STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DG 08-106

In the Matter of:
EnergyNorth Natural Gas, Inc. d/b/a National Grid NH
Winter 2008/09 Cost of Gas

Direct Testimony

of

Robert J. Wyatt
Utility Analyst III – Gas & Water Division

October 20, 2008

New Hampshire Public Utilities Commission
EnergyNorth Natural Gas, Inc. d/b/a National Grid NH
Winter 2008/09 Cost of Gas

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Q. Please state your name, occupation and business address.

A. My name is Robert J. Wyatt. I am employed by the New Hampshire Public Utilities Commission (Commission) as a Senior Utility Analyst. My business address is 21 South Fruit Street, Suite 10, Concord, New Hampshire 03301.

Q. Please summarize your educational and professional experience.

A. Please see Attachment RJW-1.

Q. Have you testified as a Staff witness before this Commission in previous dockets?

A. Yes I have, in cost of gas, cost of (steam) energy and other gas and steam related proceedings.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to support the proposed COG filing, and to present Staff's view of certain policy issues related to (i) how regulated gas utilities in New Hampshire are allowed to adjust their cost of gas rates on a monthly basis within a +/- 20 percent bandwidth of approved rates and (ii) how EnergyNorth Natural Gas, Inc. (EnergyNorth) managed its gas supply portfolio and gas dispatch during the later portion of the 2007/08 winter period, more specifically, during March 2008.

Q. What are the policies at issue here?

A. The policies at issue are the Monthly Over/Under Cost of Gas Reconciliation/Adjustment (monthly over/under) and the Natural Gas Risk Management Plan (Hedging Policy).

Q. Can you describe the monthly over/under policy?

A. Yes. Each cost of gas order requires the regulated gas utilities to provide the Commission with a monthly calculation of the projected over- or under-collection for the period, and if necessary, the resulting revised cost of gas (COG) rate, five business days prior to the first day of the subsequent month. Without further Commission action, the COG rates can be adjusted upward or downward within a +/- 20 percent bandwidth of the approved COG rate. The goals of the monthly adjustments are to minimize over/under collections and minimize associated carrying costs from one period to the next. In addition, monthly adjustments better match gas costs with gas cost revenues in the period, more accurately reflect market prices in order to send proper price signals which allow customers to react accordingly by possibly reducing consumption or pricing alternative energy sources, and reduce inter-generational subsidies as customers either migrate to transportation service or leave the system and new customers come on the system. See *EnergyNorth Natural Gas, Inc.*, Order No. 22,890 (1998)..

Q. Is the monthly adjustment working as intended?

A. Yes, it has served as a useful tool in minimizing seasonal over and under recoveries, but it could be modified to be even more effective.

Q. What limits the effectiveness of the mechanism?

A. The mechanism limits changes to within 20% of the approved COG rate without further Commission action. During the 2008 summer period fluctuations in actual and projected natural gas costs resulted in a projected over collection that could only be eliminated with a rate increase above the 20% limit. EnergyNorth increased the rate to the maximum allowed and filed a revised COG to establish a rate that would entirely eliminate the projected under collection. Following a duly noticed hearing, the Commission approved the proposed rate increase effective August 1, 2008. Subsequent to the filing, actual and projected gas costs dropped to such an extent that reducing the approved rate by the maximum allowed without further Commission action was insufficient to eliminate the projected over collection. Because of the limited time remaining in the summer period there was insufficient time to file and process a revised COG.

Q. How should the monthly adjustment mechanism be modified?

A. The existing mechanism should continue to allow monthly adjustments within 20% of the approved rate without further Commission action, but also allow for monthly adjustment beyond the 20% with Commission approval through either a secretarial letter or Commission order.

