STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 10-051

ENERGYNORTH NATURAL GAS, INC.
D/B/A NATIONAL GRID NH

2010 Summer Season Cost of Gas

Order Approving Cost of Gas Rates and
Modification to Price Risk Management Plan and
Granting Motion for Confidential Treatment

O R D E R N O. 25,094

April 29, 2010

APPEARANCES: Steven V. Camerino, Esq., of McLane, Graf, Raulerson & Middleton, P.A. for EnergyNorth Natural Gas, Inc. d/b/a National Grid NH; Rorie E.P. Hollenberg, Esq., of the Office of the Consumer Advocate, on behalf of residential ratepayers; and Matthew J. Fossum, Esq., for the Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

On March 15, 2010, EnergyNorth Natural Gas, Inc. d/b/a National Grid NH (National Grid or Company), a public utility that distributes natural gas in southern and central New Hampshire and the City of Berlin, filed its cost of gas (COG) and other rate adjustments for the 2010 summer period, which result in an approximate 11.5% increase.. National Grid does not propose any changes to its Local Distribution Adjustment Charge (LDAC) as part of this filing. National Grid's filing included the direct testimony and supporting attachments of Ann E. Leary, Manager of Pricing – New England and Theodore E. Poe, Jr., Lead Analyst. Also, National Grid filed the direct testimony of Stephen McCauley, Director of Origination in the Energy Portfolio Management organization of National Grid Corporate Services, LLC, in support of National Grid's proposal to modify its Price Risk Management Plan, otherwise known as its hedging strategy. On April, 5, 2010, National Grid filed the updated testimony of Ms. Leary, along with related updates to its supporting schedules. In addition, National Grid filed a motion for confidential treatment regarding specific schedules in the 2010 COG original and revised filings, as well as for information turned over in response to discovery requests.

On March 17, 2010, the Commission issued an order of notice scheduling a hearing for April 8, 2010. On March 23, 2010, the Office of Consumer Advocate (OCA) notified the Commission of its participation in the docket on behalf of residential ratepayers consistent with RSA 363:28. No other parties intervened in this docket. A hearing on the COG and hedging modifications was held on April 8, 2010 as scheduled. Due to schedule conflicts, there was only one commissioner present at the hearing, but the parties were informed that all commissioners would participate in the decision on this matter following their review of the transcript, unless any party objected to that procedure. Transcript of April 8, 2010 Hearing (Tr.) at 5. There were no objections.

II. POSITIONS OF THE PARTIES AND STAFF

A. National Grid

Among other things, National Grid witnesses Leary and Poe addressed the calculation of the proposed COG rates, customer bill impacts, reasons for the rate increases, and changes to the Company's supply portfolio. Mr. McCauley testified about the proposed changes to the Company's hedging plan.

1. Calculation of the Proposed Firm Sales COG Rates and Bill Impacts

Pursuant to the COG clause, National Grid, with the Commission's approval, may adjust on a semi-annual basis its firm gas sales rates in order to recover the costs of gas supplies, capacity and certain related expenses, net of applicable credits, as specified in National Grid's tariff. The average COG rate, which is the COG rate payable by residential customers, is calculated by dividing total anticipated direct costs of $15,109,075 and total indirect costs of $337,747 by projected summer season sales of 21,428,146 therms. Direct costs include pipeline transportation capacity and commodity charges, and adjustments, consisting of a prior period under-collection, interest and anticipated losses on price hedging. Indirect costs consist of working capital, bad debt and overhead charges.

National Grid's revised filing proposes a 2010 summer season residential COG rate of $0.7209 per therm, an increase of $0.1103 per therm from the average weighted 2009 summer season residential COG rate of $0.6106 per therm. The impact of the proposed firm sales COG rate, combined with prior increases in the LDAC and the delivery rate, is an overall increase in the typical residential heating customer's summer gas costs of $40, or 11.5 percent, when compared to the average COG rates for the 2009 summer season.

National Grid proposed commercial and industrial (C&I) low winter use and high winter use COG rates as follows: $0.7202 per therm for the low winter use COG rate and $0.7212 per therm for the high winter use COG. (C&I low winter use customers have high load factors while C&I high winter use customers have low load factors). The rate increase for C&I customers over the comparable 2009 summer season rates is commensurate with the residential COG rate increase.

