STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. IR 22-053

ELECTRIC AND GAS UTILITIES

Investigation of Energy Commodity Procurement

Technical Statement of Liberty Utilities (EnergyNorth Natural Gas) Corp.

Following is the technical statement of Liberty Utilities (EnergyNorth Natural Gas) Corp., providing responses to the three questions posed to the state's gas utilities in its October 11, 2022, procedural order.

The section of the October 11, 2022, procedural order addressed to the state's two gas utilities began with the following statement:

> The following lines of inquiry aim to provide a further refinement to the scope of this investigation. However, further recommendations on timing, gas portfolio management, etc. to help mitigate price volatility could be explored. Please provide your company's independent position regarding these matters in its Technical Statement, and if it has no position, please indicate that.

Liberty first presents the following background to provide context for its answers to the Commission's specific questions.

Introduction.

Wholesale gas prices vary due to many factors, which are outside the control of this Commission and the NH gas utilities (e.g., the war in Ukraine, an unseasonably cold or warm weather). Prices are also affected by where in the United States each utility purchases its gas. Buying gas in the Gulf of Mexico or Marcellus regions is generally less expensive and more stable than buying gas in Dracut Massachusetts. Thus, price and volatility for New Hampshire customers is a function of the intersection between the wholesale market and each utility's unique, and largely fixed, portfolio of rights to obtain gas from different locations. There is nothing this Commission or Liberty can do to reduce the impact of world events or the weather on wholesale pricing. And the opportunity to approve changes to Liberty's portfolio of transportation capacity rights occurs rarely.

Thus, to the extent a New Hampshire utility has upstream capacity rights on interstate pipelines that reach markets with lower prices and less volatility (e.g., the Gulf of Mexico or the Marcellus region), then those capacity rights will allow the utility to buy gas at the generally lower and more stable prices available in those areas. However, such capacity rights to these regions have been fully subscribed for decades, utilities that hold such rights never let them go, and there have been only a few new projects that provided for new capacity to low-cost markets.

To the extent the utility has upstream capacity rights that originate in markets that have higher and more volatile prices (e.g., Dracut Massachusetts), then the utility is subject to those higher prices and volatility. Of course, utilities prefer not to have such contracts, but the lack of new capacity to low-cost markets combined with the steady growth in gas customers has made such capacity contracts a necessary evil – utilities must sign such contract to ensure a reliable supply of gas for its customers.

As described in Liberty's cost of gas filings and Least Cost Integrated Resource Plan (Docket No. DG 22-061), Liberty holds capacity rights that enable the Company to buy gas in the Gulf region, in the Marcellus region, and in low-cost markets in Canada. Liberty maximizes the amount of that lower cost gas it can buy in those regions every winter, but Liberty needs far more gas than it can obtain through these favorable capacity contracts. Liberty has no choice but to rely on capacity contracts that originate in Dracut and thus must buy the gas that is available in Dracut, long considered the most expensive and volatile price point in the country.

To provide customers with the least cost supply, Liberty's procurement and dispatch plans are focused on minimizing the gas it must buy in Dracut. Liberty does so, first, by purchasing all the gas it can in the Gulf, the Marcellus region, and from its storage facilities that are filled with lower-cost summer gas, using as much of the favorable capacity contracts as possible to deliver that gas to New Hampshire. Once those resources have been fully maximized, Liberty then turns to the use of LNG and propane, which is trucked to Liberty's distribution system, when those prices are lower than the prices at Dracut. Only after exhausting those options, usually on the coldest days in the winter, Liberty is compelled to buy gas at Dracut to meet customer needs.

With this context, Liberty addresses the Commission's specific questions.

Commission Questions.

(i) Consolidated Procurement: What is the viability of a regionally harmonized and/or a state-wide approach to gas procurement?

a. Please identify the constraints of a possible unification of existing procurement practices.

A regional or state-wide approach to gas procurement is not viable. As described above, each distribution company holds a unique portfolio of capacity contracts it must use to reliably deliver gas to its customers. These contracts convey the right to transport specific quantities of gas on specific portions of interstate pipelines, from one specific location to the utility's citygate. The capacity rights of one utility are likely of no use to another utility. For example, Liberty has the right to transport gas from Louisiana to its system in central New Hampshire. That contract only has value because Liberty can take delivery of that gas on its system. Northern Utilities could not use that capacity contract because the gas would be stranded somewhere short of its distribution system in the Seacoast area. Similarly, Northern has capacity contracts on the two interstate pipelines that run through its service territory. Since Liberty cannot take delivery of gas from those pipelines, a joint purchase of gas on those pipelines would not be of any use to Liberty.

As for the "existing procurement practices," Liberty procures all its gas through RFPs, and thus the gas it buys for customers is at the lowest cost for that particular supply. That is, Liberty issues RFPs for the purchase of gas in the Gulf or in Canada to be transported to New Hampshire. Liberty issues separate RFPs for the LNG that needs to be trucked to Manchester or Nashua, and chooses the least cost, reliable supply of that service. Liberty understands that Northern does the same – it obtains the lowest cost, reliable supply that can be delivered to its customers on its unique portfolio of capacity contracts and local storage facilities.

It is possible that both Liberty and Northern could benefit from a joint LNG storage project or other storage options, and Liberty would be willing to discuss such an option with the Commission in this docket.

