

THE STATE OF NEW HAMPSHIRE

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June 23, 2014

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301-2429

Re: DG 14-133 Liberty Utilities (EnergyNorth Natural Gas) Corp.
Petition to Modify Hedging Program
Staff Recommendation

Dear Ms. Howland:

On May 21, 2014, Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities (Liberty) filed a petition for approval of changes to its hedging program to its Fixed Price Option (FPO) program. The current hedging program was approved by the Commission in Order No. 25,094 (April 29, 2010), in Docket No. DG 10-051. Liberty stated in its filing that the current policy was developed at a time when there was significant volatility in the New York Mercantile Exchange (NYMEX) price of gas, and thus was intended to minimize price volatility with regard to supply area purchases. These supply area purchases are based on the Henry Hub pricing point for natural gas futures contracts located in the supply area in Louisiana. Since 2008, with the emergence of shale gas, the Henry Hub price and correlating NYMEX price have been relatively stable and the price volatility has been occurring in purchases made in the market area. The current hedging program focuses on minimizing NYMEX futures price volatility, it does not address the price volatility attributable to a run up in the "basis" price, the difference between the Henry Hub price and price at the purchase point, reflecting the cost to deliver the gas.

Liberty proposes to eliminate the current hedging program and begin hedging the New England basis via the purchase of physical fixed basis supply contracts. Liberty would use a Request for Proposal process for market area supplies that would require the bidder to submit a fixed price basis to the NYMEX for all baseload market area supplies required to satisfy its firm customer needs throughout the winter period. Liberty anticipates that approximately 1.5 Bcf (14% of its normal winter supply requirement)

would be hedged under the proposed program. Combined with Liberty's storage, the total hedged volume would be approximately 4.2 Bcf or 40% of normal winter period requirements. During the coldest and typically more volatile months of December, January and February, the total hedged basis and storage volumes would equate to approximately 57% of all normal winter purchase requirements.

Liberty also proposed to change its hedging policy related to the Fixed Price Option (FPO) which is currently available to all customers, whether residential or commercial and industrial (C&I). Under the new policy the FPO will only be available to residential customers. C&I customers have the option to choose a third party supplier's fixed price offering, which is not the case for residential customers. Liberty would continue to calculate the FPO rate based on the peak period Cost of Gas rate plus a premium to recover program costs and to account for the volatility of the unhedged supply used to serve FPO customers. Under the new program Liberty will propose an appropriate premium when it files its FPO rate with its peak period Cost of Gas (COG) filing.

After reviewing the testimony and Liberty responses to Staff data requests, Staff believes that the proposed changes of the hedging program are consistent with the changing market conditions, particularly changes related to pricing risk and volatility. Staff also believes that the proposed changes to the FPO program are reasonable. Based on its review of the filing, Staff recommends that the Commission approves Liberty's request to change the hedging program.

Sincerely,



Al-Azad Iqbal
Analyst, Gas & Water Division

cc: Service List

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:
- DEBRA A HOWLAND
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- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.
- c) Serve a written copy on each person on the service list not able to receive electronic mail.