

## **V. MANAGEMENT OF THE RESOURCE PORTFOLIO**

### **A. Introduction**

The Company's resource management effort is a continuous process used by the Company to manage its portfolio in order to: (i) maximize the use of capacity, (ii) minimize the cost of gas, (iii) maintain flexibility to meet changing weather conditions and uncertainties of the competitive demand and supply markets, and (iv) maintain operational integrity of its distribution system. Because the Company must maintain sufficient capacity in its resource portfolio to meet current and expected design day and design year customer requirements, at any given time, it might have resources that are temporarily under-utilized. Through its resource management efforts, the Company seeks to extract the maximum value possible from these under-utilized resources and maintain the lowest cost for its firm customers.

### **B. Portfolio Management**

As part of the Settlement, the Company agreed not to renew its Gas Resource Portfolio Management and Gas Sales Agreement ("Portfolio Management Agreement") with Merrill Lynch Commodities, LLC ("Merrill") that terminated on March 31, 2006. On December 8, 2005, the Company filed its Portfolio Management Plan with the Commission which provided a detailed plan on how the Company would manage its gas resources effective with the

termination of its Portfolio Management Agreement with Merrill. The Portfolio Management Plan is provided as Appendix B.

### **C. Benefits of a Coordinated KeySpan New England Portfolio**

There are a number of benefits enjoyed by New Hampshire customers as a result of the coordination of the gas supply planning and acquisition efforts with those of the three KeySpan LDCs in Massachusetts. This coordination has created the opportunity for the Company's customers to benefit from the economies of scale and scope that were not available when the Company performed these functions on its own.

For example, shortly after the KeySpan merger, EnergyNorth coordinated its contract-renewal negotiations with its primary pipeline supplier, Tennessee, with those of the KeySpan Massachusetts LDCs. This greatly increased the Company's bargaining power<sup>1</sup>. One significant benefit resulting from the negotiations was the creation of a single Operational Balancing Agreement ("OBA") with Tennessee for all of the KeySpan New England citygates. This allows the Company and the KeySpan Massachusetts LDCs to balance deliveries across all of its Tennessee citygates in New England.

A second example of the benefits of coordinated portfolios is that of displacement. Displacement combines the benefits of both the single OBA and

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<sup>1</sup> During those negotiations, Tennessee agreed to contribute to a significant distribution system upgrade to serve additional load in the Tilton, NH area to the benefit of both the Company and Tennessee.

the use of on-system supply and distribution assets between the Company and the KeySpan Massachusetts LDCs. On any given day, the Massachusetts LDCs may make LNG available to EnergyNorth by vaporizing LNG into their systems and “deliver” it to EnergyNorth through displacement on its distribution system and the Tennessee pipeline. Because KeySpan has a single OBA for New England, EnergyNorth incurs only the commodity cost and the LNG trucking costs to the MA facility and avoids the pipeline transportation costs to which it otherwise would have been subject.

A third example of the benefits to the Company from coordination with the KeySpan Massachusetts LDCs is its ability to use a 500,000 gallon propane storage tank in Haverhill, Massachusetts to the extent that is not currently needed to meet sendout requirements in the Massachusetts portfolio. Because of the close proximity of the Haverhill facility to the EnergyNorth service territory, this facility has been made available for propane storage needed to meet peak season sendout requirements for New Hampshire customers. Without this facility, EnergyNorth would be required to contract for an incremental winter refill contract.

A fourth example of the benefits to the Company from coordination with the KeySpan Massachusetts LDCs relates to LNG winter trucking. Each winter season, the Company contracts with Transgas Inc. for a “Dedicated Service” agreement for the months of December, January and February. The agreement provides for a specific level of service including both trailers and drivers for trucking LNG. Each LDC pays a portion of the cost based on its need on the

design day for a portable vaporizer(s) if any, and its design winter season sendout percentage of the total of the total design winter season. Given design conditions, each LDC would be limited to the level of service it pays for. However, in the absence of design conditions, if the resources paid for by one LDC are not being fully utilized on any given day, any of the other LDCs may call upon those temporarily unutilized resources and pay only the variable charges incurred for using those resources. Without this flexibility, each individual LDC would need to contract for incremental trucking service.

