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UTILITIES AND TRANSPORTATION COMMISSION
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Re: Docket UG-190726 – Puget Sound Energy 2019 Gas Hedging Plan
Docket UG-190725 - Northwest Natural Gas Company 2019 Gas Hedging Plan
Docket UG-190749 – Avista Utilities 2019 Natural Gas Hedging Plan
Docket UG-190764 – Cascade Natural Gas 2019 Natural Gas Hedging Plan

The Washington Utilities and Transportation Commission (Commission) has reviewed the 2019 Natural Gas Hedging Plan**s** filed by Puget Sound Energy (PSE) on August 30, 2019, Northwest Natural Gas Company (NW Natural) on August 30, 2019, Avista Utilities (Avista) on September 6, 2019, and Cascade Natural Gas (Cascade) on September 12, 2019, (collectively, the "2019 Gas Hedging Plans"), and finds that each complies with the guidance provided in the Commission's Natural Gas Hedging Policy Statement.[1]

This acknowledgment does not signal pre-approval for ratemaking purposes of any course of action identified in any of the 2019 Gas Hedging Plans. The Commission will review the prudence of each company's actions at the time of any future request to recover natural gas costs. The Commission will review and reach a prudence determination after giving due weight to the information, analyses, and strategies contained in each company's most recent hedging plan along with other relevant evidence.

[1] Wash. Util. & Trans. Comm., Docket UG-132019, Policy and Interpretive Statement on Local Distribution Companies' Natural Gas Hedging Practices ("Policy Statement") (March 13, 2017).

Moreover, by this letter, we are providing notice to the above-named companies that the Commission will no longer require the annual filing of separately-docketed hedging plans. Instead, as discussed below, the Commission will require that going forward companies file their annual hedging plans as a component of the annual PGA filing.

Background

On March 13, 2017, the Commission issued its Policy and Interpretive Statement on Local Distribution Companies' Natural Gas Hedging Practices. The Policy Statement established the expectation that local distribution companies (LDCs) develop risk-responsive hedge strategies and limit programmatic hedging approaches that fail to balance upside price risk with hedge loss risk. LDCs were instructed to file annual hedging plans documenting their individual strategies for accomplishing this goal.

The Policy Statement outlined a general process and timeline for regulatory review of utility hedging plans. Utilities were to file "preliminary" hedging plans in 2017, "comprehensive" hedging plans in 2018, and "final" hedging plans in 2019. The 2019 hedging plans were to demonstrate full strategy implementation for 2020 and beyond.

General Comments

In 2019, LDCs experienced a spectrum of market conditions, some unpredictable and extreme, providing opportunity for utilities to evaluate the performance of their overall gas hedging strategies under various circumstances. Though utility hedging strategies appear to have performed satisfactorily under these circumstances, the Commission looks forward to watching how utility hedging strategies continue to evolve as companies gain more experience with risk-responsive hedging across a variety of market conditions.

It is also noteworthy that each company's unique market position, access to natural gas markets, system operations, service territory, and customer base influenced its risk profile. The Commission appreciates each utility's unique circumstances and recognizes that each utility's hedging portfolio has been tailored to respond to that company's unique market exposure. The Commission anticipates that each company will continue to maintain a portfolio of risk management activities that corresponds to its unique exposure to different categories of risks.

While the Commission commends its four jurisdictional LDCs for the successful roll-out of risk responsive hedge strategies, we also stress that each utility must going forward, continue to meet the expectations described in detail below.

Expectations Going Forward

Integration of hedging plans into annual PGA filings

The Commission recognized the relationship between the annual Purchased Gas Adjustment (PGA) filing and hedging gains and losses in its Policy Statement by indicating it would review utility hedging strategies as part of its annual PGA review, particularly for assessing the appropriateness for recovery of associated hedging gains or losses. Given that hedging gains and losses are passed on to customers, the Commission will continue to review the appropriateness for recovery of those gains and losses through the annual PGA filings.

The Commission continues to expect that hedging gains and losses will be clearly identified in the PGA filing and discussed in the retrospective report section of each annual hedging plan. Utilities should also clearly identify how hedging gains and losses contributed to the deferral balance and how they relate to proposed PGA rates.

Furthermore, the assessment of the prudence of hedging costs through the annual PGA filing requires re-integrating the annual hedging plans and retrospective reports into the annual PGA filing. While over the past several years the Commission required hedging plans to be docketed and reviewed separately from the annual PGA filings, we now require that going forward companies file their annual hedging plans as a component of the annual PGA filing. A separately docketed hedging plan is no longer required.

Hedging Plan Content

The Policy Statement established expectations regarding the content and substance for the annual gas hedging plans filed with the Commission. Consistent with the Policy Statement companies should continue to define objectives and goals, include exposure quantification, and discuss oversight and control. Companies should continue to identify and discuss material changes to hedging plans, strategies, metrics, or practices, and the rationale for those changes.

Additionally, the Commission continues to require that each utility's annual filing include a retrospective report that includes hedging results, consistent with the guidelines provided in the Policy Statement, as well as a reconciliation of hedging gains and losses to PGA costs. Hedges reflected in the report should include those that were executed and settled in the previous PGA year along with the metrics associated with the decision to hedge.

The retrospective review should include a list of individual hedging transactions, with identification of: (a) gains and losses; (b) hedged price; (c) commodity price at settlement date; (d) type of hedge executed (e.g., fixed-price physical, financial derivative); (e) hedge strategy (e.g., programmatic, defensive, cash cost strategy); (f) reason for execution (e.g., tolerance exceedance, upper or lower control limit breach, time expiration); and (g) final balances transferred to the corresponding PGA annual filing.

Conclusion

The Commission acknowledges the 2019 Natural Gas Hedging Plan**s** filed by PSE, NW Natural, Avista and Cascade, and finds that each complies satisfactorily with the guidance provided in the Commission's Natural Gas Hedging Policy Statement.

Sincerely,

MARK L.JOHNSON
Executive Director and Secretary