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January 13, 2014

Via Electronic Mail

Steven V. King
Executive Director and Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive S. W.
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Docket No. UG-132019 - Inquiry into Local Distribution Companies' Natural Gas Hedging Practices and Transaction Reporting

Dear Mr. King,

Cascade Natural Gas Corporation (Cascade or Company) submits the following comments in accordance with the Washington Utilities and Transportation Commission's (Commission) Notice of Opportunity to File Written Comments (Notice) issued in Docket UG-132019 dated December 18, 2013. Cascade appreciates the opportunity to provide the following general comments as well as individual comments related to the issues identified by the Commission in its Notice.

Cascade believes that the current PGA process is not broken and, therefore, is not in need of fixing. The current PGA process allows for staff and other parties to review the expected Weighted Average Cost of Gas (WACOG) calculations which are based on the company's procurement plan and hedging strategy. The procurement plan and hedging strategy have been vetted and approved by the company's Gas Supply Oversight Committee (GSOC). All other companies have similar processes with different acronyms. Staff reviews these procurement plans and hedging strategies using current Commission prudency standards during the PGA review.

Procurement plans and hedging strategies are not stagnant. Cascade monitors the market and evaluates whether market conditions warrant a change to the plan. Staff, when reviewing the deferral amortization filings, looks at actual gas cost purchases in light of the procurement plan including changes or modifications to the plan or market conditions that should have warranted a change--again, application of the Commission's prudency standards. The current PGA process allows for the application of the Commission's prudency standards twice unlike most other reviews.

Cascade has a difficult time visualizing changes to the current PGA process that doesn't require more prescription from the Commission regarding purchasing decision making. Cascade believes that the Company should maintain this responsibility with Commission review.

Cascade provides the following specific comments to the identified issues.

1) Hedging Activities

a) What is the purpose of hedging?

To minimize exposure to price volatility.

i) Reduction in price volatility allowing greater cash-flow certainty?

It is easier to gauge and plan for the cost of contracted supplies if the utility has "smoothed out" price volatility utilizing hedging strategies.

ii) Protection against the substantial rate hikes?

In Washington, the utilities primarily recover gas costs through the annual purchase gas adjustment process; again, hedges are used to limit the ratepayer's exposure to price volatility.

iii) Stabilization of customer rates, especially during the winter months?

If hedging is applied towards winter supplies, yes, as winter is historically the period that experiences the most extreme spot price fluctuations due to significant changes in demand caused by weather.

iv) Other reasons?

***b)* Who should be the beneficiaries of hedging?**

Ratepayers; any practice that can potentially mitigate their costs is a benefit.

c) Hedges are commonly negotiated for a fixed period of time; the time period can span from months to years.

i) Is there a sound reason to limit the time horizon that companies can contract for a hedge?

It depends on the utility.

ii) **If so, what should be the maximum time horizon?**

A one-size-fits-all approach is not possible as each utility will have somewhat differing perspectives based on which supply basins are applicable to its systems, its load profile, credit tolerances, whether it is doing fixed price physical purchasing or participating in the ownership of actual production, or if it may receive more advantageous pricing from a bank vs a physical supplier. In the case of Cascade, our Gas Supply Oversight Committee continuously monitors market events. For example, one of the analyses we perform on a routine basis is looking at the forward price curve three years out compared to current prices to see what, if any pattern can be ascertained. It is our experience that a time horizon of three to five years has worked best for our hedging purposes. However, as we state, each utility will have a somewhat different strategy due to load shape, geographic access to particular basins and its own interpretation of current short/long range market intelligence.

iii) **What are the advantages, if any, of hedging over a multi-year period?**

Multi-year hedging allows for utilities to contract for varying levels of contract sizes and duration while smoothing out the volatility over a longer range. In theory, it should promote more price stability over a longer period of time.

d) Companies normally hedge to a set "target" percentage of their expected load allowing the remainder of the unhedged load to be acquired on the spot market.

i) Is there a need for the Commission to limit the percent of load hedged and, if so, what should be the maximum percent hedged?

No, each utility should determine the most reasonable amount to hedge, as it is the party closest to market activity and best understands its unique system requirements.

ii) What are some of the factors affecting the amount of hedging that a utility should do?

