

Petitioner's Exhibit No. 2
Cause No. 37366 GCA 155
CEI South
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**SOUTHERN INDIANA GAS AND ELECTRIC COMPANY
d/b/a CENTERPOINT ENERGY INDIANA SOUTH
(CEI SOUTH)**

IURC CAUSE NO. 37366 GCA 155

**DIRECT TESTIMONY
OF
PAULA J. GRIZZLE
DIRECTOR OF GAS SUPPLY AND PORTFOLIO OPTIMIZATION**

DIRECT TESTIMONY OF PAULA J. GRIZZLE

I. INTRODUCTION

Q. Please state your name and business address.

A. Paula J. Grizzle
1111 Louisiana, 21st Floor
Houston, Texas 77002

Q. By whom are you employed?

A. I am employed by CenterPoint Energy Resource Corporation ("CERC"), a wholly owned subsidiary of CenterPoint Energy, Inc. CERC provides centralized support services to CenterPoint Energy, Inc.'s operating units, one of which includes Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South ("CEI South", "Petitioner", or "Company").

Q. On whose behalf are you submitting this direct testimony?

A. I am submitting testimony on behalf of CEI South, which is an indirect subsidiary of CenterPoint Energy, Inc.

Q. What position do you hold with Petitioner CEI South?

A. I am the Director of Gas Supply and Portfolio Optimization. I have the same position with another utility subsidiary of CenterPoint Energy, Inc. – Indiana Gas Company, Inc. d/b/a CenterPoint Energy Indiana North ("CEI North").

Q. Please describe your educational background.

A. I earned a Bachelor of Science degree from University of Houston – Clear Lake in 1999.

Q. Please describe your professional experience.

A. My entire professional career has been focused in the energy industry with a total of 21 years of experience. I started my career doing gas accounting functions and through a combination of mergers and acquisitions, my initial job at Engage Energy led me to work

1 at EnCana Energy Services, Kinder Morgan, and Cinergy Marketing. During each
2 transition, my responsibilities increased from gas accounting to gas scheduling and
3 currently managing gas supply and transportation covering all CenterPoint Energy, Inc.
4 utilities. My career at CenterPoint Energy, Inc. started in 2005.

5
6 **Q. What are your present duties and responsibilities as Director of Gas Supply and**
7 **Portfolio Optimization?**

8 A. I am responsible for the acquisition and administration of gas supply for the Company's
9 natural gas distribution operations.

10
11 **Q. Have you previously testified before this Commission, any other state commission,**
12 **or Federal Energy Regulatory Commission (FERC)?**

13 A. Yes. I have testified before the Indiana Utility Regulatory Commission ("IURC" or
14 "Commission") on behalf of CEI South in its Gas Cost Adjustment ("GCA") proceeding,
15 Cause No. 37366, beginning in GCA 149. I have also testified on behalf of CEI North in
16 its GCA proceeding Cause No. 37394, beginning in GCA 149. In addition, I have
17 presented testimony to FERC in Northern Natural Gas Company's rate proceeding.

18
19 **Q. What is the purpose of your testimony in this proceeding?**

20 A. My testimony addresses: (1) CEI South's portfolio approach to gas supply acquisition, (2)
21 CEI South's existing long-term purchases, (3) CEI South's sources of interstate pipeline
22 capacity, (4) CEI South's Asset Management Arrangement, and (5) the demand forecast
23 and gas supply costs underlying CEI South's GCA schedules.

24
25
26 **II. CEI SOUTH'S PORTFOLIO APPROACH TO GAS SUPPLY ACQUISITION**

27
28 **Q. What is CEI South's approach to gas supply acquisition?**

29 A. CEI South employs a portfolio approach that results in acquiring gas supply for a GCA
30 quarter using different pricing mechanisms. Generally, CEI South blends: (1) fixed-priced
31 physical gas purchased in advance of the month of delivery, (2) financial hedges that cap,
32 collar, or fix gas prices on a portion of future purchases, and (3) summer-purchased

1 storage gas to be withdrawn in winter months, with (4) gas purchased at the time of
2 delivery at current market prices (the "Portfolio Approach").
3

4 **Q. Why does CEI South employ the Portfolio Approach?**

5 A. CEI South's Portfolio Approach achieves two important objectives – to purchase reliable
6 gas supply at market prices, while at the same time mitigating to a large degree the price
7 volatility of the gas sold to CEI South's customers.
8

