

RESOLUTION

NO. R-21-181

CITY HALL: May 20, 2021

**BY: COUNCILMEMBERS MORENO, GLAPION, GIARRUSSO, BANKS AND
BROSSETT**

**RESOLUTION AND ORDER AUTHORIZING
ENTERGY NEW ORLEANS, LLC TO HEDGE A PORTION OF ITS 2021-2022
WINTER HEATING SEASON DISTRIBUTION SYSTEM NATURAL GAS
REQUIREMENTS**

WHEREAS, pursuant to the Constitution of the State of Louisiana and the Home Rule Charter of the City of New Orleans ("Charter"), the Council of the City of New Orleans ("Council") is the governmental body with the power of supervision, regulation, and control over public utilities providing service within the City of New Orleans; and

WHEREAS, pursuant to its powers of supervision, regulation, and control over public utilities, the Council is responsible for fixing and changing rates and charges of public utilities and making all necessary rules and regulations to govern applications for the fixing and changing of rates and charges of public utilities; and

WHEREAS, Entergy New Orleans, LLC ("ENO") is a public utility providing electric and natural gas service to all of New Orleans; and

Hedging Background

WHEREAS, in response to extreme price volatility in the natural gas market during the 2000/2001 winter heating season, the Council sought to provide ENO's local gas distribution system ratepayers protection against future natural gas price volatility; and

WHEREAS, based on a recommendation from ENO, the Council authorized ENO to implement a hedging program that was designed to protect its local gas distribution system ratepayers against volatility in future natural gas prices by entering into financial contracts that lock in the price of natural gas for an agreed upon quantity in a future month during the winter heating season; and

WHEREAS, the difference between the price of the gas hedge (financial contract) and the market price of the gas purchased for delivery can either increase or decrease the price that ratepayers actually pay; and

WHEREAS, the financial contract is merely a mechanism used to fix the price for the future quantity of gas agreed to in the contract and, separately, the amount of gas physically needed to supply the gas demand is then purchased at a market price; and

WHEREAS, ENO's costs associated with the hedging program are recovered through its Purchased Gas Adjustment rider schedule ("PGA"); and

WHEREAS, though hedging does not assure lower prices, hedging does reduce price volatility; and

WHEREAS, the Council conducts reviews of ENO's hedging program results, focusing on the program's costs versus the potential benefits to be achieved by it; and

WHEREAS, the Council directed ENO to cease its hedging program for the 2012/2013 winter heating season due to its high costs to ratepayers and the lack of significant price volatility in the natural gas market in 2012; and

WHEREAS, Council Resolution Nos. R-13-161, R-14-225, R-15-196, R-16-187, R-17-329, R-18-295, R-19-207, and R-20-244 approved ENO's request to implement winter heating season gas hedging programs for the 2013/2014, 2014/2015, 2015/2016, 2016/2017, 2017/2018, 2018/2019, 2019/2020, and 2020/2021 seasons respectively; and

WHEREAS, pursuant to the resolutions related to the gas hedging program, the amount of hedging has been limited to no more than 25% of ENO's actual volumes for the immediate prior winter heating season; and

2020 Annual Report on Market for Natural Gas

WHEREAS, on March 1, 2021, ENO filed its *2021 Annual Gas Market Report* (the "Report"), which concluded that uncertainty around future prices and volatility remains, and, absent some level of protection, unforeseeable price spikes could lead to increases in customer bills; and

WHEREAS, the Report also concluded that the historical hedging program achieved the Council's objective and resulted in delivered natural gas prices that were less volatile than market prices and the level of hedging can be increased or decreased as necessary in response to changing market conditions; and

WHEREAS, ENO, in the Report, recommends that the Council approve ENO's continuing to hedge for the 2021/2022 winter season consistent with the Council's policy objectives; and

WHEREAS, the Advisors have evaluated the hedging results for the last three winter heating seasons and the information contained in the Reports; and

WHEREAS, ENO's hedging results of natural gas for the Purchased Gas Adjustment for the past three winter heating seasons shows a savings of \$505,235 for the 2018/2019 heating season, a cost of \$632,487 for the 2019/2020 winter heating season, and a cost of \$487,783 for the 2020/2021 winter heating season; and

WHEREAS, ENO's total loss (gain) in its gas hedging program for the 2018/2019, 2019/2020, and 2020/2021 winter heating seasons were approximately (2.02%), 3.12%, and 1.99% of its total cost of the PGA in the same periods respectively; and

WHEREAS, reports by the US Energy Information Administration ("EIA"), show that current (*i.e.*, April 2021) working gas in underground storage is expected to be lower than the average over the past five years. This is in part attributed to above-average gas storage withdrawals over the winter related to cold February temperatures; and

WHEREAS, Henry Hub natural gas spot prices for each of the 2020/2021 winter heating months were higher than the same month in the prior season, except for November 2020; in particular, the February 2021 monthly average of \$5.56, versus \$1.98 for that of February 2020, indicates the potential for weather-related price volatility; and

WHEREAS, the current NYMEX Henry Hub gas futures contract settlements indicate gas prices in the range of \$2.82/MMBtu to \$3.07/MMBtu for the 2021/2022 winter heating season, and a 95% confidence interval price range of approximately \$1.20/MMBtu to \$6.02/MMBtu for the same period, which indicates that traded markets reflect uncertainty in both the level and volatility of future prices; and

WHEREAS, the continuation of ENO's hedging program for the 2021/2022 winter heating season as hedging could dampen the adverse impact on ratepayers' bills of any unexpected natural gas price volatility; **NOW THEREFORE**

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF NEW ORLEANS,
That ENO's request to implement a 2021/2022 winter heating season gas hedging program is

APPROVED, provided, however, the Company shall not hedge more than 25% of its actual winter heating volumes for the 2020/2021 winter heating season.

THE FOREGOING RESOLUTION WAS READ IN FULL, THE ROLL WAS CALLED ON THE ADOPTION THEREOF, AND RESULTED AS FOLLOWS:

YEAS:

NAYS:

ABSENT:

AND THE RESOLUTION WAS ADOPTED.