Again, each utility may have different factors; for example, some LDCs might only hedge at the most expensively priced basin in their geographical area; other LDCs may because of how they are laid out geographically, while others may decide to seek hedges in multiple basins. A utility should also consider limiting the share of the portfolio that is hedged to a single counterparty.

iii) **When discussing target percentages, should the Commission distinguish between physical and financial hedging?**

Not necessarily. Physical hedging usually takes place in the form of a fixed priced physical supply, whereas a financial derivative can be underlying a single or multiple physical supply contracts or basins. In addition, the Dodd-Frank act has prompted more transparency and reporting requirements of many commodity transactions, primarily financial derivatives and as such Cascade has chosen to rely on fixed physical priced contracts for hedging purposes.

e) Should the Commission consider providing an incentive mechanism

allowing for sharing of gains as well as losses associated with a company's hedging practices?

No. If it is agreed that the purpose of hedging is to mitigate volatile gas costs and there is a purchase gas adjustment process for recovery of gas costs, then no. However, the Commission issued a policy statement in 1997 providing guiding principles regarding the use of incentive mechanisms for gas procurement.

i) What should be the benchmark?

Again, a one size fits all is hard to determine since a utility may have a different level of supply access and delivering capabilities. If a benchmark were to be determined we would recommend a monthly index weighted by the expected purchases from each basin.

ii) What are the challenges in developing an incentive mechanism?

To properly monitor the constant activity of the natural gas marketplace would be a time consuming administrative burden which would likely prove challenging for the commission to take on to ensure that each utility is properly following the rules.

f) Is it feasible to develop a financial model that would provide a benchmark the Commission could use as a "safe harbor" when evaluating a company's hedging performance?

It depends on if the Commission is willing to devote the resources to work with the utilities to develop a fair mechanism. However, ultimately the Commission's current prudency guidelines should be sufficient.

i) Assuming the Commission decides to establish requirements or set limitations on hedging, as discussed above, by what means should the Commission act?

(1) Rule,

(2) Order applicable to all companies following a hearing,

(3) Company-specific orders after individual hearings,

(4) Non-binding policy statement,

(5) Other

2) Non-binding policy statement-each utility is going to have unique circumstances and all strategies change as market changes.

2) Purchased Gas Adjustment Mechanism (PGA) - WAC 480-90-233 Although purchased gas costs include costs beyond hedging costs, hedging gains and losses can make up a material portion of the associated rate adjustment. The Commission believes it is important as part of this inquiry to examine certain aspects of the PGA

filing requirements as they relate to hedging.

a) **Washington companies file adjustments to their PGA mechanisms annually. However, some stakeholders have suggested that annual filings fail to provide proper economic signals to consumers and may actually contribute to large swings in rates due to the accumulation of under- recovered or over-recovered amounts.**

i) **Should the Commission require more frequent PGA filings, such as semi- annually, quarterly or even monthly**

No; more frequent PGAs do have the ability to send a more accurate or current price signal to customers and could reduce the impacts of deferral balances. However, more frequent PGAs would require additional Commission Staff and utility staff. The current PGA rule allows companies the flexibility to file PGAs more frequently than once a year if needed and the timing is conducive.

ii) **If companies make more frequent, to what extent should the companies provide additional supporting data and narrative above those already provided in its annual filing? (Please address the additional resources that the Commission may require to process the additional filings.)**

Any addition filings should be more of an update filing based on the most recent market indicators. Narratives should include changes from the November PGA. Again, the current PGA rule allows for these types of update filings. However in order to have a meaningful impact, conditions would have to change relatively shortly after the November filing in order to process a filing, file it, and get it approved before the winter season ended or the impact to the deferral balances would not be significant.

b) **Should the Commission consider a uniform PGA reporting standard allowing for:**

i) **Comparability of data?**

Yes, as much as possible, as this will help improve the ability to compare utilities, and leading to more useful analysis. This can be accomplished by the utilities meeting with staff in a technical workshop to discuss what the staff currently likes or dislikes with regard to individual companies and to build a uniform format. Because the utilities are unique a one size fits all approach may not fully work but certain aspects can be incorporated uniformly.

ii) **Staff effectiveness and efficiency?**

Yes, standardizing certain reporting could lead to some effectiveness and efficiency improvement, but it could also lead to lessoning of overall company specific and process understanding.

Again, the Company appreciates the opportunity to provide these comments and we look forward to participating in the workshop scheduled for January 23, 2014. If you have any questions regarding these comments, please contact me at 509-734-4593 or at michael.parvinen@cngc.com.

Sincerely,

Michael P

Mike Parvinen
Director, Regulatory Affairs