Q. Please explain the mechanics of the proposed modification.

A. EnergyNorth would file its required monthly report due five business days before the effective date of the proposed increase and, if beyond 20%, would request Commission approval. The request would be docketed and Staff and the parties would have the opportunity to file comments and recommendations with the Commission. The Commission could then rule on the request or require a hearing. It would no longer be necessary to file a completely revised cost of gas filing. Instead, the Company would file a letter similar to the regular monthly letters it has been filing with summary information supporting the proposed change in the COG rate. However, if the proposed adjusted COG rate was outside the 20% bandwidth, the Company would not be authorized to implement the rate until it receives an authorizing letter from the Commission. The Commission will decide if a hearing is needed. Once outside the bandwidth, the Company could further change the rate to move closer to the originally approved COG rate for that period, but not further away, without any additional Commission action.

Q. What are the advantages of the proposed modification?

A. The modification ensures limited changes in rates without further action by the Commission but allows for more substantive changes on a timely basis when merited without necessarily requiring a full blown proceeding and hearing. In cases where a revised COG filing can be avoided, it would reduce administrative costs while increasing administrative efficiency and ease.

Q. Is there an increased risk a utility could 'game' the system as a result of the recommended change?

A. There is no increased risk. The COG is fully reconcilable and actual costs and revenues reviewed in a formal proceeding.

Q. Please describe EnergyNorth's Natural Gas Risk Management Plan (Hedging Plan)?

A. The plan utilizes a combination of financial hedges of NYMEX natural gas futures contracts covering a percentage of the Company's flowing indexed supplies, pre-purchased underground storage volumes, and in some cases fixed-cost peaking supplies.

Q. What is the primary objective of the hedging plan?

A. The hedging plan for EnergyNorth has evolved over the past 12 years or so, but the goal has remained basically the same, to reduce price volatility, even though that may mean supply is not always obtained at the lowest possible cost. Over the years the Commission has reiterated its support of this goal in numerous orders approving the original and modified hedging plans. The primary objective is reflected in Commission Order No. 24,037 (August 16, 2002) approving Northern Utilities, Inc.'s petition to terminate its fixed price program and modify its hedging policy. Page 5 of the order states, "We continue to believe that an important component of any energy supply portfolio is hedging risks related to a sharp run-up in prices." In short, the Commission wants to protect against sudden, severe rate increases.

Q. What happened in March 2008 that was not consistent with these policies?

A. While reviewing the reconciliation for last winter's gas costs (Bates Stamp page 000094) I noticed an increase of gas purchases compared to forecast and an offsetting decrease of storage withdrawals. The average unit cost of the gas purchases was noticeably higher than the average unit cost of storage inventory and seemed contrary to aspects related to the policies described above. First, the purchase of higher priced gas beyond forecasted volumes was not taken into account in the monthly over/under calculation for March. Second, the reduced storage withdrawal was not reflected in the monthly over/under rate adjustment and was contrary to using underground storage as a hedge to help mitigate price volatility in the period.

Q. Did the Company have an explanation for its decision to purchase the higher priced spot gas in March rather than use its underground storage supply?

A. Yes. The Company stated that it reviewed the projected costs of refilling storage in the April through October refill season and the March cost differential between spot gas and storage inventory, and determined that the use of storage gas in March could end up being more costly on summer refill than the immediate additional cost of spot purchases in March. The anticipated savings was $209,078 (data response Tech 1-1, Att. A). The Company stated that it was following a least cost strategy for gas procurement and that its market information indicated that it could reduce its overall gas costs by retaining more of its storage gas for later use and purchasing gas on the spot market for current use.

Q. Were customers harmed as a result of the Company action?

A. No. The actual gas prices remained high throughout much of the refill season and the Company currently estimates a savings of approximately $350,000 as a result of its March dispatch decision.

Q. Were the Company's March dispatch decisions appropriate?

A. Staff disagrees with the Company from a policy perspective. Below Staff explains its position regarding the appropriate implementation of Commission policies and spells out its expectations with regard to implementation of these polices going forward. Because the Staff and the Company appear to differ regarding whether the Company should be seeking to optimize gas supply decisions on an intra-period basis or an inter-period basis, Staff believes it would be helpful to come to a common understanding now, rather than have this issue arise again in the future.

