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September 8, 2005

Debra Howland
Executive Director and Secretary
Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301-2429

SEP 8 2005

Re: DW 05-127; KeySpan Energy Delivery New England

Dear Ms. Howland:

The purpose of this letter is to inform the Commission that, after discussions with the Commission's staff and the Office of Consumer Advocate, KeySpan has agreed to make a number of minor modifications to the policies submitted with its initial petition in this proceeding. Enclosed are an original and eight copies of revised descriptions of KeySpan's proposed amended Fixed Price Option Program ("FPO") as well as its proposed amended Natural Gas Risk Management Plan ("Hedging Plan"). The changes to these documents from those originally filed are as follows.

Changes to Description of FPO

1. The premium referred to in the first line of the paragraph at the bottom of page 1 has been increased from \$.01/therm to \$.02/therm. This premium represents the difference between the rate for the FPO and the initial proposed cost of gas rate as filed with the Commission.

2. The percentage in the first line of the fourth paragraph on page 2 has been increased to 35% from 30%. This percentage refers to the portion of the portfolio that will be available for the FPO.

Changes to Description of Hedging Plan

1. The defined term "FPO" has been deleted from the end of the first paragraph on page 1 because the term was not used elsewhere.

2. The first sentence of the second paragraph under the heading "Guidelines" has been rewritten to reflect the fact that the purchase and injection of supplies into underground storage will not necessarily occur simultaneously.

3. Under the heading "Price and Volume Guidelines," the figure 65% has been changed to 67.5% in three places to reflect a proposed increase in the maximum percentage of the portfolio that may be hedged.

Because of the changes in these proposed policies, if the Company's witness, Ms. Ann Leary, were to testify in person before the Commission her testimony would reflect these changes rather than the policies as originally filed in this proceeding.

I am authorized to represent to the Commission that the Commission staff and Consumer Advocate support the changes reflected in the enclosed revised FPO and Hedging Plan documents.

Very truly yours,

Steven V. Camerino

SVC:cb
Enclosures

cc: Thomas P. O'Neill, Esq.
Ann E. Leary
F. Anne Ross, Esq., Consumer Advocate

EnergyNorth Natural Gas, Inc.
d/b/a KeySpan Energy Delivery New England

Natural Gas Price Risk Management Plan

INTRODUCTION

In recent years, prices in the natural gas commodity market have become some of the most volatile of all traded commodities. As a result, EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England ("Company") has seen its firm cost of gas fluctuate dramatically from month-to-month and year-to-year. A substantial portion of the Company's gas supply is priced based on market indices, (referred to as being "index priced"). In response to this market volatility, the Company has implemented and periodically updated a Natural Gas Price Risk Management Plan (the "Plan"). This statement of the Plan is intended to supersede all prior versions that have previously been adopted. The Plan uses various financial risk management tools and underground storage inventories in order to provide more price stability in the cost of gas to firm sales customers and to fix the cost of gas for participants in the Company's Fixed Price Option Program[1].

PLAN TERM

This Plan will become effective when authorized by the Company's Risk Management Committee and approved by the New Hampshire Public Utilities Commission.

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[1] See the "EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England Fixed Price Option Program" approved by the New Hampshire Public Utilities Commission.

GUIDELINES

Risk Management Tools

The Company may use derivatives (swaps, call and put options) to hedge the prices for a portion of its gas supply portfolio for the period from October through May. The portions of the portfolio that it may hedge are the flowing gas supplies that are indexed priced. The derivatives used in the hedge may be either physical or financial.

The Company will also use its underground storage capacity to mitigate price volatility by purchasing gas in approximately equal monthly increments during the April to October refill season at market prices in effect at the time, and withdrawing (and, to the extent necessary, refilling) inventories during the November to April heating season in order to maintain underground storage inventories as of each month-end that are at least equal to its annual rule-curve criteria. Withdrawals of underground storage gas shall be at the weighted average cost of gas in inventory.

Price and Volume Guidelines

The Company will hedge up to 67.5% of its index-priced supplies and up to 20% of its underground storage capacity (in addition to hedging through the refill of underground storage during the period April to October).

The Company will hedge up to 67.5% of the Gulf Coast and Canadian supplies (i.e. the index-priced supplies) purchased for delivery to its firm sales customers during the winter period months of November through April and the summer period months of May and October. At a minimum the Company will hedge the winter period volumes according to the following cumulative targets: (Hedged volume can be up to 2% below target.)

