

Minutes - Project Team Meeting with G&A 6/25/2019

Tuesday, June 25, 2019

1:41 PM

Attendees (parties in yellow participated):

Name	Company	Job Title	E-mail Address	Business Phone
Naina Agarwal	MDU - Montana-Dakota Utilities Co.	Internal Controls Coord, Sr	[REDACTED]	[REDACTED]
Stephanie Barth	MDUR Corporate	VP, CAO & Controller	[REDACTED]	[REDACTED]
Kent Bayazitoglu	Gelber & Associates	Market Analyst	[REDACTED]	[REDACTED]
Kevin Conwell	MDU - Cascade Natural Gas Company	Mgr, Accounting & Finance	[REDACTED]	[REDACTED]
Ashton Davis	MDU - Cascade Natural Gas Company	Resource Planning Analyst I	[REDACTED]	[REDACTED]
Christy Dirk-Senn	MDUR Corporate	Financial Analyst III	[REDACTED]	[REDACTED]
Doug DiJulio	MDU - Montana-Dakota Utilities Co.	Dir, IT & Communications	[REDACTED]	[REDACTED]
Bruce Folsom	Bruce W Folsom Consulting, LLC	President	[REDACTED]	[REDACTED]
Art Gelber	Gelber & Associates	President	[REDACTED]	[REDACTED]
Brian Hoyle	MDU - Cascade Natural Gas Company	Financial Analyst II	[REDACTED]	[REDACTED]
Joan Inman	MDUR Corporate	Treasury & Risk Analyst III	[REDACTED]	[REDACTED]
Devin McGreal	MDU - Cascade Natural Gas Company	Resource Planning Analyst I	[REDACTED]	[REDACTED]
Daniel Myers	Gelber & Associates	Market Analyst	[REDACTED]	[REDACTED]
Chris Robbins	MDU - Cascade Natural Gas Company	Mgr, Gas Ctrl & Sply-Wstrn Reg	[REDACTED]	[REDACTED]
Brian Robertson	MDU - Cascade Natural Gas Company	Supv, Resource Planning	[REDACTED]	[REDACTED]
Chris Ryan	MDU - Cascade Natural Gas Company	Supv, Accounting & Finance	[REDACTED]	[REDACTED]
Mark Sellers-Vaughn	MDU - Cascade Natural Gas Company	Mgr, Supply Resource Planning	[REDACTED]	[REDACTED]
Dustin Senger	MDUR Corporate	Assistant Treasurer	[REDACTED]	[REDACTED]

Carolyn Stone	MDU - Cascade Natural Gas Company	Gas Supply Analyst III	[REDACTED]	[REDACTED]
Eric Wood	MDU - Cascade Natural Gas Company	Supv, Gas Supply	[REDACTED]	[REDACTED]

Hedge Execution Plan (HEP) for GSOC

- G&A's 2019 guidance
 - *Basically fixed priced physicals*
 - *Some swaps and calls if market warrants*
 - *NYMEX at \$3.25 - \$3.50 for the upcoming winter strips*
 - *Gelber recommends a 40/40/20 portfolio; primarily because 40% is typical Year 1 for Cascade and we are still in transition to the full hedge program implementation; Year 2 maximum under the new program because Year 2 is typically less than Year 1, etc. Gelber recommends fixed-priced physicals (FPP) because:*
 - *1)FPP is still cheaper financials*
 - *2)Cascade is still in transition to fully incorporating financial derivatives*
 - *3)Still working under last years' GSOC authority. Sumas winter pricing may create a change; Gelber is hesitant to recommend buying Sumas higher than \$4. Still looking at end of 3rd quarter for potential financial derivative.*
 - *C Robbins noted there has been no change in Enbridge status; so there is some potential that Enbridge T-South line may not be back to 100% flow by December.*
- Naina's Financial Flowcharts
 - *Ashton is working on the last 5 flowcharts. He will be in contact with Naina on ensuring all the changes she requested have been addressed.*
- Status of HEP
 - *Principle review has been completed by subset of group*
 - *Gelber addressing remaining issues*
 - *Supporting workbook for the \$24.5 successful hedging program*
 - *Middle of next week -- Daniel does believe yes. Kent is back next week. Trade book with MTM is in a separate tab. There is probably another update.*
 - *Get recent transactions from E Wood*
 - *Send to entire group for final review*
- GSOC HEP discussion
 - *Target date for GSOC is 2 pm July 9, via Skype.*

2019 Annual Hedge Plan for WUTC

- Details (transactions, pricing, period, location, etc.) supporting the "Hedged Percentage Results" from May's HEP workshop
- Briefly address G&A's handling of WUTC acknowledgment items 6, 7 and 10:
 - (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
- (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.
 - *(Gelber will provide all above, as identified in the HEP)*

D McGreal and D Myers developed questions for Staff to address. Staff responded on Staff's response is in red.

- **Item 1:** “Describe its newly developed capacity to execute risk-responsive hedging protocols”
- **Cascade question:** Does this include human resources?

Staff response: Including human resources doesn't hurt anything. But item 1 was meant very generically. Once your risk-responsive hedging program has been developed, the hedging plan should describe what it is you are doing. Explain how you are quantifying risk, how you establish tolerances, how you know when to execute a hedge, etc., etc. Just explain the tools, analysis and hedging protocols to us.

- **Item 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”
- **Cascade comment:** Please confirm what additional information Staff would like to see besides what is provided at the bottom of page 3/top of page 4 in the 2018 Annual Hedging Plan.

Staff response: Just explain it again, but as it relates to the new protocols you are developing and with a few more specifics. Discuss the “decision-making process,” not just the high-level oversight functions. Who is responsible for performing the analysis, who makes recommendations regarding when and whether to execute a hedge, how does the decision maker evaluate the recommendation and the analytical impetus, who is ultimately responsible for the decision to execute or not, etc.? Also, the attachment to the acknowledgment letter notes it's not clear what “team” the Director oversees, what is the composition of that team, or what the oversight role of the Director entails. A chart of who is doing what and when would probably be helpful.

- **Item 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”
- **Cascade questions:** Does this reference the language Cascade uses when describing its 2018 hedging strategy on page 4 of the 2018 Annual Hedge Plan document rather than the proposed improvements to the hedging plan that begin in Section IV? Would the Commission be more comfortable if Cascade clarified that the 5% ceiling on structured products etc. is a previous corporate policy and not meant as a recommendation for future hedging plans?

Staff response: Yes, last bullet on page 4. It wasn't clear which components of your previous strategy you were going to abandon entirely. Please identify the discontinued components in your next hedging plan/report. However, if in any way you are continuing to use financial

instruments to offset a hedge (including fixed-price physicals) being “out of the money,” you should identify and describe the logic of that process.

[Staff] would like to note here that the commission was careful to note that it doesn’t expect companies to abandon programmatic hedging altogether. Your comprehensive hedging program should identify the percentage of your portfolio that is hedged programmatically, the percentage that is purchased at spot/index, and the maximum percentage that could be hedged defensively.



Mock run

- Looking at August
- M Sellers-Vaughn to set up meeting for week of July 8 for Cascade Accounting, Gelber and Gas Supply to map out the mock process