



STATE OF WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION
1300 S. Evergreen Park Dr. S.W., P.O. Box 47250 • Olympia, Washington 98504-7250
(360) 664-1160 • TTY (360) 586-8203

April 29, 2019

Kimberly Harris
President and CEO
Puget Sound Energy
P.O. Box 97034, EST-07W
Bellevue, WA 98009-9734

Re: Puget Sound Energy
2018 Washington Natural Gas Hedge Report
Docket UG-180795

Dear Ms. Harris:

The Washington Utilities and Transportation Commission (Commission) has reviewed the 2018 Comprehensive Natural Gas Hedging Plan filed by Puget Sound Energy (PSE or Company) on September 17, 2018, and finds that the report 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 PSE'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.

¹ 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 PSE for its ability to develop a risk-responsive hedging model and its implementation of risk-responsive hedging protocols guided by current market price, risk metrics, and volatility. While the Commission provides more detailed comments regarding the Company's filed Hedging Plan in the attachment, the Commission summarizes its guidance here for PSE's next Hedging Plan filing:

1. Include a clear definition of the goal of its hedging activities as well as measurable objectives in pursuit of that goal;
2. Identify all changes to hedge policies and practices including relevant documentation that supports the changes;
3. Define "market opportunities" and "low price opportunities" in the context of PSE's programmatic portfolio. The Company should identify what metrics it uses to decide that market conditions are favorable for triggering a hedging transaction. The Company should also describe its "low cost methodology";
4. Discuss whether there is value in updating the risk responsive model inputs more frequently (such as on a daily basis). Provide justification if the Company considers more frequent market updates unnecessary or non-applicable to the risk responsive model;
5. Provide a description of the Merchant and its role in influencing hedging policy, and a summary of the contents of the monthly report;
6. Produce a retrospective hedging report, including hedging results, consistent with the guidelines provided in the policy statement. Hedges included should be the ones executed and settled in the previous PGA year, along with the metrics associated with the decision to hedge;
7. Demonstrate how exposure boundaries are established in the risk responsive model and how they relate to defined tolerances;
8. 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;
9. Provide a list of source documents that were used or that influenced the ongoing design or assessment of the Company's hedging program; and
10. Perform independent evaluations on hedging plan practices.

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. PSE should provide the following in future PGA filings and, where appropriate, in the retrospective 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 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); and
 - f. Reason for execution (e.g., tolerance exceedance, upper or lower control limit breach, time expiration).

The Commission acknowledges that the 2018 Comprehensive Natural Gas Hedging Plan filed by Puget Sound Energy complies with the guidance the Policy and Interpretive Statement in Docket UG-132019. As PSE 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. PSE should file its next Hedging Plan on or before August 31, 2019.

Sincerely,

Mark L. Johnson
Executive Director and Secretary

Attachment