- August1 (15 months prior to the winter season) 19% of total strategy volume
- November1 (12 months prior to the winter season) 38% of total strategy volume
- February1 57% of total strategy volume
- May1 76% of total strategy volume
- August 1 95% of total strategy volume

- September 1 100% of total strategy volume

Due to the timing of the purchases made in 2005, for the 2005/2006 winter period only 87% of the total strategy volume will be hedged by August 1.

The percentage of index-priced supplies that will be hedged at any time will depend on the current natural gas market price trends relative to historical prices for winter period deliveries, forward price and volatility curves, and economic forecasts. The Company will not hedge more than 67.5% of its forecasted index-based supplies for the entire winter period, and not less than 30% or more than 80% for any month of the winter period.

The Company will further hedge the cost of its underground storage supplies by entering into arrangements between May and April to fix the cost of up to 20% of the volumes to be injected into storage during the following May through October (i.e. volumes hedged in August are for injection into storage during the following May through October injection period). At a minimum the Company will hedge storage volumes according to the following cumulative targets: (Hedged volume can be up to 2% below target.)

- By August 1 25% of the hedged underground storage capacity
- By November 1 50% of the hedged underground storage capacity
- By February 1 75% of the hedged underground storage capacity
- By May 1 100% of the hedged underground storage capacity

The Company will not hedge more than 20% of its forecasted underground storage capacity injections.

Transaction Execution Guidelines

A specific strategy for hedging the cost of gas supplies will be presented and approved by the Company's Commodity Management Committee ("CMC"). The hedging strategy will incorporate the types of transactions, timing and option premium expenditures.

Upon execution of a transaction, a trade ticket will be generated and entered into the Company's risk and transaction management system. A weekly report summarizing the transactions and the status of the hedging strategy will be distributed to, and reviewed by the CMC members. The weekly report will give the status of the hedging strategy and a Mark-to-Market position as well as other risk metrics as deemed appropriate by the Risk Controller and approved by the Chief Risk Officer

REGULATORY TREATMENT

For the index-priced gas supplies, the Company will credit the Cost of Gas Adjustment (the "COG") for the amount of any premiums received from the sale of options. Additionally, premiums paid for the purchase of options and brokerage fees will be charged to the COG. These costs will be charged to the COG period for which an option was purchased and sold (i.e., options pertaining to the months of November through April will be charged to the winter period COG, and options pertaining to the months of May through October will be charged to the summer period COG).

For the underground storage supply purchases, the Company will credit such premiums received from the sale of options to the average inventory cost of the underground storage supplies. Additionally, premiums paid for the purchase of options and brokerage fees for underground storage gas will be charged to the average inventory cost of underground storage supplies. These credits and costs will be billed to firm sales customers through the COG in the period during which the underground storage gas is withdrawn from storage and delivered to customers. Any derivative settlement payables or receivables associated with the physical purchase of natural gas will be deeded to be a recoverable cost of gas for the period hedged.

POLICIES, PROCEDURES AND CONTROLS

The Company will maintain a utility Commodity Management Committee and a Risk Management Committee. The CMC will be chaired by the Risk Controller and shall include:

- Risk Controller for Commodity Risk Management Activities
- Chief Accounting Officer
- Officer responsible for Energy Transaction Management Group
- Chief Auditor
- any others appointed by the Risk Management Committee

The CMC shall:

- Provide a forum to discuss risk management issues related to Commodity Management Activities
- Recommend to the risk management Committee for approval of broad strategies for trading and hedging and other use of derivatives
- Establish market risk limits subordinate to any market risk limits established by the Risk Management Committee, as necessary, and establish and recommend the market risk limit structures such as the determination of permitted and restricted trading activities
- Review new products and activities involving trading and the recommend the corresponding approval process through direct approval from the Risk Management Committee.

The Risk Management Committee will be chaired by the Chief Risk Officer and include:

- Chief Operating Officer
- Executive Vice President and General Counsel
- Executive Vice President and Chief Financial Officer
- Executive Vice President of Strategic Services

- President of KeySpan Energy Delivery & Customer Relationship Group
- President of KeySpan Energy Assets & Supply Group
- Other officers as designated by the Chief Executive Officer.

