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ORIGINAL

October 2, 2017

Via Electronic Mail and Fed Ex

Irene Kim Asbury, Secretary  
State of New Jersey  
Board of Public Utilities  
44 South Clinton Avenue, 3<sup>rd</sup> Floor, Suite 314  
Newark, New Jersey 07102

BOARD OF PUBLIC UTILITIES

OCT 04 2017

MAIL RECEIVED

G017101033

Re: In The Matter Of The Petition Of Pivotal Utility Holdings, Inc. d/b/a Elizabethtown Gas  
Concerning Its Plans For Natural Gas Supply And Capacity Management Services,  
Docket No. \_\_\_\_\_

Dear Secretary Asbury:

Enclosed for filing in the above matter are an original and ten copies of a Petition of Pivotal Utility Holdings, Inc. d/b/a Elizabethtown Gas ("Elizabethtown" or "Company"). The Petition is being submitted in compliance with the Board's July 29, 2016 order in BPU Docket No. GM15101196 that approved the merger of AGL Resources Inc. (Now Southern Company Gas) and The Southern Company ("Southern/SCG Merger Order") and required Elizabethtown to submit a filing to describe its plans for natural gas supply and capacity management services following the expiration of Elizabethtown's existing gas supply and asset management agreements (collectively, the "AMA") with Sequent Energy Management, L.P. ("Sequent"). Elizabethtown requests that a new docket number be assigned to this matter as soon as possible.

Kindly acknowledge receipt and filing of the enclosure by date stamping the enclosed copy of this letter and returning it in the self-addressed, stamped envelope provided for that purpose. Please contact the undersigned if you have any questions.

Respectfully submitted,

/s/ Mary Patricia Keefe

Mary Patricia Keefe, Esq.  
Vice President, Regulatory Affairs

CMS  
LEGAL  
DAG  
RPA  
T. WALKER  
S. Peterson  
S. SumLiner  
ENERGY(4)TGC  
M. Beyer

cc: Attached Service List

IN THE MATTER OF THE PETITION OF PIVOTAL UTILITY HOLDINGS, INC. D/B/A ELIZABETHTOWN GAS  
CONCERNING ITS PROPOSED CAPACITY MANAGEMENT PLAN  
BPU DOCKET NO. \_\_\_\_\_

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**STATE OF NEW JERSEY  
BOARD OF PUBLIC UTILITIES**

BOARD OF PUBLIC UTILITIES

OCT 11 2017

MAIL RECEIVED

-----X  
IN THE MATTER OF THE PETITION OF PIVOTAL :  
UTILITY HOLDINGS, INC. d/b/a ELIZABETHTOWN :  
GAS CONCERNING ITS PLANS FOR NATURAL GAS : DOCKET NO. \_\_\_\_\_  
SUPPLY AND CAPACITY MANAGEMENT SERVICES :  
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**To the Honorable Board of Public Utilities:**

**INTRODUCTION**

Petitioner Pivotal Utility Holdings, Inc. d/b/a Elizabethtown Gas ("Petitioner", "Elizabethtown" or "Company"), a public utility corporation duly organized under the laws of the State of New Jersey, with its principal business office located at 520 Green Lane, Union, New Jersey, 07083 respectfully petitions the Board of Public Utilities ("Board" or "BPU") as follows:

1. Petitioner is engaged in the business of transmission and distribution of natural and mixed gas to approximately 288,000 customers in its service territory located principally in Hunterdon, Mercer, Middlesex, Morris, Sussex, Union and Warren Counties.
2. Communications and correspondence concerning this proceeding should be sent as follows:

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3. This Petition is being submitted in compliance with the Board's July 29, 2016 order in BPU Docket No. GM15101196 that approved the merger of AGL Resources Inc. (now Southern Company Gas) and The Southern Company ("Southern/SCG Merger Order") and required Elizabethtown to submit this filing to describe its plans for natural gas supply and capacity management services following the expiration of Elizabethtown's existing gas supply and asset management agreements (collectively, the "AMA") with Sequent Energy Management, L.P. ("Sequent"). Petitioner's current AMA expires March 31, 2019.<sup>1</sup>