2. Reasons for the Increase in the COG Rates

According to National Grid, the increase in the proposed COG rates, as compared to last summer's rates, is primarily due to two factors, an increase in NYMEX pricing upon which the Company bases it commodity pricing and the fact that last summer's rates were artificially low due to a large credit related to a prior period over-recovery. Additionally, the Company noted that the revised average price of $0.7209 per therm is $0.0575 lower than the originally proposed price of $0.7784 as a result of recent changes in the NYMEX strip price. Also, there is a base rate bill increase for residential heating and commercial customers resulting from the implementation of new base rates as approved by the Commission in Docket No. DG 09-095, covering the Company's replacement of cast iron and bare steel mains.

3. Changes to the Company's Transportation and Supply Portfolios

National Grid's filing also discusses three significant changes to the Company's transportation and supply portfolios. On November 1, 2009, National Grid began service on its "Concord Lateral," which provides an additional 30,000 MMBtu per day of natural gas deliverability from Dracut, Massachusetts to the Company's city gate stations. The Company has entered into an agreement with BP Canada allowing BP Canada to optimize the use of the assets along the pipeline from Dawn, Ontario. Finally, the Company has entered into an agreement with Repsol Energy North America Corporation, through which it obtains certain deliveries and allows Repsol to optimize certain released pipeline capacity assets.

With regard to the Company's forecasts of its supply and sendout requirements, the Company has revised some of its older forecasts and is indicating that it will have lower sendout requirements than it had previously believed. Mr. Poe stated that the forecasts were lowered because the impact of the downturn in the economy was not fully understood when the forecasts were first made. Tr. at 23. Having observed market conditions, National Grid adjusted its forecasts downward. Tr. at 23.

4. Price Risk Management Plan – Hedging Strategy

National Grid is proposing to modify its hedging program for a variety of reasons. According to the Company, changes in the level of participation in the Company's fixed price option (FPO) have changed. Also, the Company intends to change the methodology for determining the volumes to be hedged, and to eliminate hedges of its storage injections. Lastly, the Company states that collateral requirements under the hedging plan have increased and the cost or benefit of posting or collecting collateral should be included in the COG. Each change is discussed in greater detail below.

Regarding the FPO, the Company stated that enrollment in the FPO peaked at approximately thirty percent of customers in 2004 and 2005. In responding to this increase in participation, National Grid altered its hedging calculations to ensure adequate supplies, and based its new calculations on certain allocations between FPO and non-FPO customers. Since 2005, however, participation has dropped to around fifteen percent. This has meant that a portion of the hedged gas that was reserved for FPO customers has been reallocated to non-FPO customers, resulting in a disruption in the hedges and allocations. The Company proposes, therefore, to lower the percentage of purchases for FPO customers to avoid future misallocations. National Grid noted that FPO enrollment is limited to thirty percent of winter supplies and that the revised hedging policy is designed to hedge over sixty percent of winter supplies, but stated that should FPO participation spike again it would revisit this change. Tr. at 38.

As to the change in the methodology for calculating hedging volumes, the Company states that under its current plan it hedges its forecasted baseload amounts, but not daily swing purchases. National Grid now proposes to base its hedging on total firm sales forecast and will treat forecasted withdrawals from storage and other fixed-price supply resources as physical hedges. These physical hedges combined with its financial hedges contribute to National Grid's total hedged volumes. The Company's goal would be to hedge two-thirds of total forecasted sales volumes for December through March. For November and April, National Grid would hedge fifty percent of its forecasted sales, and forty percent in October and May. On average, National Grid would hedge about sixty-two percent of its firm sales volumes, which the Company expects would result in a reduction of about six percent in financially hedged volumes. According to National Grid, the new volumes would be in the same range as those used by other gas utilities in the country, as well as its affiliate companies. Tr. at 33-34.

