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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

December 7, 2009 - 1:40 p.m.
Concord, New Hampshire

NHPUC DEC24'09 PM 2:33

RE: DG 09-141
UNITIL SERVICE CORP.:
Petition by Northern Utilities, Inc.
for approval of proposed financial
hedging program redesign.
(Prehearing conference)

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Clifton C. Below

Sandy Deno, Clerk

APPEARANCES: Reptg. Northern Utilities, Inc.:
Susan Geiger, Esq. (Orr & Reno)

Reptg. Residential Ratepayers:
Kenneth E. Traum, Asst. Consumer Advocate
Office of Consumer Advocate

Reptg. PUC Staff:
Matthew J. Fossum, Esq.

Court Reporter: Steven E. Patnaude, LCR No. 52

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P R O C E E D I N G

CHAIRMAN GETZ: Okay. Good afternoon, everyone. I'll open the prehearing conference in docket DG 09-141. On August 7, 2009, Northern Utilities filed a petition for approval of proposed financial hedging program designs, in conjunction with a similar proposal in Maine. Northern proposes three primary changes: Introduction of a price ceiling above which purchases of futures contracts would be suspended; eliminating the price-based component of the existing hedging program; and introduction of a process for selling futures contracts that appreciate in value. According to Northern, the basis for the changes is to reduce the exposure to market volatility for both it and its customers.

An order of notice was issued on November 10th setting the prehearing conference for this afternoon. We have notice of the Office of Consumer Advocate's intent to participate, and we have a Petition to Intervene by National Grid, which asserts that Northern does not oppose their intervention. And, do we have an affidavit of publication? Has been filed. So, let's take appearances and hear comments from the parties on their position.

MS. GEIGER: Thank you. Good afternoon,

1 Mr. Chairman, Commissioner Below. I'm Susan Geiger, with
2 the law firm of Orr & Reno. I represent Northern
3 Utilities. And, with me today is Mr. Rob Furino from the
4 Company.

5 CHAIRMAN GETZ: Good afternoon.

6 MR. TRAUM: Good afternoon, Mr.
7 Chairman, Commissioner. Representing the Office of
8 Consumer Advocate, Kenneth Traum. And, since we filed our
9 letter of appearance, due to resource timing limitations,
10 we're going to be intending to simply monitor the
11 proceeding, as opposed to being a full participant.

12 CHAIRMAN GETZ: Thank you.

13 MR. FOSSUM: And, good afternoon.
14 Matthew Fossum, on behalf of the Staff of the Commission.
15 And, with me this afternoon is Stephen Frink and Bob Wyatt
16 from Commission Staff.

17 CHAIRMAN GETZ: Good afternoon.

18 Ms. Geiger.

19 MS. GEIGER: Thank you, Mr. Chairman.
20 Northern Utilities is seeking the Commission's approval to
21 modify its financial hedging program. The original
22 program design was approved by this Commission in 2001,
23 and a modification of the program occurred in 2002. It
24 was approved by the Commission then. The Company has been

1 reporting its hedging activities to the Commission in its
2 COG filings and in monthly COG reports.

3 The petition that was filed in the
4 instant docket on August 7th contains an attachment, NU
5 1-1, which, among other things, is a good summary of the
6 program changes that the Company proposes to make. It
7 also shows a table that contains a side-by-side comparison
8 of the current program attributes as compared with the
9 proposed program attributes. This is at Page 3 of 21 and
10 Page 5 of 21 in that attachment that I just referenced.
11 More detailed information about the program or the
12 proposed changes to the hedging program is contained in
13 the remainder of the filing.

14 But, briefly summarized, for purposes of
15 this preliminary statement, Northern just wanted to
16 highlight for the Commission some of the primary
17 attributes of the proposed program, which build on the
18 existing structure of the current hedging program. The
19 redesign consists of three primary changes. The first
20 change introduces a price ceiling that's calculated
21 pursuant to a formula above which purchases of futures
22 contracts would not occur. The second eliminates the
23 price-based component of the existing hedging program.
24 And, the last primary change includes a process that

1 provides for the sale of futures contracts that have
2 significantly appreciated in value, and that trigger point
3 would be 40 percent, an increase of 40 percent would
4 trigger a liquidation of those contracts.

5 In addition, the proposed redesign
6 modifies the schedule for Northern's purchases of futures
7 contracts and provides for the hedging of the peak season
8 volumes only, including hedging that's applicable to
9 storage injections.

10 Northern made an identical filing to the
11 instant filing with the Maine Public Utilities Commission,
12 and their review is pending. The reason that, obviously,
13 Northern did this was to maintain some consistency within
14 the Company for both of its divisions in Maine and
15 Northern.

16 Northern believes that the modified
17 program includes very simple techniques and clearly
18 defined rules that are meant to provide transparency and
19 structure to its hedging activities. Northern believes
20 that the designed hedging -- the redesigned hedging
21 program will provide significant benefits to the
22 customers, in the form of reduced exposure to market
23 volatility and the ability to capture financial benefits
24 of the hedging contracts.

