



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

David H. Anderson  
President and CEO  
Northwest Natural Gas Company  
220 NW 2<sup>nd</sup> Avenue  
Portland, OR 97209

Re: Northwest Natural Gas Company  
2018 Washington Natural Gas Hedge Report  
**Docket UG-180781**

Dear Mr. Anderson:

The Washington Utilities and Transportation Commission (Commission) has reviewed the 2018 Washington Natural Gas Hedge Report (Hedging Plan) filed by Northwest Natural Gas Company (NW Natural or Company) on September 14, 2018, and finds that the report does not comply with the guidance provided in the Commission's Natural Gas Hedging Policy Statement.<sup>1</sup> However, the Commission acknowledges the receipt of NW Natural's 2018 Hedging Plan and notes the Company presents a concrete plan for developing and implementing a risk-responsive hedging strategy and associated analytical capacities during the 2019-2020 purchased gas adjustment (PGA) year. Consistent with the policy statement, we expect the NW Natural'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 NW Natural'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

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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).

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.

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

1. Include demonstration that the Company has developed the 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 and their capacities;
4. 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. Provide a list of source documents that were used or that influenced the ongoing design or assessment of the Company's hedging program; and
6. 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. NW Natural 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 NW Natural 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. NW Natural should file its next Hedging Plan on or before August 31, 2019.

Sincerely,

Mark L. Johnson  
Executive Director and Secretary

Attachment