Q. Can you explain the policy issues in this matter and where you see any conflict between the Company's approach and the approach that Staff believes should be followed?

A. Yes. With regard to the monthly over/under I will highlight four of the policy goals and whether or not the Company's actions in this case supported the goals: 1) was the monthly over/under collection minimized, matching gas costs with gas cost revenues – no, the Company's decision to purchase more expensive spot gas rather than use available underground storage contributed to the $2.8 million under-collection for the period; 2) were carrying costs lessened on the deferred balance brought forward to the following period – no; 3) were inter-generational subsidies minimized – no; 4) were customers provided with the proper price signals that allow them to react accordingly – no.

Regarding the hedging policy, 1) did the Company utilize a "rule curve" as spelled out in an agreement between the parties and Staff in DG 04-152 to assure adequate underground storage inventory would be available throughout the period – yes; 2) did the Company utilize its underground storage gas to reduce price volatility in the period – no, not in this case; 3) did the Company minimize the risk of price volatility in the subsequent winter period - no, although the Company's actions may have reduced the average inventory cost of underground storage for the subsequent winter period, there was no guarantee the forward strip for the storage refill period would remain cost beneficial throughout the period.

Q. Does the approved hedging policy preclude the Company from dispatching gas on a least cost basis?

A. Not within the approved COG period, other than when maintaining storage inventories at levels which satisfy rule curve requirements interferes with least cost dispatch. Staff does not consider the Company's actions in March 2008 to be consistent with the intent of the approved hedging policies or least cost dispatch.

Q. Why is it important to exercise least cost dispatch within the approved COG period?

A. To do otherwise could result in harm to non-FPO customers. Non-FPO customers have a reasonable expectation that the Company will make current winter period dispatch decisions resulting in a least cost non-FPO rate. If storage supply is available and less costly than spot supplies, then, subject to the rule curve, the Company should utilize its storage. If currently available spot supplies are cheaper than storage supply, spot supplies should be utilized.

Q. What are Staff's expectations on these issues going forward?

A. First, when monthly over/under reports are filed, the reports should reflect the most economic/least cost dispatch for the remainder of the approved COG period, given pricing information for currently available supply at that point in time. For example, under the circumstances that existed in March 2008, Staff would expect the Company to dispatch its available underground storage because it was less costly than spot gas.

As for the hedging policy, it already spells out that underground storage is an asset that will be used to mitigate price volatility during the winter period, thus I see no need for a policy update. The Company should use its underground storage to mitigate price volatility as intended, unless it can be replaced with less expensive spot gas supply in the same period.

Q. Is Commission action required on this issue?

A. Commission action is not required but confirmation of the objectives and appropriate implementation of the existing hedging programs, particularly as it pertains to storage gas, would help ensure compliance and promote communication between Staff and the Company. Given that the Company's actions actually resulted in a savings for customers, Staff's recommendation applies only to the Company's future dispatch decisions.

Q. What is the Staff's position regarding the rates proposed in the Company's cost of gas filing?

A. Staff has completed its review of the cost of gas forecast for the upcoming winter period and recommends approval of the proposed rates. The forecast is consistent with those filed by the Company for previous winter periods and approved by the Commission. Staff has reviewed and audited the 2007-08 cost of gas reconciliation and found the costs to be reasonable and accurately reported. The Audit Staff has not completed its review of the previous year's environmental remediation costs (ERC) and recoveries. Staff recommends the Commission approve the proposed ERC surcharge of zero at this time, subject to change if the audit requires such action. Staff has also reviewed the other proposed tariff and rate changes in the filing and recommends approval of those rates. Costs used to develop the rates in this filing will be fully reconciled with proper adjustments being made as needed.