The Risk Management Committee shall:

- Oversee the ongoing development of this Policy to ensure that appropriate risk management methodologies are applied to the Company's business activities; monitor and enforce compliance with the Policy; approve specific exceptions to this Policy.
- Approve risk management strategy proposals in support of financial and strategic plans, including consideration of risk exposure assessment, risk mitigation, monitoring, reporting and control requirements.
- Establish risk management priorities, processes and procedures to ensure that the Company's risk-taking activities are consistent with its Risk Appetite.
- As requested by the Chief Risk Officer, approve specific risk management procedures and determine how often specific risk metrics are calculated and reported; establish risk limits and other risk control mechanisms and processes.
- Approve key roles and responsibilities within the risk management framework; evaluate whether transacting and risk management personnel are appropriately skilled.
- Provide guidance on the Finance Department's and Strategic Planning & Performance Department's Enterprise Risk Management projects and priorities; periodically engage Internal Audit in an independent audit of risk control processes and procedures.
- Assess and recommend to the Resource Allocation Committee the allocation of resources necessary for the Company's risk management activities to support its business activities.

EnergyNorth Natural Gas, Inc.
d/b/a KeySpan Energy Delivery New England
Fixed Price Option Program

As an alternative to the firm sales cost of gas pricing mechanism, EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England ("Company") may offer firm sales customers a fixed gas price for the winter period (November through April) through its Fixed Price Option ("Program"). The Program is designed to offer price certainty to customers who desire to control their budgets. The Program will assure customers who elect to participate in the Program a consistent price for natural gas usage through the winter. It does not, however, guarantee that customers will reduce their overall gas costs.

The availability of both the firm sales cost of gas pricing mechanism and the Program provides all firm sales customers with two distinct choices:

1. A market-based price using the firm sales cost of gas pricing mechanism that includes the Company's Natural Gas Price Risk Management Policy (which is designed to mitigate the affect of volatility in market price for gas on the firm sales portfolio), or

2. A Fixed Price Option for the winter period for the cost of gas portion of the customer's bill.

The price under the Program will be calculated by adding a $.02/therm surcharge to the Residential, Commercial/Industrial High Winter Use, and Commercial/Industrial Low winter use Cost of Gas adjustment factors as initially filed with the Commission in September of each year. The Cost of Gas adjustment factors are based, in part, on the cost of gas supplies secured by the Company under its hedging program described in the Natural Gas Price Risk Management Policy as approved by the New Hampshire Public Utilities Commission. The Company will calculate the final rate for the Fixed Price Option Program, including the premium described above, based on the cost of the entire portfolio including the hedged supplies after it calculates the Cost of Gas Adjustment Factors.

Volumes under the Program will be made available on a first-come, first-served basis. The Company will use its best efforts to notify all customers of the price at the same time through a direct mailing so that all customers will have an equal chance to participate in the Program. To participate, customers will be required to fill out and return the response card included in the mailing. Customers will be allowed to enroll during a four-week period prior to the start of the winter period, or until the Program is fully subscribed, whichever is sooner. After the pools become fully subscribed, customers will be informed through a direct mailing whether or not they are enrolled in the Program.

Customers with firm transportation agreements in effect will be precluded from participating in the Program during the term of such existing transportation service agreements and renewals.

Participating customers will not be allowed to return to the firm sales cost of gas pricing mechanism until the end of the Program term for the current winter period. Participating customers will be allowed to terminate service with the Company at any time and will not be subject to any minimum or maximum usage levels.

Under the Program, the Company will make available up to 35% of the prior year's weather normalized winter period therm sales for two pools of customers:

1) The first pool will consist of customers in the Residential Heating (R-3) and Residential Non Heating (R-1) sales classes; and

2) The second pool will consist of the following Commercial/Industrial sales classes:
   Low Annual/High Winter Use (G-41),
   Medium Annual/High Winter Use (G-42),
   High Annual/High Winter Use (G-43),
   Low Annual/Low Winter Use (G-51),
   Medium Annual/Low Winter Use (G-52),
   High Annual/Load Factor less than 90% (G-53),
   High Annual/Load Factor less than 110% (G-54),
   High Annual/Load Factor greater than 110% (G-63)

By having a separate pool for the residential and commercial/industrial classes, the Company is eliminating the possibility that the commercial/industrial customers will dominate the volumes available under the Program. Under-subscribed volumes in either pool will be made available first to the alternate pool, and then applied to the firm sales cost of gas portfolio. In the event of warmer than normal weather, the gas not needed by Program customers will be considered part of the Company's overall firm sales portfolio and used to satisfy the needs of non-Program firm sales gas customers. Similarly, if colder than normal weather requires the Company to purchase additional gas at market prices for its Program customers, such related gas costs will be included in the Company's cost of gas reconciliation for the firm sales portfolio.