

[Service Date December 18, 2013]



STATE OF WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION
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(360) 664-1160 • www.utc.wa.gov
December 18, 2013

NOTICE OF OPPORTUNITY TO FILE WRITTEN COMMENTS
(By Monday, January 13, 2014)
AND
NOTICE OF WORKSHOP
(To be held Thursday, January 23, 2014, at 9:30 a.m.)

RE: Inquiry into Local Distribution Companies' Natural Gas Hedging Practices and Transaction Reporting, Docket UG-132019

TO INTERESTED PERSONS:

The Washington Utilities and Transportation Commission (Commission) is currently in the process of gathering information and reviewing existing literature concerning natural gas hedging and hedging practices. The Commission seeks the perspective of investor-owned utilities and interested persons involved in hedging activities in the state, and has identified a number of issues and questions, listed below, that will provide a basis for possible further action. Stakeholders and interested persons are invited to provide comments with the Commission on these topics and questions by **Monday, January 13, 2014**. The Commission also invites interested persons to attend a workshop scheduled for **Thursday, January 23, 2014**, beginning at 9:30 a.m. to discuss natural gas hedging issues and policy.

WRITTEN COMMENTS

Stakeholders are encouraged to submit written comments on the issues identified below:

1) Hedging Activities

- a) What is the purpose of hedging?
 - i) Reduction in price volatility allowing greater cash-flow certainty?
 - ii) Protection against the substantial rate hikes?

- iii) Stabilization of customer rates, especially during the winter months?
- iv) Other reasons?
- b) Who should be the beneficiaries of hedging?
- c) Hedges are commonly negotiated for a fixed period of time; the time period can span from months to years.
 - i) Is there a sound reason to limit the time horizon that companies can contract for a hedge?
 - ii) If so, what should be the maximum time horizon?
 - iii) What are the advantages, if any, of hedging over a multi-year period?
- d) Companies normally hedge to a set “target” percentage of their expected load allowing the remainder of the unhedged load to be acquired on the spot market.
 - i) Is there a need for the Commission to limit the percent of load hedged and, if so, what should be the maximum percent hedged?
 - ii) What are some of the factors affecting the amount of hedging that a utility should do?
 - iii) When discussing target percentages, should the Commission distinguish between physical and financial hedging?
- e) Should the Commission consider providing an incentive mechanism allowing for sharing of gains as well as losses associated with a company’s hedging practices?
 - i) What should be the benchmark?
 - ii) What are the challenges in developing an incentive mechanism?
- f) It is feasible to develop a financial model that would provide a benchmark the Commission could use as a “safe harbor” when evaluating a company’s hedging performance?
 - i) Assuming the Commission decides to establish requirements or set limitations on hedging, as discussed above, by what means should the Commission act?
 - (1) Rule,
 - (2) Order applicable to all companies following a hearing,
 - (3) Company-specific orders after individual hearings,
 - (4) Non-binding policy statement,
 - (5) Other

2) Purchased Gas Adjustment Mechanism (PGA) - WAC 480-90-233

Although purchased gas costs include costs beyond hedging costs, hedging gains and losses can make up a material portion of the associated rate adjustment. The Commission believes it is important as part of this inquiry to examine certain aspects of the PGA filing requirements as they relate to hedging.

- a) Washington companies file adjustments to their PGA mechanisms annually. However, some stakeholders have suggested that annual filings fail to provide proper economic signals to consumers and may actually contribute to large swings in rates due to the accumulation of under- recovered or over-recovered amounts.
 - i) Should the Commission require more frequent PGA filings, such as semi-annually, quarterly or even monthly?
 - ii) If companies make more frequent, to what extent should the companies provide additional supporting data and narrative above those already provided in its annual filing? (Please address the additional resources that the Commission may require to process the additional filings.)
- b) Should the Commission consider a uniform PGA reporting standard allowing for:
 - i) Comparability of data?
 - ii) Staff effectiveness and efficiency?

Written comments on the issues identified above must be filed with the Commission no later than **5:00 p.m., Monday, January 13, 2014**. The Commission requests that comments be provided in electronic format to enhance public access, for ease of providing comments, to reduce the need for paper copies, and to facilitate quotations from the comments. Comments should be in .pdf Adobe Acrobat or in Word 97 or later version. Comments may be submitted via the Commission's Web portal at www.utc.wa.gov/e-filing or by electronic mail to the Commission's Records Center at records@utc.wa.gov. Alternatively, comments may be submitted by mailing or delivering an electronic copy to the Commission's Records Center on a flash drive, compact disk, or 3 ½ inch, IBM-formatted, high-density disk. Comment submissions should include:

- The docket number of this proceeding (UG-132019)
- The commenting party's name
- The title and date of the comment or comments

The Commission will post on its web site all comments that are provided in electronic format. The web site is located at the following URL address: www.utc.wa.gov.

WORKSHOP

The Commission will conduct a workshop to discuss natural gas hedging policy issues and current reporting practices on **Thursday, January 23, 2014, beginning at 9:30 a.m.**, and continuing, as necessary, until 4:00 p.m. in Room 206, Richard Hemstad Building, 1300 S. Evergreen Park Drive SW, Olympia, Washington.

The Commission seeks input from a variety of stakeholders on these issues. If you have questions about this inquiry or wish to request time on the workshop agenda, Danny Kermode, the Commission's Energy Policy Advisor, at (360) 664-1253, or by e-mail at dkermode@utc.wa.gov .

If you wish to receive further information on this matter you may (1) call the Commission's Records Center at (360) 664-1234 or, (2) e-mail the Commission at records@utc.wa.gov and ask to be included on the mailing list for Docket UG-132019.

STEVEN V. KING
Executive Director and Secretary