STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 14-133

LIBERTY UTILITIES (ENERGYNORTH NATURAL GAS) CORP.

D/B/A LIBERTY UTILITIES

Petition to Change Hedging and Fixed Price Option Programs

Order *Nisi* Granting Petition

O R D E R N O. 25,691

July 10, 2014

In this order the Commission grants Liberty's request to change its hedging program from one that protects against increased market prices of natural gas to one that protects against increases in the costs to bring that gas to Liberty's service territory. The Commission also grants Liberty's request to eliminate commercial and industrial customers from its fixed price option program. This order is being issued on a *nisi* basis to ensure that all interested parties receive notice of the Commission's order and have the opportunity to request a hearing prior to its effective date.

I. BACKGROUND

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities (Liberty) is a public utility that provides natural gas to approximately 90,000 customers in 30 communities across the state. Liberty filed a petition to change its hedging program and its fixed price option (FPO) program. Liberty supported its petition with the direct testimony of Francisco C. DaFonte, Liberty's Senior Director of Energy Procurement.

The Office of the Consumer Advocate (OCA) filed a letter of participation on behalf of residential ratepayers consistent with RSA 363:28.

The petition and subsequent docket filings, other than information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at http://www.puc.nh.gov/Regulatory/Docketbk/2014/14-133.html.

II. POSITIONS OF THE PARTIES AND STAFF

A. Liberty

1. Proposed Changes to Liberty's Hedging Program

Liberty's hedging program consists of up front investments that are intended to offset future risks. The risks Liberty seeks to minimize through its current hedging program are increases in the price of natural gas during the winter period. DaFonte testimony at 3. Liberty's current program hedges the price determined by the Henry Hub pricing point for natural gas located in the "supply area" in Louisiana, which correlates with the New York Mercantile Exchange (NYMEX) price. *Id.* at 7. Liberty hedges the Henry Hub or NYMEX price through a mix of financial risk management tools approved in *EnergyNorth Natural Gas Inc.*, Order No. 25,094 (Apr. 29, 2010). DaFonte testimony at 3.

Mr. DaFonte stated that the volatility of the NYMEX prices has largely disappeared, mostly because of the new supplies of shale gas. *Id.* at 7. Mr. DaFonte testified that "the NYMEX/Henry Hub futures … show continued signs of stability through 2020." *Id.* at 10. Since the price of natural gas has stabilized, "hedging the NYMEX would have little benefit to consumers." *Id.* at 6. Therefore, Liberty proposes to discontinue its current practice of hedging the price of natural gas. *Id.* at 10.

In its place, Liberty proposes hedging the "basis differential." The NYMEX price is known as the "basis." The added cost to deliver that gas into New England is the basis differential. *Id.* at 7. Mr. DaFonte testified that the price spikes seen during the most recent winters were driven primarily by increases in the basis differential. *Id.* at 9.

Liberty proposes to hedge the basis differential by purchasing "physical fixed basis supply contracts." *Id.* at 10. Liberty seeks Commission approval to issue requests for proposals and enter into contracts that will set a fixed price for the basis differential. *Id.* These contracts will cover all of the base load supplies that Liberty buys from the New England market area. *Id.* The contracts will insulate Liberty from spikes in the basis differential for these supplies. Mr. DaFonte testified that Liberty will not hedge the basis differential for Liberty's spot purchases made to cover peak demand on the coldest days. Such purchases are unpredictable and any hedges would be unduly speculative. *Id.* at 12-13.

2. Proposed Changes to Liberty's Fixed Price Option Program

Liberty's FPO program allows customers to fix their cost of gas for the winter season through contracts signed at the beginning of the season. Liberty sets the FPO price by adding a small premium to the cost-of-gas rate. DaFonte testimony at 14. Liberty hedges most of the gas required to serve FPO customers, so Liberty remains exposed to some risk for the un-hedged quantity of the FPO program. Therefore, Liberty proposes to reduce that risk by eliminating commercial and industrial (C&I) customers from the FPO program. Liberty stated that C&I customers can buy natural gas from competitive suppliers and can obtain a fixed price in that market. *Id.* at 13-14.

Liberty stated that it will retain the FPO program for residential customers and will operate the program as it has in the past, although it may propose a slightly higher FPO premium in its next winter season cost-of-gas filing. *Id.* at 14.

B. OCA

The OCA filed a response to the petition and to Staff's recommendation stating that the OCA supports the changes requested in Liberty's petition. The OCA agreed that mitigating the basis differential was "reasonable," and stated that eliminating C&I customers from the FPO program was appropriate because they have "other options to mitigate price volatility." June 30, 2014, letter of Rorie E.P. Hollenberg, Assistant Consumer Advocate.

C. Staff Recommendation

Staff filed a memorandum that recommended approval of the revised hedging and FPO programs. Staff stated that the proposed hedging program is "consistent with changing market conditions, particularly changes related to pricing risk and volatility." Staff also found the proposed revisions to the FPO program to be "reasonable." June 23, 2014, Staff Recommendation of Al-Azad Iqbal, Analyst, Gas & Water Division.

III. COMMISSION ANALYSIS

The Commission finds Liberty's proposed change to its hedging program to be reasonable. The Commission accepts Liberty's testimony that the NYMEX natural gas prices are relatively stable and that the recent volatility rests in the basis differential. Liberty's proposal to obtain fixed-price contracts for the basis differential for certain base load supplies is a simple and reasonable way to manage that risk.

The Commission also finds that eliminating C&I customers from Liberty's FPO program is reasonable since C&I customers have other options to reduce their exposure to price volatility. Liberty should not bear the modest risk posed by the un-hedged portion of its gas supplies for C&I customers who participate in the FPO program.

We will issue this order on a *nisi* basis to ensure that all interest parties receive notice of our determination and have the opportunity to request a hearing.

Based upon the foregoing, it is hereby

ORDERED, that Liberty's proposal to discontinue its hedging of NYMEX prices and to begin hedging the basis differential as described in the filing is APPROVED; and it is

FURTHER ORDERED, that Liberty's request to eliminate commercial and industrial customers from the fixed price option program is APPROVED; and it is

FURTHER ORDERED, that the Petitioner shall cause a summary of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than July18, 2014 and to be documented by affidavit filed with this office on or before August 5, 2014; and it is

FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than July 25, 2014 for the Commission's consideration; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than August 1, 2014; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective August 8, 2014, unless the Petitioner fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.

By order of the Public Utilities Commission of New Hampshire this tenth day of July, 2014.

Amy L. Ignatius Chairman	Robert R. Scott Commissioner	Martin P. Honigberg Commissioner

Attested by:

Debra A. Howland
Executive Director