4. Elizabethtown believes that it would be in the best interest of the Company and its customers for Elizabethtown to attempt to negotiate an extension of its AMA with Sequent subject to review and approval by the Board with input from the parties.<sup>2</sup> As explained further below, Sequent has proven to be a reliable supplier of gas supplies at market responsive prices and the current AMA has been very beneficial to Elizabethtown's customers. Elizabethtown seeks to negotiate an extension of the current AMA that will maximize the benefit of Sequent's gas supply and capacity management expertise for the benefit of the Company and its customers. Accordingly, Elizabethtown requests that the Board commence a process to consider

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<sup>1</sup> Elizabethtown's current AMA was approved by the Board *In the Matter of the Petition of Pivotal Utility Holdings, Inc. d/b/a Elizabethtown Gas Concerning its Proposed Capacity Management Plan*, BPU Docket No. GO13040272 (March 19, 2014) ("AMA Order"). Elizabethtown's arrangement with Sequent involves two contracts – an Asset Management and Agency Agreement and a Gas Purchase and Sale Agreement. Under the terms of these agreements, Sequent acts as Elizabethtown's gas supplier and asset manager.

<sup>2</sup> The Parties would include the Board Staff and the Division of Rate Counsel.

Elizabethtown's plan to enter into another AMA with Sequent in accordance with the schedule proposed below.

### **BACKGROUND**

5. Under the existing AMA, Elizabethtown purchases the majority of its gas supplies and receives asset management services from Sequent. Specifically, Sequent provides Elizabethtown with firm gas supply at published market prices up to the amount of the pipeline capacity that Sequent manages under the AMA.<sup>3</sup> Sequent also seeks to maximize the value of Elizabethtown's portfolio of upstream pipeline transportation and storage contracts through capacity management transactions<sup>4</sup> and shares the majority of the margins from these transactions with Elizabethtown's customers.

6. To ensure that its customers have access to reliable sources of market-priced supplies, Elizabethtown has contracted for a diverse portfolio of upstream pipeline transportation and storage services. Elizabethtown purchases firm transportation services from eight interstate pipelines<sup>5</sup> and contract storage services from eight storage service providers.<sup>6</sup> These services provide Elizabethtown with access to gas supplies from as far away as Texas and the Onshore and Offshore Gulf of Mexico producing regions as well as from the more geographically proximate Appalachian producing basins. A schematic of Elizabethtown's capacity portfolio is

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<sup>3</sup> Under the AMA, the commodity cost of gas supply is based on published index prices and pipeline tariff rates for transportation, fuel and storage are set in accordance with existing contracts. There are no other charges from Sequent to Elizabethtown.

<sup>4</sup> Generally speaking, an asset manager is able to obtain value from a portfolio by using the capacity to effectuate off-system sales, storage arbitrage or through the release of the capacity to third parties.

<sup>5</sup> These pipelines are Transcontinental Gas Pipe Line Company LLC ("Transco"), Texas Eastern Transmission, LP ("Tetco"), Tennessee Gas Pipe Line Company, LLC ("Tennessee"), Columbia Gas Transmission, LLC ("Columbia"), Dominion Energy Transmission, Inc. ("DETI"), National Fuel Gas Supply Corporation ("National Fuel"), Texas Gas Transmission, LLC and Gulf South Pipeline Company, LP.

<sup>6</sup> Elizabethtown purchases contract storage services from Transco, Tetco, Columbia, Tennessee, DETI, Steuben Gas Storage Company, Petal Gas Storage LLC, and Stagecoach Pipeline and Storage Company LLC.



attached hereto as Exhibit A and a list of Elizabethtown's current upstream capacity contracts, taken from its most recent Basic Gas Supply Service ("BGSS") filing with the Board, is attached as Exhibit B.