9 **Q. Please describe the components of CEI South's Portfolio Approach.**

10 A. CEI South's Portfolio Approach currently consists of the following components:

- 11 1. Fixed-price gas that is acquired in advance of the month of delivery based on a
12 structured process.
- 13 2. Financial hedges that effectively cap, collar, or fix gas prices on a portion of future
14 purchases based on a structured process.
- 15 3. Storage gas purchased at typically lower prices in the summer months for
16 redelivery to customers during the heating season.
- 17 4. First-of-month ("FOM") gas purchased and priced based on monthly indices just
18 before the month of delivery.
- 19 5. Daily "swing" purchases acquired during the month at daily indices as needed to
20 meet daily swings in demand.
- 21 6. Long-term purchases for a portion of projected annual volumes which allows the
22 Company to fix the price of gas for a period greater than two years and up to ten
23 years in duration.
24

25 **Q. Please describe the modifications to the Gas Supply Hedge Plan (the "Hedge Plan")**
26 **approved in Cause No. 44021.**

27 A. In light of changes in the gas marketplace, mainly the development of shale gas, CEI
28 South proposed certain changes to its Hedge Plan in Cause No. 44021. These changes
29 were found to be reasonable in that proceeding. The CEI South Hedge Plan has been
30 modified to change the level of hedged gas and to include proposed long-term purchases
31 as another component of the plan. The modified targets approved in Cause No. 44021

1 allow CEI South to hedge up to fifty percent of its annual purchases and up to seventy
2 percent of its projected winter deliveries.
3

4 **Q. Has CEI South proposed and had approved by the Commission any modifications**
5 **to the current Advance Purchase Plan?**

6 A. Yes, CEI South previously proposed to modify the Advance Purchase Plan from a
7 quarterly approach to a seasonal approach. The rationale for this modification was that a
8 seasonal approach is in line with both the supply planning and storage management
9 seasons along with the acquisition pattern of commodity purchases. This seasonal
10 approach would not alter the level of hedged purchases on either a monthly or annual
11 basis but would align the combined short-term and long-term hedged volumes in a concise
12 manner.
13

14 **Q. Please identify the adjustments to CEI South's Advance Purchase Plan which were**
15 **proposed and approved by the Commission.**

16 A. CEI South proposed and the Commission authorized the Company to modify the Advance
17 Purchase Plan from eight calendar quarters to four seasons and continue to incorporate
18 both physical fixed-priced purchases and financial hedges, including caps, to fulfill the
19 seasonal volumes. The targeted quantities and timing for the proposed Advance Purchase
20 Plan are listed in the following table:
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22
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CEI South's Proposed Advance Purchase Plan

Season and Target Hedge Levels

	Time Period	Current % of Seasonal Volume to be Hedged
Current Season	April 2022 through October 2022	50-100%
1st Succeeding Season	November 2022 through March 2023	25-75%
2nd Succeeding Season	April 2023 through October 2023	0-75%
3rd Succeeding Season	November 2023 through March 2024	0-75%

- 1
- 2 **Q. Based on CEI South's Portfolio Approach as developed in the Gas Supply Hedging**
- 3 **Program, what percentage of total deliveries to customers would be hedged for a**
- 4 **normal winter season?**
- 5 A. The following table illustrates the amount and percentage of gas supply that would be
- 6 delivered at hedged prices during a normal winter season.
- 7

CEI South Portfolio Approach

Percentage of Hedged Deliveries During a Normal Winter Season

Quantities in MDth

Season	Total Normal Season Deliveries	Hedged Storage Activity	Physical and Financial Hedged Volumes	Market Priced Purchases	Hedged Gas % of Total
Nov-Mar	8,240	3,434	2,333	2,473	70%

- 8
- 9 **Q. Does the Portfolio Approach eliminate the possibility of a spike in gas costs to**
- 10 **customers?**
- 11 A. No, but the approach does significantly mitigate the possibility of a significant spike in gas
- 12 prices adversely affecting customers' bills. The sum effect of physical hedged volumes,
- 13 financial hedged volumes, and storage withdrawals means that roughly 70% of the gas
- 14 delivered to customers during a normal winter season has been purchased at various

times in advance, at then current market prices, achieving an averaging effect that can mitigate price spikes in the period.

That does, however, leave roughly 30% of the deliveries to be purchased at monthly or daily market prices during a normal winter season. The prices of the monthly and daily purchases could be higher or lower than the hedged price deliveries. By leaving some portion of the gas deliveries for purchase at current market prices, CEI South's Portfolio Approach ensures that a current price signal is still being conveyed.

Q. Does CEI South's Portfolio Approach for gas supply acquisition "optimize" the resulting gas costs?

A. It is important to understand that there is no "exact" answer for acquiring gas supply. Natural gas is a competitively priced commodity impacted by many forces including fluctuating temperatures, the economy, storage inventory levels, etc. CEI South's Portfolio Approach achieves a "reasonable" answer or result, by acquiring reliable gas supply at market prices while over time mitigating the impact of price volatility. The Portfolio Approach provides a structured approach to acquiring gas supply such that the negative impacts of gas price spikes can be mitigated.

