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May 23, 2016

Steven V. King
Executive Director and Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive S. W.
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Docket No. UG-132019
Inquiry into Local Distribution Companies' Natural Gas Hedging Practices and Transaction Reporting

Dear Mr. King:

Northwest Industrial Gas Users ("NWIGU") submit these comments in response to the Washington Utilities and Transportation Commission's ("Commission") Notice of Opportunity to File Written Comments, dated April 11, 2016 ("Notice") in Docket No. UG-132019.

NWIGU commends the Commission for continuing this discussion about hedging practices. Because most of the questions presented for comment in the Notice are more appropriately addressed by the local distribution companies ("LDCs"), NWIGU's comments are addressed only to the first question, in which the Commission seeks input regarding the benefits of the risk-management approach to hedging presented in the White Paper prepared by Mr. Gettings. NWIGU urges the Commission to provide opportunities for additional comment from all parties prior to the adoption of any final policy or rule.

In the White Paper, Mr. Gettings has reminded the Commission and all stakeholders that the reason LDCs hedge gas purchases is primarily to reduce customer pain experienced in severe upside markets. Mr. Gettings has also properly observed that customers derive some degree of greater value from mitigating against upside cost risk than they do from forgoing some hedge losses. The experiences of 2000-01, 2005, and 2008 demonstrated to all natural gas consumers just how severe price increases can be if demand for natural gas exceeds supply. Painful adjustments, including business closures, were experienced during the three severe natural gas price spikes that have occurred since 2000.

What Mr. Gettings' work has shed the most light on is the inherent risk to LDCs' customers in so-called "lock and leave" hedging programs. The challenge for this Commission and all stakeholders is to find the proper regulatory guidance to encourage the use of more sophisticated hedging strategies than "lock and leave" so that the commensurate upside price risk versus downside price risk can be weighed prior to setting the hedging percentage for any given time frame. An informed risk-management approach to hedging will require LDCs to consider whether there is more risk of prices rising than falling in today's market environment, or whether there is cost risk associated with future high prices greater than the loss risk associated with prices falling further from current levels. Where such risks are higher, then the current hedging strategy might vary from what a "lock and leave" approach would otherwise dictate. However, to make an informed judgment, we must determine whether today's natural gas consumers have a lower tolerance for the losses associated with rising prices than they do for the potential hedge losses that could be realized if future prices fall below levels that could be locked in today.

NWIGU urges the Commission to continue this discussion through additional workshops to fully consider the responses the LDCs and other stakeholders provide in response to the Notice. The expertise on this topic is largely with the LDCs. NWIGU urges the Commission to continue to rely on Mr. Gettings' expertise to assist the Commission, Commission Staff, and other stakeholders in understanding how the real-world practices and needs of the LDCs can be addressed as the Commission seeks to develop guidance or rules to make any necessary adjustments to the LDCs' existing hedging policies.

Very truly yours,

Chad M. Stokes
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