As to the elimination of storage injection hedging, National Grid states that under its existing strategy it hedges about twenty percent of its storage capacity. However, since the storage is itself already a hedge there is little, if any, need to further hedge it. Moreover, hedging those volumes does not meaningfully reduce rate volatility. While financially hedging its storage volumes would extend the period for which the cost of those supplies is fixed, it would not significantly reduce rate volatility as storage is only one component of the Company's hedges. Tr. at 39-40. Also, National Grid notes that in reducing the total amount hedged, it will also reduce its collateral requirements, thus reducing costs.

Finally, National Grid seeks to include in the COG the impact of posting or collecting collateral related to hedging, either in the form of a charge or a credit. National Grid contends that, due to the economic conditions in recent years, credit is less available and, as a result, the master agreements covering gas purchases and derivatives have been subject to lower credit thresholds. Therefore, when making a hedging purchase, the Company has been required to post additional collateral to comply with the lower credit standards. This collateral is in the form of borrowed funds, which accrue interest at a short-term rate. This short-term rate is higher than the interest rate at which the counter-party to the transaction credits the Company. In short, the Company must borrow money at a relatively high rate, which it then pays to the counter-party; the counter-party then credits the Company for this payment at a relatively low rate. In this instance, the difference between the higher interest paid out and the lower interest earned is a cost to the Company. In some instances the relationship is reversed and the Company receives money at a higher rate and credits the counter-party at the lower rate and the Company makes money. It is the net of these costs that the Company seeks to recover through the COG, on a prospective basis. The Company's response to a data request from Staff indicated that, had such a recovery mechanism been in place since 2008, customers would have been credited a total of $526 for 2008 and charged a total of $11,313 in 2009. *See* Hearing Exhibit 6, Response to Data Request Staff 1-7. Thus, in comparison to overall costs, such charges or credits would be quite small.

5. Motions for Protective Order and Confidential Treatment

National Grid requested confidential treatment of certain information contained in Schedules 1, 2, 4, 5A, 5C, 6, 7, and 16 as well as proposed tariff page 153, attachment B of its 2010 summer season COG filing. The schedules concern, respectively: costs associated with the summary of supply and demand forecasts; contracts ranked on a per-unit cost basis; adjustments to gas costs; details of demand costs per unit; details of demand rates per unit; details of commodity costs per unit; hedged contracts; underground storage information; and calculations showing the peak demand rate. The Company has also requested confidential treatment of the asset management contract it disclosed to Staff in the discovery process.

The Company asserts that the information for which it seeks confidential treatment constitutes trade secrets and should be protected as confidential commercial information. The Company further states that it does not disclose this information to anyone outside of its corporate affiliates and their representatives. According to National Grid release of this information would likely result in competitive disadvantage for the Company because gas suppliers would be aware of National Grid's expectations regarding gas supply costs and other contract terms and would be unlikely to propose to supply such goods and services on terms more advantageous to National Grid, ultimately resulting in higher prices to customers. Therefore, it argues, the information constitutes "confidential, commercial or financial information," as defined in RSA 91-A:5, IV, which is expressly exempt from the public disclosure requirements of RSA chapter 91-A, the Right-to-Know law.

B. OCA

OCA questioned the Company about recent reports that levels of natural gas production had been overstated and the impact of those reports on future gas prices. Tr. at 14. The Company responded that prices spiked immediately following the reports, but had retreated. Tr. at 14-15. The Company stated that it believed that there would not be a major impact on prices in the short-term, but that there was possible long-term impact that was not known. Tr. at 14-15.

OCA also questioned the company about the recovery of its collateral costs, confirming that the impact of this recovery was small. Tr. at 16-17. OCA asked whether the Company obtained such recoveries in other jurisdictions. Tr. at 18. National Grid responded that it already has similar cost recoveries in Rhode Island, and that it was attempting to secure them in other jurisdictions. Tr. at 18.

Additionally, OCA inquired about the impact of the occupant account settlements addressed in Docket Nos. DG 07-129 and DG 09-050 on this season's cost of gas, as well as that for the coming winter. Tr. at 18-19. The Company stated that as a result of that issue it was subject to a disallowance of approximately $31,000 for this summer period, and approximately an additional $116,000 for the coming winter period. Tr. at 18-19.

In its closing, OCA stated that it did not oppose the Company's filing. Tr. at 41.