III. CEI SOUTH'S EXISTING LONG-TERM TRANSACTIONS

Q. Please describe the long-term transaction proposed and executed by CEI South in Cause No. 37336 GCA 135.

A. In GCA 135, CEI South proposed to enter into a transaction for the term November 2018 – October 2023. The transaction was proposed as a financial transaction for 90,000 Dth per month at a fixed price for the entire sixty-month term to not exceed \$3.25 per Dth. A transaction at this level is the equivalent of nine New York Mercantile Exchange ("NYMEX") contracts for the term, and the volume represents roughly ten percent of the projected normal weather annual GCA supply to be purchased for CEI South.

On July 26, 2017, the Commission's Order for GCA 135 granted approval for CEI South to proceed with the proposed long-term transaction. Shortly thereafter, CEI South executed a financial transaction for the term November 2018 – October 2023 for 90,000 Dth per month.

Q. Please describe the long-term transaction proposed and executed by CEI South in Cause No. 37336 GCA 136.

A. In GCA 136, CEI South proposed to enter into a transaction for the term April 2019 – March 2024. The transaction would be a financial transaction for 50,000 Dth per month at a fixed price for the entire sixty-month term to not exceed \$3.25 per Dth. A transaction at this level is the equivalent of five NYMEX contracts for the term, and the volume represents roughly five percent of the projected normal weather annual GCA supply to be purchased for CEI South.

On October 28, 2017, the Commission's Order for GCA 136 granted the approval for CEI South to proceed with the proposed long-term transaction. Shortly thereafter, CEI South executed a financial transaction for the term April 2019 – March 2024 for 50,000 Dth per month.

Q. Why has CEI South entered into financial transactions?

A. Fixed-priced financial purchases, as opposed to fixed-priced physical purchases, will enable CEI South to maintain the maximum amount of daily system flexibility required for system balancing. Long-term financial purchases based on the NYMEX are more liquid for the term proposed in comparison to a physical transaction at a physical pricing point in the current environment. CEI South customers will continue to receive the benefits from the diverse physical pricing points for the financial volumes executed in these long-term transactions.

Q. How will these financial transactions be accounted for in the GCA process?

A. These transactions will be accounted for in the GCA in a similar manner as the existing long-term fixed-priced transactions have been shown in the GCA schedules. For the projected quarter, these financial transactions will be shown as a separate line item in

Schedule 3 for each month for the term of the transaction. This will ensure transparency for the long-term purchases in each quarterly GCA filing. Similar to the previously executed long-term purchases, the Company will provide the same level of transparency for any future long-term supply purchases. For the reconciliation quarter, these transactions will be shown as a separate line item in the Schedule 8 Supplement for each month for the term of these financial transactions. As a result, the monthly gain or loss associated with these financial transactions will flow through the GCA and will be accounted for in the GCA filings as all purchases have been accounted for.

IV. INTERSTATE CAPACITY

Q. Please detail the components of the CEI South pipeline capacity portfolio for the period April 2022 – March 2023.

A. Please see the following table of the CEI South pipeline capacity for the period April 2022 – March 2023.

CenterPoint Energy Indiana South - CEI South																
Interstate Capacity Portfolio																
April 2022 - March 2023																
(Volumes in Dth)																
Pipeline Supplier	Pipeline Contract #	Service Type	SCQ	Term Date	April 30 MDQ	May 31 MDQ	June 30 MDQ	July 31 MDQ	August 31 MDQ	September 30 MDQ	October 31 MDQ	November 30 MDQ	December 31 MDQ	January 31 MDQ	February 28 MDQ	March 31 MDQ
Texas Gas	33274	FT		10/31/2024	10,247	10,247	10,247	10,247	10,247	10,247	10,247	8,188	8,188	8,188	8,188	8,188
Texas Gas	33274	NNS	438,564	10/31/2024	10,906	-	-	-	-	-	14,268	16,812	16,812	16,812	16,812	16,812
Texas Gas	35496	FT		10/31/2036	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Texas Gas	26787	FT		3/31/2029	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
TETCO	911048	SCT		10/31/2022	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
					56,353	45,447	45,447	45,447	45,447	45,447	59,715	60,200	60,200	60,200	60,200	60,200

Q. Please describe the interstate capacity utilized by CEI South.

A. CEI South receives firm transportation and/or storage capacity from the following interstate pipelines: Texas Gas Transmission ("TGT"), and Texas Eastern Transmission Corporation ("Texas Eastern"). CEI South relies upon capacity from these pipelines for the delivery of gas supply to its citygate.