7. In contracting for supplies and upstream capacity, Elizabethtown plans to meet the peak day, winter season, and annual needs of its firm customers as efficiently as possible. Attached as Exhibit C is information concerning Elizabethtown's actual peak day demand and supply for the period November 2014 through March 2017. As can be seen from Exhibit C, Elizabethtown uses a combination of pipeline transportation, storage and peaking assets to serve its peak day demand. Elizabethtown incurs approximately \$50 million per year of fixed or demand costs for upstream capacity. In arranging for the purchase of capacity management services, Elizabethtown seeks to maximize the value of its pipeline storage and transportation services portfolio on a year round basis to reduce the costs to its customers.

8. When Elizabethtown's portfolio of upstream transportation and storage services is not needed to meet the demands of Elizabethtown's customers, the capacity under contract can be used to provide services to third parties. As Elizabethtown's capacity manager, Sequent engages in transactions with third parties to obtain value from the use of Elizabethtown's upstream contracts and provides the majority of the margins earned from those transactions to Elizabethtown's customers.<sup>7</sup> In the period since the commencement of the current AMA, beginning April 1, 2014 through September 30, 2016, payments from Sequent for capacity management services that were credited to Elizabethtown's customers have totaled more than \$59 million. To put that amount in perspective, Elizabethtown's gas supply-related fixed costs over that period totaled approximately \$153 million. As such, since the commencement of the

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<sup>7</sup> The current AMA requires Sequent to provide a minimum fixed payment of \$4.25 million annually to Elizabethtown, and to share margins earned above that annual level. To the extent that Sequent's annual margins fall between \$8 and \$14 million, Elizabethtown's customer receive 70 percent of those margins.

AMA through September 30, 2016, Elizabethtown customers have received credits equal to 39 percent of the fixed charges incurred by the Company for gas supply.

9. To evaluate Sequent's performance as an asset manager, the Company retained an independent third party, Concentric Energy Advisors ("Concentric"), to develop an evaluation of the value of Elizabethtown's upstream portfolio during the contract years ending March 31, 2015 and March 31, 2016 ("AMA Review Periods"). These reports indicate that the margins generated by Sequent during the Review Periods exceeded the value expected to be obtained from Elizabethtown's natural gas portfolio during the AMA Review Periods.<sup>8</sup> In other words, Concentric's analysis showed that Sequent's performance as an asset manager was better than a reasonable asset manager would have achieved under the market conditions that existed during the AMA Review Periods. Concentric is being retained to prepare a report for the year ended March 31, 2017 and March 31, 2018 and those reports will be provided when they become available.

#### **THE PROPOSED EXTENSION OF THE SEQUENT ARRANGEMENT**

10. Elizabethtown has three basic options for obtaining gas supply and capacity management services after the expiration of the AMA. Elizabethtown could either:

- negotiate an extension agreement with Sequent subject to Board approval;
- conduct a request for proposals/competitive bid process and accept bids for gas supply and capacity management services from third party managers; or
- bring the gas supply/capacity management function back into Elizabethtown.

Elizabethtown believes that attempting to negotiate a replacement agreement with Sequent is likely to produce the greatest value for the Company and its customers for the following reasons:

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<sup>8</sup> These reports will be filed with the Board pursuant to the Open Public Records Act and provided to Staff and the Division of Rate Counsel after the execution of a confidentiality agreement.

First, a continuation of Elizabethtown's contract with Sequent would maintain an arrangement with a proven entity with a track record of positive performance that has been reviewed and confirmed through independent third party analyses. Sequent has continually provided Elizabethtown and its customers with reliable gas supplies at an overall cost that is reasonable and consistent with market conditions. As a large natural gas marketer and asset manager owned by a utility holding company, Sequent has both the financial profile to maintain the ability to continually supply gas in a reliable manner and a particular understanding of the reliability needs of local distribution companies that results in Sequent focusing its attention on maintaining reliable gas supply as its primary objective under the AMA.

Second, as the incumbent gas supplier/capacity manager for Elizabethtown, Sequent is uniquely situated to create value for Elizabethtown's customers in ways that may be difficult for a replacement manager that is not as familiar with Elizabethtown's upstream assets to replicate. Moreover, a transition to a new asset manager could result in a loss of value as the new asset manager becomes familiar with Elizabethtown's assets.