It is also possible that a state-run RFP process may work for the state's two gas utilities. Such a process would have to contend with the issues described above of each utility having unique portfolios, but Liberty is certainly willing to discuss whether and how such a process could work.

b. Given that asset management is currently optimizing resources across utilities and states, could the use of state-of-the-art asset management tools enhance the possibility of a consolidated procurement process?

As discussed during Liberty's cost of gas hearings, Liberty currently releases its capacity to asset managers, retaining the right to use all the capacity when needed, so that Liberty can realize some value for the capacity when not needed. Those asset managers sell the unused capacity to third parties in return for substantial payments to Liberty. The revenues Liberty receives from the asset managers goes directly to reducing the cost of gas for customers.

As stated above, a "consolidated procurement process" is not feasible for natural gas given each utility's unique portfolio of capacity contracts. Both Liberty and Northern could not jointly purchase gas at a location where only Liberty (or only Northern) had the right and ability to transport that gas to its service territory.

Liberty also uses the SENDOUT® tool to manage the dispatch of its gas supplies and cost. SENDOUT is an industry standard optimization tool that looks at all of the company's capacity contracts, trucking options, projected costs, and projected daily needs through the winter period and determines how to best dispatch which resource though the winter period. For example, SENDOUT will determine that on a certain day in the winter, given the current weather and pricing, the Company should use X amount of gas from its storage, Y amount of gas from its Canadian supply, and Z amount of LNG. It is a sophisticated tool that ensures Liberty is dispatching its resources in the most cost-efficient way throughout the course of the winter.

> c. How could consistency among jurisdictions pertaining to legal requirements be achieved?

It is not clear what this question is asking. To the extent the question asks what would need to occur to implement a consolidated gas procurement by all of Liberty's natural gas affiliates, and to the extent such a plan varies from current practices, the plan would have to be approved by all the state regulatory bodies and likely by the FERC. Liberty would appreciate clarity on what is being asked here.

> (ii) Cost of Gas Practices: Each company is requested to share a detailed outline as well as supporting process documents on the practices that they have adopted by their affiliates in their various jurisdictions.

Liberty has natural gas affiliates in New York, New Brunswick, Massachusetts, Georgia, Missouri, Iowa, and Illinois. Every affiliate uses the same RFP process for all forward purchases of gas (there is occasionally the need to make spot purchases for balancing purposes). As described above, the location and nature of these purchases vary for each affiliate, depending on their unique portfolio of capacity contracts, LNG/propane needs, storage capabilities, etc.

Although Liberty cannot conduct a single RFP for all its pipeline supplies for all its affiliates for the reasons discussed above, the Commission should be aware that there is a single team of Liberty employees, based in New Hampshire, that conducts all the RFPs, makes all the purchases, manages the contracts, and performs the related services for all Liberty gas affiliates. The costs of this team are appropriately allocated to the affiliates, providing economies of scale that benefit all of Liberty's gas customers.

> (iii) Miscellaneous: Explore possibilities to implement more proactive market-based measures by adjusting the intervals, frequencies, timing, and scale of procurements[2] as well as any other issues that could improve the cost of gas approval process with the goal of reducing utility rates in New Hampshire.

Unlike default service on the electric side where the supplier provides a fixed price for the six-month period, and customers can thus "over" pay for electricity if the market falls during the six-month period (or "under" pay if the market rises), all utility purchases of natural gas are based on market prices and fluctuate with the market throughout the cost-of-gas period, and the cost of gas rates can be adjusted every month and are reconciled after the season to insure that customers pay exactly what Liberty paid to bring the gas to their location.

Most natural gas prices are a market price (i.e, NYMEX or Henry Hub) plus an adder or trucking charge (e.g., NYMEX plus $0.10) to have that gas delivered to the point where Liberty has capacity on a pipeline to then transport the gas to its city gates. Such adders may pay the supplier's cost to bring the gas to Dracut, where Liberty can pick up the gas on its capacity contract on the Concord Lateral, or to bring the gas to Liberty's receipt points in Louisiana or Pennsylvania, where again Liberty can then use its favorable capacity contracts to bring the gas to New Hampshire. It is the amount of that adder that is the subject of the RFPs (the pipeline transportation charges are fixed based on the terms of the underlying, long-term contracts). Liberty's customers have always paid the lowest possible price for their gas given Liberty's particular portfolio because Liberty accepts the lowest bid for those adders (assuming it is from a reliable supplier), the price is otherwise a market price, the cost of gas rate is adjusted and reconciled to exactly what Liberty paid, and because Liberty dispatches the least cost gas first, buying the most expense gas only when all other resources have been exhausted.

And as for the timing of Liberty's RFPs, they are based on when Liberty can expect to secure reliable supplies at the best price. The schedule of RFPs can be adjusted, and the RFPs can be repeated. The timing of gas RFPs is not constrained as with the electric default service process.

Conclusion

Despite Liberty's position that its current practices are providing gas to its customers at the lowest, market-based prices, Liberty is always looking for better and less expensive ways to obtain gas for its customers. Liberty is looking forward to working with the Commission and stakeholders to see if there are ways fine tune current processes or to adopt new methods if they can also provide the least cost, reliable supply for Liberty's customers