V. ASSET MANAGEMENT ARRANGEMENT

Q. Please describe how an Asset Management Arrangement (“AMA”) works.

A. FERC Order 712 developed the framework for an AMA in 2008. At that time FERC recognized the benefits of allowing LDCs, gas producers, and end-users to outsource capacity optimization and supply management services using AMAs. Capacity releases within an AMA are exempt from the prohibition on tying a capacity release to any condition and from competitive bidding requirements. To receive this exemption under the AMA, the asset manager must bear a purchase or delivery obligation to the releasing shipper for at least five months out of each twelve-month period for up to 100 percent of the daily contract demand of the released capacity.

The asset manager commits to provide a reliable gas supply and manage upstream capacity contracts. The asset manager often pays a fixed fee for the right to optimize the LDC's capacity contracts.

Q. How did CEI South address the AMA which expired March 31, 2021?

A. On June 1, 2020, CEI North and CEI South (collectively, “CEI”) issued a competitive request for proposals (“RFP”) to solicit bids for the provision of AMA services for the term April 1, 2021 – March 31, 2024. The RFP was distributed to a list of qualified and experienced AMA suppliers. Each supplier has experience with operating and managing firm transportation and storage services with multiple interstate pipeline contracts.

Q. What criteria did CEI utilize to select the entity to be the AMA provider commencing April 1, 2021?

A. In response to the RFP, CEI received five proposals from bidders. The relevant factors and criteria included in the review were monthly AMA payment, commodity price, supplier creditworthiness, supplier experience, supplier's prior operational activity in the region, and any proposed changes to the AMA Agreement. CEI accepted Tenaska Marketing Venture's bid to be the AMA provider for this three-year term. Pursuant to that bid, the CEI South GCA customers will receive a credit of \$50,417 per month for the three-year term April 2021 through March 2024. This credit is an increase of 50% from the current AMA

1 payment. This AMA payment amount is included on GCA projection Schedule 1, line 1
2 column A and Schedule 1A as a credit to the projected monthly demand costs starting
3 April 2021. The AMA payment amount will also be included on reconciliation Schedule 8
4 for the entire three-year term April 2021 through March 2024.
5
6

7 **VI. DEMAND FORECASTS AND GAS SUPPLY COSTS**
8

9 **Q. Please describe the information contained in GCA Schedule 2.**

10 A. This schedule contains the sales quantity forecasts for the twelve months ending July
11 2023 as prepared by CEI South.
12

13 **Q. Please describe the sales quantity forecasts.**

14 A. The sales quantity forecasts for Rate Schedules 110 and 120 are derived from historical
15 consumption, adjusted for normal weather, conservation, and customer growth.
16

17 **Q. Please describe the gas supply plan, which serves as the basis for the data
18 contained in GCA Schedules 3 and 5.**

19 A. Prior to each season, a gas supply plan is assembled which includes projections of the
20 quantities and prices of gas supply and any storage activity required to meet expected
21 customer demand during the GCA period. These projections are then reflected in GCA
22 Schedules 3 and 5.
23

24 **Q. How are the projected pipeline service prices determined?**

25 A. The rates and charges reflected in the estimation of transportation costs are based upon
26 contracts or filings which have been made with the FERC. The rates and charges reflected
27 in the estimation of contract storage and storage transportation charges are based upon
28 contracts or FERC filings.
29

30 **Q. How are the projected gas supply prices determined?**

31 A. The projected gas supply prices are based upon NYMEX gas futures market prices and
32 the prices of any fixed-priced gas purchased in advance of the GCA quarter. NYMEX gas

1 futures market pricing data is adjusted to reflect price volatility and basis pricing
2 differentials. In addition, the premiums for financial hedges and the estimated hedging
3 impact are included in computing the average commodity costs.

4
5 **Q. Please describe the actual gas cost information contained in GCA**
6 **Schedules 8 and 10.**

7 A. Schedule 8 contains the actual demand and commodity costs for pipeline services and
8 gas supply purchased during the reconciliation period. Schedule 10 contains the
9 quantities, prices, and costs of gas injected into and withdrawn from Company-owned
10 storage during the reconciliation period.

11
12 **Q. Do the gas costs included in GCA Schedules 3, 5, 8, and 10**
13 **reflect CEI South's policy of making every reasonable effort to acquire long-term**
14 **gas supplies so as to provide reliable gas service to its retail customers at the**
15 **lowest gas cost reasonably possible?**

16 A. Yes.

17
18
19 **VII. CONCLUSION**

20
21 **Q. Does this conclude your prepared direct testimony?**

A. Yes, at the present time.