Third, because Elizabethtown has not worked with other gas supplier/asset managers, it would be very difficult for Elizabethtown to evaluate any bid that was not a fixed or otherwise guaranteed fee. In Elizabethtown's experience, fixed fee bids do not maximize the value of outsourcing Elizabethtown's capacity management function.

Fourth, to administer a gas supply and/or asset management function either independently or using a different third party supplier/asset manager would require Elizabethtown to incur incremental internal costs. For example, to administer a capacity management function, standard best practices require the use of a three office model—a front office to develop and execute the capacity management strategy; a middle office to confirm and monitor the risk of all deals; and a



back office to be responsible for invoicing and reporting financial results. Elizabethtown currently relies on Sequent for these functions. Regardless of whether Elizabethtown performs its own asset management, or contracts with a non-affiliated third party to perform that function, it would need to add incremental resources to manage these activities.

11. For all these reasons, Elizabethtown respectfully submits that it is in the best interest of Elizabethtown and its customers for the Company to attempt to negotiate an extension of its current AMA with Sequent and, if successful, to file this arrangement with the Board for its review and approval. Elizabethtown proposes the following process and target dates:

- |                              |   |  |
|------------------------------|---|--|
| October 1 – October 31, 2017 | - | Parties put in place appropriate confidentiality arrangements and Elizabethtown provides parties with documents relevant to the AMA.   |
| November 1, 2017             | - | Elizabethtown commences discussions with representatives of Board Staff and Rate Counsel to review Elizabethtown's gas supply portfolio, Sequent's past performance as a supplier and asset manager and the options for replacing and/or modifying the current AMA.  |
| February 15, 2018            | - | Deadline for notifying the Board as to whether the parties agree as to how Elizabethtown should move forward in this matter. If the parties do not reach consensus, then each party would have the opportunity to provide its position to the Board. Absent consensus, the Board would have the ability – within the limits of its authority – to direct the Company as to how to proceed. |

Elizabethtown respectfully submits that the proposed timeline should afford sufficient time for the parties to thoroughly review Elizabethtown's gas supply situation and the Board to make any necessary ruling concerning Elizabethtown's future gas supply arrangements. Moreover, as the current AMA does not expire until March 31, 2019, this timeline provides Elizabethtown sufficient time to negotiate an extension of the current AMA with Sequent or to otherwise revise

its gas supply arrangements and bring them before the Board for review and any needed approvals well before the March 31, 2019 expiration of the current AMA.

#### ATTACHMENTS

12. Attached to and made a part of this Petition are the following Exhibits:
- Exhibit A - Schematic of Elizabethtown's gas supply portfolio;
  - Exhibit B - Elizabethtown's upstream contracts; and
  - Exhibit C - Elizabethtown's peak day supply and demand.

#### SERVICE

13. Petitioner is serving notice and a copy of this Petition upon Stefanie Brand, Director, New Jersey Division of Rate Counsel, 140 East Front Street, 4<sup>th</sup> Floor, Trenton, New Jersey 08625 and upon the service list attached hereto.

### CONCLUSION

**WHEREFORE**, Elizabethtown respectfully requests that the Board (i) issue an order or a Secretary's letter permitting Petitioner to proceed with the process outlined in this filing; and/or (ii) grant Elizabethtown such other relief as the Board may deem just and proper.

Respectfully submitted,

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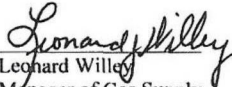
Dated: October 2, 2017

**VERIFICATION**


STATE OF NEW JERSEY    )  
  )    ss:  
COUNTY OF UNION        )

Leonard Willey, being duly sworn according to law, upon his oath, deposes and says:

1. I am Manager of Gas Supply for the Petitioner and I am authorized to make this affidavit.
2. The statements made in the foregoing Petition are true to the best of my knowledge, information and belief.

  
Leonard Willey  
Manager of Gas Supply

Sworn to and subscribed to before me  
This 28<sup>th</sup> day of Sept., 2017.

  
Notary Public

Jane James  
Notary Public  
My Commission Expires Dec. 20, 2021