Q. Does this conclude your testimony?

A. Yes, it does.

Robert J. Wyatt

Educational Background

Mr. Wyatt graduated from the New Hampshire Technical Institute in 1985 with an Associate in Engineering degree majoring in Electronic Engineering Technology. He completed his Bachelor of Science degree requirements in 1990 at New Hampshire College, now know as Southern New Hampshire University. His major was Technical Management. Mr. Wyatt has also completed an MBA graduate course in Information Sources and Research Methods.

Throughout his professional career, Mr. Wyatt has taken various professional development and computer software courses. In 2002 he completed professional development workshops for *Natural Gas Procurement and Hedging* and *The Basics, An Introductory Course on Rate Design* offered by the Center for Public Utilities at New Mexico State University. In 2004 Mr. Wyatt attended a two-day conference/workshop titled the *North American Natural Gas Supply Outlook* put together by EUCI (Electric Utility Consultants Inc.) in Denver. During the past ten years Mr. Wyatt has also attended several *The LDC Forum,* two-day conferences in Boston focusing on issues related to gas buyers and sellers.

Professional Experience

In 1985, Mr. Wyatt accepted a supervisory position in the Customer Relations Department of EnergyNorth, Inc., holding company for EnergyNorth Natural Gas, Inc., a gas utility based in NH. During that time Mr. Wyatt was recognized for developing a tracking system that flagged large volume meter malfunctions before they became major revenue and customer relations problems. He was also involved with a conversion to a new customer information system. He became familiar with many aspects related to customer relations.

In 1988, Mr. Wyatt accepted a promotion into the Gas Supply Department of EnergyNorth, Inc. as the Gas Dispatch Supervisor. In this position Mr. Wyatt was responsible for the daily dispatch of all gas supply needed to meet customer demand. He also was responsible for maintaining gas supply inventories at all pipeline storage and peaking facilities. He supervised the gas supply function at the company owned production plants.

In 1989, Mr. Wyatt was promoted to Gas Supply Analyst and in 1994, to Senior Gas Supply Analyst at EnergyNorth, Inc. In these analyst positions, Mr. Wyatt was responsible for the development and maintenance of various daily, seasonal and longer term load forecasting and supply planning models. He also contributed to gas supply related regulatory reporting to the Federal Energy Regulatory Commission, the Department of Energy/Energy Information Agency, and the NH Public Utilities Commission. He was involved in short and long term supply planning, least cost supply planning/analysis and contract administration. He administered the wholesale gas interruptible sales and unbundled transportation programs. During this time Mr. Wyatt was also a member of the Northeast Gas Association and participated in many of their management development workshops.

In 2000, after KeySpan acquired EnergyNorth, Mr. Wyatt had to make a choice to either accept a position as a Gas Supply Analyst with newly formed KeySpan Energy Delivery New England, working in Boston, or accept a position as Industrial Buyer for Hitchiner Manufacturing Company, Inc., in Milford, NH. He chose to accept the position with Hitchiner and in 2001 was promoted to Purchasing and Energy Analyst. Mr. Wyatt was responsible for the procurement of all raw materials used in this high volume investment casting foundry. He also contracted for all natural gas used at this facility and developed a comprehensive energy plan for the company, parts of which were incorporated into the company's strategic plan. Hitchiner was one of the largest single energy users in NH. He was a member of the company's energy conservation committee and also reported to senior management on current electric and/or natural gas related issues. Mr. Wyatt represented the company at monthly NH Business and Industry Association's Energy and Regulatory Affairs committee meetings.

In 2002, Mr. Wyatt accepted a position as Utility Analyst III in the Gas & Water Division of the New Hampshire Public Utilities Commission. His primary duties at the NHPUC have been to review all cost of gas filings and to present Staff findings to the Commission at COG hearings. Mr. Wyatt has also been involved in steam utility cost of energy dockets and operations investigations. In 2006 Mr. Wyatt was lead analyst in an investigation of thermal billing practices of one regulated gas utility in New Hampshire and discovered a change in billing methodology and over-billing, resulting in a large refund back to ratepayers. He is also involved with many other gas and steam utility issues that are related to or require public utility regulation.

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