Cascade Natural Gas Corporation

Overview of Nov17-Oct18 Hedging Plan filed with the WUTC

November 16, 2017

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Guidance from Gas Supply Oversight Committee (GSOC)

- GSOC serves as steering committee, and authorizes hedging policy and plans
- Chris Robbins and Mark Sellers-Vaughn assigned to lead internal group
- Establish regular reporting to GSOC
- Internal working group includes participants from Gas Supply, Resource Planning, Regulatory, Finance, Audit and IT
- Consider hiring consultant or third party
- Enabling and configuring additional application(s) resources
- Consult with other utilities to develop a best practice perspective suitable for Cascade.
- Recognize that WUTC believes fixed physicals believes should be given similar analysis, reporting, treatment as financial derivatives.
- Communicate regularly with WUTC Staff, stakeholders and regional LDCs
- Training for impacted employees

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Cascade's assumptions regarding the Gettings hedging paper

- The Commission recognizes there is no right mix of methods or strategies Cascade should employ to provide protection on upside price risk and downside hedging loses.
- It appears the Commission views the 2015 Gettings paper on hedging as providing valuable guidance to help LDCs develop more robust risk management programs. Cascade is utilizing aspects of the Gettings paper to inform the Company's evolving risk management program.

Recent hedging activity

Comparing fixed priced physical contracts to the forward market/CNG price forecast at time of execution

Gas Year Nov 10 – Oct 11:

This was the Company's worst year in terms of futures pricing outperforming our executed prices. Many prices were executed at 10-20% higher than the futures pricing, hence providing more justification for lowering max levels, tolerances and move from financial derivatives

Gas Year Nov 15 – Oct 16:

Variance was very low for this gas year, with well over 50% of contracts coming within +/- $.10/Dth of the executed price in total (less than 3%)

Gas Year Nov 16 – Oct 17:

17 of the 22 contracts for this gas year were executed at +/- 0.11/Dth (3.6%)

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Snapshot of current hedging policy as authorized by GSOC

- The portfolio consists of a physical supply design based on a declining percentage each year. For Year 1: Approximately 80% of annual requirements; Year 2: 40%, Year 3: 20%
- Within those overall portfolio levels, hedging percentages are limited to a maximum of 40% of annual requirements. Year 2 hedge limit is set at 25%, and 20% for Year 3.
- GSOC will consider modifying the procurement plan at any time if the outer 3 year's forward price is 20% HIGHER or LOWER over a reasonably sustained period. Cascade may also use puts, calls, or financial derivatives should market conditions warrant.

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Some recent enhancements to Cascade hedging policy

Identification of risks and risk mitigation under various scenarios (financial derivatives or fixed priced physicals):

- Potential mark-to-market values as of the end of each fiscal quarter subsequent to execution through the expiration of the proposed arrangement.
- Scenarios that should be considered are best case, worst case, and expected case.
- Improved analytics for weighting sources for Cascade's blended 20-year price (generated on demand), including back casts

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Aspects of Cascade's Plans for Compliance with WUTC Hedging Policy

- On an interim basis, the Company will continue to utilize the currently approved hedging plan while implementing a more robust hedging strategy over the course of the next two years.
- The Company has formed an internal hedging team, reporting to GSOC, to address the Washington hedging policy.
- Ensure the Company has sufficient subject matter expertise internally.
- In addition, Cascade anticipates the hiring of an outside consultant to review the Company's current hedging strategy, internal knowledge base, systems, controls and help the Company develop a plan to execute modifications that are in alignment with the goals of the WUTC's hedging policy.
- Cascade uses a transaction management system called Aligne. Aligne has a risk management module called TRM, which Cascade has also purchased.
- The Company's 2018 portfolio design will include more modeling of different scenarios, examination of risk associated with those scenarios, and identification of any opportunities to mitigate costs. The 2018 hedging plan will include an update of the Company's progress towards being in full compliance with Washington's hedging policy.
- Company polices and procedures may need to be modified/created to reflect WUTC policy and that fixed-priced physical activities may have to be included in current derivatives policies.
- Ensure full compliance with Washington hedging policy by filing of the Nov19-Oct20 hedging plan.

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A few concerns and potential issues...

- Cascade is concerned that a potentially long application implementation process might affect our ability to be in full compliance by late 2019.
- Supply and hedging strategies are analyzed at a system basis. Complying with the Washington hedging policy, Cascade will be effectively modifying its Oregon hedging and PGA.
- Expanding and/or purchasing a new system and adding resources potentially exposes the Company to some significant expenses.
- Incorporating policy into future Integrated Resource Plans (IRP)
- Finally, Cascade requests more guidance regarding expectations of future hedging plans
  - Reports and documents
  - Required public meetings
  - An acknowledgement process similar to the IRP

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Questions/Feedback

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