C. Staff

Staff confirmed with the Company that the revised and updated COG rate had been applied to its schedules, Tr. at 20, and that the Commission's Audit Staff had audited the reconciliation from the 2009 summer season and found no exceptions. Tr. at 20.

With regard to the Company's hedging program, Staff questioned the Company about the features of the current program. The Company stated that it currently hedges approximately 67.5 percent of its forecasted baseload purchases, beginning eighteen months prior to a particular winter period. Tr. at 24-25. It does so through use of derivatives that hedge the price based on the NYMEX pricing. Tr. at 25-26. National Grid stated that, although this strategy provided some stability in prices at relatively small cost, it could be improved by the changes proposed in this docket. Tr. at 28-29. Staff stated that it supported the proposed changes to the Company's hedging plan, Tr. at 42, as the amount of hedging appeared to be reasonable and in line with the practice of other utilities. Tr. at 42. Staff also stated that it supported the recovery of the Company's collateral costs, because hedging is done for the benefit of customers, and the costs and benefits of the hedging program should therefore be passed through to them. Tr. at 42. Staff further stated that it believed any such passed-through costs were likely to be minimal. Tr. at 42.

Staff supported the Company's revised COG rates. Tr. at 41. Staff stated that National Grid's forecasts appeared reasonable and consistent with past practices, Tr. at 41, and that the Company's supply plan was based on least cost planning. Tr. at 41. Finally, Staff confirmed that, as with prior COG dockets, the rate was subject to reconciliation, and that should a problem arise, it may be addressed in next summer's COG filing. Tr. at 41.

III. COMMISSION ANALYSIS

A. Cost of Gas Rates

Based on our review of the record in this docket, we approve the proposed 2010 summer season COG rates as just and reasonable pursuant to RSA 378:7. The proposed rates, as revised, represent current market data, which in fact was the reason for the revision lowering the proposed rate. We note also that pursuant to *EnergyNorth Natural Gas, Inc d/b/a National Grid NH*, Order No. 24,963 (April 30, 2009), the approved rate may be adjusted downward so far as is needed, and upward by no more than twenty-five percent, without further Commission action. Thus, any further downward trend in prices may be met by the Company with reductions in price and, to a limited extent, upward trends may be followed.

B. Price Risk Management Plan – Hedging Strategy

Regarding the Company's proposed changes to its Price Risk Management Plan, or hedging strategy, we find that the changes proposed by the Company are reasonable. We note first that many of the changes proposed by National Grid are similar to those proposed by Northern Utilities Inc., and approved by the Commission in *Northern Utilities Inc.,* Order No. 25,087 (March 30, 2010).

As to specific aspects of the proposal, we find the alteration of the hedge volume calculation reasonable. In moving to a hedge amount based on total firm sales rather than baseload only, and to include in its hedging calculations its planned storage withdrawals and other fixed-price purchases, the Company will be able to better match its hedged volumes with its actual needs. Moreover, in setting its new hedging target percentages it has done so in a manner that appears reasonable and in line with other gas utilities, including Northern Utilities. The revised hedging policy also reduces overall hedging, reflecting a decrease in FPO participation since the current hedging policy was last revised. Hedging a lower percentage will make it less likely that costs incurred for FPO customers will be borne by non-FPO customers. Also, as the Company noted, because FPO participation is limited, even after lowering the amount hedged for that program the Company will have sufficient supplies to meet its needs. Tr. at 39. Moreover, we understand that the Company is prepared to revisit the issue should FPO participation spike in the future. Tr. at 38.

As to the elimination of hedges on the Company's storage, we find that change reasonable. Because gas in storage is at a fixed price, further hedging those supplies does little to influence rate volatility. Hedging is intended to reduce volatility; decreasing costs by eliminating a practice that has done little to reduce volatility is a sound change.

Finally, as to the recovery of the Company's collateral costs, we find that change reasonable. In furtherance of the Company's hedging for the benefit of rate stability, it may incur costs or receive credits in relation to the collateral it is required to give or receive. While these costs are, and are presumed to remain, relatively small, they do represent legitimate expenses relating to the procurement of natural gas to serve customers. As such, we approve this revision to the Company's program, on a prospective basis, and anticipate that the Company will delineate these costs and credits for Staff's review in future dockets.

