



STATE OF WASHINGTON  
**UTILITIES AND TRANSPORTATION COMMISSION**  
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April 29, 2019

Scott Morris  
Chair of the Board, President, and Chief Executive Officer  
Avista Utilities  
1411 East Mission  
Post Office Box 3727  
Spokane, Washington 99220

Re: Avista Corporation d/b/a Avista Utilities  
2018 Washington Natural Gas Hedge Report  
**Docket UG-180734**

Dear Mr. Morris:

The Washington Utilities and Transportation Commission (Commission) has reviewed the 2018 Washington Natural Gas Hedge Report (Hedging Plan) filed by Avista Corporation d/b/a Avista Utilities (Avista or Company) on August 31, 2018, and finds that the report complies with the guidance provided in the Commission's Natural Gas Hedging Policy Statement.<sup>1</sup>

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

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<sup>1</sup> Washington Utilities and Transportation Commission, Docket UG-132019, Policy and Interpretive Statement on Local Distribution Companies' Natural Gas Hedging Practices (Policy Statement) (March 13, 2017).

The Commission commends Avista's development of a risk responsive hedging tool and its demonstration of successful implementation of risk responsive hedging protocols. The Commission also commends Avista on its overall strategic approach to gas procurement that optimizes the use of the Company's available resources and includes a balance of risk responsive hedging, programmatic hedging, storage, and index purchases. While the Commission provides more detailed comments regarding the Company's filed Hedging Plan in the attachment, the Commission summarizes its guidance here for Avista's next Hedging Plan filing:

1. With respect to goals and objectives, Avista should include a clear definition of the goal of its hedging activities as well as measurable objectives in pursuit of that goal.
2. The Company should include a more detailed description of how its Risk Policy governs hedging activities and how the Gas Supply Department operationalizes the Risk Policy directives.
3. To the extent Risk Management Committee, meetings relate to the Company's hedging activities, they should be discussed in the hedging plan. The Company should also demonstrate how the committee incorporates the Strategic Oversight Group collaboration in its decision making process.
4. The Company should provide a comprehensive list of the individuals involved in the hedging decision-making process, including individual responsibilities of each member, decision-making hierarchy, and other relevant details to understand how hedging decisions are made.
5. Regarding the ongoing design and assessment of the Company's hedging program, the Company should provide a list of source documents on which the Company relied or that influenced that design or assessment.
6. The Company should produce a retrospective report, consistent with the guidelines provided in the Policy Statement.

Consistent with the Commission's prior direction, the annual purchased gas adjustment (PGA) review is the best vehicle to consider the recovery of hedging losses and gains. Avista should provide the following information in future PGA filings and, where appropriate, in the retrospective hedging report:

1. Detail of all financial instruments that aim to reduce exposure in the natural gas markets;
2. Hedging program results, including costs associated with transactions (i.e., broker's fees or other necessary expenses) and how those costs are allocated;
3. Descriptions of the relationship, if any, between natural gas hedging gains or losses that are flowed through electric power costs versus the hedges that are part of the natural gas operations;
4. A description of multijurisdictional cost allocations for hedging transactions; and
5. A list of individual hedging transactions identifying:

- a. Gains and losses;
- b. Executed 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); and
- f. Reason for execution (e.g., tolerance exceedance, upper or lower control limit breach, time window expiration).

The Commission acknowledges that Avista's 2108 Natural Gas Hedge Report complies with the guidance the Policy and Interpretive Statement in Docket UG-132019. As Avista develops its 2019 Hedging Plan and prepares to file its next PGA, the Commission expects that the Company will continue to consult with Commission Staff. Avista should file its next Hedging Plan on or before August 31, 2019.

Sincerely,

Mark L. Johnson  
Executive Director and Secretary

Attachment