1 Northern looks forward to working with
2 Commission Staff, the Consumer Advocate, the Intervenors,
3 and any other interested parties, in discussing the
4 revised hedging program and to develop a procedural
5 schedule for the duration of the docket, which hopefully
6 would enable the Commission to issue an order by early
7 April of 2010. The reason that Northern is seeking that
8 date for a final approval of the revised program is so
9 that Northern could revise or include the revised program
10 in its COG filing that would occur around April for the
11 2011/2012 peak season. Thank you.

12 CHAIRMAN GETZ: Thank you. Mr. Traum.

13 MR. TRAUM: The OCA has no position at
14 this time. Thank you.

15 CHAIRMAN GETZ: Thank you. Mr. Fossum.

16 MR. FOSSUM: Excuse me. Thank you.

17 Back in 1997, the Commission originally approved
18 EnergyNorth/National Grid's proposed natural gas hedging
19 policy for the purpose of mitigating price volatility at a
20 minimum cost. A hedging policy, as has been noted, was
21 also approved for Northern in 2001. And, both companies'
22 policies have been modified since, with the revisions
23 intended to stabilize gas prices and avoid sharp price
24 increases.

1 Staff believes that it's in the public
2 interest to insure against dramatic price increases at
3 minimum cost, and, to that end, has supporting hedging.
4 That said, however, it's important to determine what
5 impact the hedging policies have had on price volatility
6 and on the cost to achieve the stability that those
7 policies seek. Both EnergyNorth and Northern's hedging
8 policies have been in place long enough that they will be
9 able to assist in the determination of both volatility and
10 cost. And, currently, Staff is exploring both programs
11 through discovery. The hope is that the results should
12 inform the Commission as to the effectiveness of the
13 currents policies and what modifications may be
14 appropriate.

15 As to Northern's hedging program
16 specifically, Unutil has only recently begun managing the
17 program with its takeover of Northern, and Staff is in the
18 process of reviewing how the program is being executed and
19 what risk management checks and balances are in place. As
20 has been noted, a similar review is underway in Maine on
21 the Company's proposal there.

22 Also, during the most recent winter cost
23 of gas proceedings, the OCA has raised a concern of the
24 impact of hedging on rates when commercial and/or

1 industrial firm sales customers migrate to transportation
2 services. And, we hope to explore that issue further and,
3 if appropriate, address it in this proceeding.

4 Staff's preliminary position is that the
5 proposed hedging program modifications appear to be
6 reasonable, but that the scale and certain restrictions
7 may need adjustments. For instance, the policy suspends
8 hedging if prices exceed one standard deviation of a mean
9 price. However, such a restriction may not provide
10 adequate protection against upside risk. Also, under the
11 new program, the hedging margin requirements are not to
12 exceed \$4 million. Establishing a cap on hedging costs
13 may be reasonable, but capping margin requirements does
14 not necessarily do that, as the real cost is related to
15 financing the requirement. Also, capping hedging costs
16 should probably be tied to overall gas costs, as a sharp
17 increase in prices could severely limit the Company's
18 ability to hedge if it's using a fixed cap.

19 Though they're apparently not present
20 here today, the Staff would also recommend approval of
21 National Grid's Petition to Intervene. National Grid has
22 a great deal of hedging expertise and is and has been
23 managing EnergyNorth's hedging program. National Grid
24 recently met with Staff and OCA regarding its program, and

1 it's working with the Staff in determining the
2 effectiveness and possible modifications to its program.
3 National Grid's participation will help in developing a
4 record on which to determine an appropriate hedging
5 program, both in size and in design, for Northern. Thank
6 you.

7 CHAIRMAN GETZ: Anything further this
8 afternoon?

9 MS. GEIGER: No thank you.

10 (Chairman Getz and Commissioner Below
11 conferring.)

12 CHAIRMAN GETZ: The position on the
13 intervention, it's recorded that you support it?

14 MS. GEIGER: Oh, yes. I apologize, Mr.
15 Chairman. I thought, from the introductory remarks, that
16 it could be inferred that Northern does support Nation
17 Grid's Petition to Intervene and has no objection. Thank
18 you.

19 CHAIRMAN GETZ: Thank you.

20 MR. TRAUM: And, similarly, the OCA has
21 no objection.

22 CHAIRMAN GETZ: And, then, based on that
23 and our review of the petition, we'll grant the Petition
24 to Intervene. So, is there anything else this afternoon?

1 (No verbal response)

2 CHAIRMAN GETZ: Hearing nothing, then we
3 will close the hearing and await a recommendation on the
4 procedural schedule for conduct of the proceeding. Thank
5 you, everyone.

6 MS. GEIGER: Thank you.

7 (Whereupon the prehearing conference
8 ended at 1:51 p.m.)

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