#### **D. Storage Management**

Within the overall management of its portfolio, the Company must also adhere to two specific rules as established by the Commission related to the management of storage supplies; (1) Storage Rule Curve and (2) Seven Day Storage Rule.

##### 1) Storage Rule Curve

Since the 2004/05 winter period, the Company has implemented a strategy that it agreed upon with Commission Staff regarding the dispatch of underground storage volumes. Under this strategy, during the peak period, the Company computes the cumulative forecasted usage under its design weather scenario of total underground storage volumes for the remainder of the peak period as of the end of each month as listed in Schedule 11B of the September 1st Cost of Gas filing. The Company divides these cumulative volumes by its

total underground storage MSQ and these values (“rule curve”) are used by the Company to determine the minimum overall end-of month inventory level for its underground storage fields. Within each month, the Company may withdraw underground storage volumes to levels below the rule curve on any given day, so long as by the last day of each month the Company is at or above the rule curve.<sup>2</sup>

## 2) Seven Day Storage Rule

Puc rule 506.03 (“On-site Storage”) directs New Hampshire gas utilities to “maintain an on-site storage capability in connection with the operation of its gas distribution system between December 1 and February 14 of each year which will provide peak shaving supplies for an estimated maximum-design cold period of 7 consecutive days.” Under the rule, between February 15 and February 28, the minimum on-site storage capacity may then be reduced to 75% of the total requirement and between March 1 and March 31 the minimum on-site storage requirement may then be reduced to 50% of the original total requirement.

## **E. Managing Volatility**

The natural gas commodity market continues to be volatile. Spiking price increases in the spring and summer of 2005 were exacerbated by the effects of Hurricanes Katrina and Rita, which shut down both offshore gas platforms and onshore gas processing plants, causing gas prices to rise from the \$7-\$8/MMBtu

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<sup>2</sup> The sole criterion for reviewing the prudence of the Company’s dispatch of underground storage volumes is the Company’s ability to remain at or above this rule curve as of the last day of each month within the peak period.

range into the \$14-\$15/MMBtu range in late September 2005. Since then, prices have moderated as demand slackened from a combination of conservation and a relatively mild winter and higher levels of storage inventories nationally. At the time of this filing, prices for the upcoming 2006/07 winter remain in the \$9-\$10 range, somewhat below the \$14 - \$15/MMBu range of last year.

The Company mitigates volatility in the gas commodity markets in several ways. First, the Company maintains a balanced portfolio that includes contract storage and on-system LNG. These assets allow the Company to inject gas during the off peak season for withdrawal during the peak season, providing a natural pricing hedge. Second, the Company maintains a geographically diverse gas supply portfolio that reduces its exposure to volatility in any single supply region and also minimizes exposure to volatility at a single pricing point or market index. Finally, the Company mitigates price volatility with a formal hedging program, its Natural Gas Risk Management Plan, as well as its Fixed Price Option program.

Under the Natural Gas Risk Management Plan the Company uses two hedging strategies aimed at reducing gas cost volatility or fixing the cost of gas. Under one strategy, financial derivatives are executed before the winter heating season to establish a price or price range for 50% of the estimated flowing volume for each month from October through May. Under the other strategy, financial derivatives are executed prior to the summer injection season to establish a price or price range for 20% of the market area storage capacity. The total volume hedged, based on the storage capacity forecast, is divided equally

over the May through October injection period. Lastly, the Company offers a Fixed Price Option (“FPO”) program to its customers whereby customers are given the option to fix the price for the gas supply portion of their bills for the winter season. In order to fix the cost of gas supplies for this program, the Company hedges 35% of its portfolio. The Company received Commission approval on September 16, 2005, Order No. 24,515 in Docket No. DG 05-127, for both its Natural Gas Risk Management Plan and Fixed Price Option program.