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

Nicole Kivisto
CEO
Cascade Natural Gas Corporation
8113 W. Grandridge Blvd.
Kennewick, WA 99336-7166

Re: Cascade Natural Gas Corporation
Cascade Natural Gas Hedging Plan
Docket UG-180825

Dear Ms. Kivisto:

The Washington Utilities and Transportation Commission (Commission) has reviewed the 2018 Washington Natural Gas Hedge Report (Hedging Plan) filed by Cascade Natural Gas (Cascade or Company) on September 28, 2018, and finds that the report does not comply with the guidance provided in the Commission's Natural Gas Hedging Policy Statement.[1] However, the Commission acknowledges the receipt of Cascade's 2018 Hedging Plan and notes the Company presents a concrete plan for developing a risk-responsive hedging strategy and associated analytical capacities that it intends to deploy during the 2019-2020 PGA year. Consistent with the policy statement, we expect Cascade's 2019 hedging plan to communicate the Company's plans for deploying risk-responsive hedging protocols during the 2019-2020 PGA year.

This acknowledgment does not signal pre-approval for ratemaking purposes of any course of action identified in Cascade'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,

[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).

analyses, and strategies contained in the Company's most recent Hedging Plan along with other relevant evidence.

While the Commission provides more detailed comments regarding the Company's filed proposal in the attachment, the Commission summarizes its guidance here for Cascade's next Hedging Plan filing, and suggests the Company:

1. Describe its newly developed capacity to execute risk-responsive hedging protocols;
2. Include a clear definition of the goal of its hedging activities, as well as measurable objectives in pursuit of that goal;
3. Identify relevant oversight and control entities within the Company and their capacities. Include a description of the team overseen by the Director of Gas Supply-Utility Group;
4. Document Gas Supply Oversight Committee meetings, as well as committee decisions and guidance. To the extent committee meetings relate to the Company's hedging activities, they should be discussed in the hedging plan;
5. Provide a comprehensive list of the individuals involved in the hedging decision-making process, including the individual responsibilities of each member, decision-making hierarchy, and other relevant details to understand how hedging decisions are made;
6. Identify specific risk metrics and analysis the Company will use for decision-making. This should include how the Company will use metrics and analysis for decision making purposes, basins it will consider, and how the model will establish price tolerances for hedging decisions;
7. Identify policy guidance and metrics used to make decisions with respect to trading structured products, caps, floors, and derivatives that are used to offset hedging losses;
8. Perform independent third-party evaluations once the Company develops the autonomy to manage its own hedging program;
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. Produce a retrospective report, consistent with the guidelines provided in the Policy Statement. In the retrospective report, discuss more thoroughly the information provided in the monthly guidance documents and how that information relates to ongoing program evolution.

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. Cascade 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. A description of multijurisdictional cost allocations for hedging transactions; and

4. 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); and
   f. Reason for execution (e.g., tolerance exceedance, upper or lower control limit breach, time window expiration).

As Cascade 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. Cascade should file its next Hedging Plan on or before August 31, 2019.

Sincerely,

Mark L. Johnson
Executive Director and Secretary

Attachment