C. Motion for Confidential Treatment

Regarding National Grid's motion for confidential treatment, RSA 91-A:5, IV states, in relevant part, that records of "confidential, commercial, or financial information" are exempted from disclosure. *See Unitil Corp. and Northern Utilities, Inc.*, Order No. 25,014 (Sept. 22, 2009) at 2. In determining whether commercial or financial information should be deemed confidential, we consider whether there is a privacy interest that would be invaded by the disclosure. *Unitil Corp. and Northern Utilities, Inc.*, Order No. 25,014 (Sept. 22, 2009) at 2-3. Second, when a privacy interest is at stake, the public's interest in disclosure is assessed. *Id*. at 3. Disclosure should inform the public of the conduct and activities of its government; if the information does not serve that purpose, disclosure is not warranted. *Id*. Finally, when there is a public interest in disclosure, that interest is balanced against any privacy interests in non-disclosure. *Id*. This is similar to the Commission's rule on requests for confidential treatment. *See* N.H. Code Admin. Rules Puc 203.08; *see also Unitil Corp. and Northern Utilities, Inc.*, Order No. 25,014 (Sept. 22, 2009) at 3.

Applying the above considerations, we conclude that the information here is of a sufficiently sensitive nature that it need not be disclosed. Disclosure of National Grid's existing arrangements or it expectations about pricing, supply, and demand of natural gas would reveal the internal business decisions of the company and, at the same time, injure its bargaining position with its potential future suppliers of gas. As such, disclosure would invade National Grid's privacy interest and damage its competitive position, potentially to the detriment of ratepayers. Further, there is no indication that disclosure of the information will inform the public about the workings of the Commission, and no party or person has objected to the confidential treatment or asserted that disclosure would inform the public about the activities of the government. Accordingly, in balancing the interests of the company in protecting its information with the public's interest in disclosure, we conclude that the information may be protected and we grant National Grid's motion. Consistent with Puc 203.08(k), our grant of this motion is subject to our on-going authority, on our own motion, on the motion of Staff, or on the motion of any member of the public, to reconsider our determination.

Based upon the foregoing, it is hereby

ORDERED, that National Grid's proposed 2010 summer season COG rates for the period May 1, 2010 through October 31, 2010 are APPROVED as set forth in this Order, effective for service rendered on or after May 1, 2010, as follows:

	Cost of Gas	Maximum COG
Residential	$0.7209	$0.9011
C&I, Low Winter Use	$0.7202	$0.9003
C&I, High Winter Use	$0.7212	$0.9015

FURTHER ORDERED, that National Grid may, without further Commission action, adjust the COG rate based upon the projected over-/under-collection for the period, the adjusted rate to be effective the first of the month and not to exceed a maximum rate of 25 percent above the approved rate with no limitation on reductions to the COG rate; and it is

FURTHER ORDERED, that National Grid shall provide the Commission with its monthly calculation of the projected over- or under-collection, along with the resulting revised COG rate for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. National Grid shall include a revised tariff page 84 - Calculation of Cost of Gas Adjustment for firm sales and revised firm rate schedules under separate cover letter if National Grid elects to adjust the COG rate, with revised tariff pages to be filed as required by N.H. Code Admin. Rules Puc 1603; and it is

FURTHER ORDERED, that the over- or under-collection shall accrue interest at the monthly prime lending rate as reported by the Federal Reserve Statistical Release of Selected Interest Rates; and it is

FURTHER ORDERED, that the pending motion for confidential treatment is GRANTED as set forth in this Order; and it is

FURTHER ORDERED, that National Grid's proposed revisions to its Natural Gas Price Risk Management, or hedging, plan are APPROVED; and it is

FURTHER ORDERED, that National Grid shall file properly annotated tariff pages in compliance with this Order no later than 15 days from the issuance date of this Order, as required by N.H. Admin. Rules, Puc 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of April, 2010.

Thomas B. Getz Chairman	Clifton C. Below Commissioner	Amy L. Ignatius Commissioner

Attested by:

Debra A. Howland
Executive Director