost of Gas
13 rates, as they have been revised. As noted, the Audit
14 Staff has reviewed last summer's reconciliation and has
15 found it to be accurate. And, the sales forecast for the
16 coming period does appear to be consistent with the
17 Company's past practices. The supply plan is based on
18 least cost planning that reflects their actual costs for
19 hedged supplies and, as noted, the recently updated NYMEX
20 prices for non-hedged supplies. There will be a
21 reconciliation of the 2010 projected and actual costs, so
22 that any concerns that may arise about their summer gas
23 planning and dispatch may be raised and addressed in the
24 next summer cost of gas proceeding.

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1 Staff also recommends approval of the
2 revisions to the Company's hedging policy. While the
3 Company does have little to no control over price
4 volatility, its hedging policy has served to limit some of
5 the rate spikes at relatively low cost, and the revised
6 policy is expected to provide a comparable protection.
7 Locking in 62 percent on average of the projected supply
8 costs, as has been described, prior to setting the winter
9 cost of gas rate appears reasonable and within the range
10 of hedging performed by other utilities. Staff would also
11 like to note that it's within the range of the hedging
12 recently approved by the Commission for Northern Utilities
13 in docket DG 09-141.

14 Hedging is meant to protect against rate
15 spikes and is for the benefit of ratepayers, and,
16 accordingly, the costs and benefits do get passed along to
17 ratepayers through the cost of gas. And, therefore, Staff
18 does find it appropriate that the collateral savings and
19 costs described by Mr. McCauley be passed through the cost
20 of gas. When, or if, these savings and costs occur, they
21 are expected to be small and are likely to have little
22 impact on rates.

23 As such, Staff supports the Company's
24 filing and appreciates the Company's work in amending its

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1 policy.

2 CMSR. IGNATIUS: Thank you. Mr.
3 Camerino.

4 MR. CAMERINO: Thank you. The Company
5 appreciates the support of the Consumer Advocate and the
6 Staff with regard to its filing, and also requests that
7 the proposed changes to the hedging policy and the
8 proposed cost of gas rates be approved as just and
9 reasonable. As well, the prior period or Summer 2009 gas
10 costs are the subject of this proceeding, the Company
11 filed its reconciliation and it was reviewed by the Staff
12 and no exceptions were noted. And, the Company had
13 requested that those costs be found to be reasonable.

14 The Company also very much appreciates
15 the advance guidance that it received in this docket and
16 frequently receives from the Staff and the OCA as to the
17 issues of concern, so that they can come to this hearing
18 and provide the Commission with the information it needs
19 to reach a resolution. Thank you.

20 CMSR. IGNATIUS: Thank you. Is there
21 anything further?

22 (No verbal response)

23 CMSR. IGNATIUS: If not, then we will
24 close the hearing. And, appreciate the work of

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1 Mr. Patnaude to give us an expedited transcript, because I
2 know these move quickly and you're looking for
3 implementation May 1st. Thank you. Appreciate it. Take
4 it under advisement.

5 (Whereupon the hearing ended at 10:57
6 a.m.)

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