

Agenda Date: March 14, 2013  
Item Number: A3

**Docket:** UG-121569  
Company Name: Puget Sound Energy, Inc.

Staff: Christopher T. Mickelson, Regulatory Analyst

### **Recommendation**

Dismiss the Complaint and Order Suspending the Tariff Revisions; Allowing Rates on a Temporary Basis, Subject to Revision, for Avista Corporation in Docket UG-121501, Puget Sound Energy, Inc., in Docket UG-121569, Cascade Natural Gas Corporation in Dockets UG-121592 and UG-121623, and Northwest Natural Gas Company in Docket UG-121434, and allow the tariff revisions in all dockets to become effective on a permanent basis.

Issue a CR 101 and commence workshops to examine whether a rulemaking, policy statement or other procedure should be pursued with respect to the natural gas hedging practices and policies of commission-regulated natural gas.

### **Background**

In August, September and October 2012, Northwest Natural Gas Company, Avista Corporation, Puget Sound Energy, Inc., and Cascade Natural Gas Corporation (Cascade) (collectively, the companies) filed revisions to their Purchased Gas Adjustment (PGA) tariffs. All of these tariff revisions bore an effective date of November 1, 2012.

After a review of the filings, staff had concerns regarding the variety of reporting, procurement and hedging strategies employed by the companies, as well as financial hedging losses reported for November 1, 2011, through October 31, 2012, and previous years. Therefore, at the commission's Open Public Meeting on October 25, 2012, staff recommended that the commission issue a complaint and order suspending the tariff revisions in all dockets and allow the tariff revisions to become effective on November 1, 2012, on a temporary basis, subject to revision. This would allow staff additional time to investigate hedging transactions, potential implications of procurement/hedging guidelines, and uniformity of PGA reporting.

The commission adopted staff's recommendation and issued the appropriate orders on October 31, 2012, for all companies. The commission also ordered staff to "report to the Commission on the status of Staff's investigation no later than March 1, 2013, and that report shall include recommendations on the disposition of this tariff filing or the need for further process to make the appropriate determination."<sup>1</sup>

Staff filed its report on March 1, 2013, as required by the commission. Please refer to the report for a discussion of staff's review of the PGA filings and recommendation presented in this Open Meeting.

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<sup>1</sup> Order 01, Dockets UG-121501, UG-121569, UG-121434, UG-121623 and UG-121592.

## **Customer Comments**

The commission received three customer comments; one opposed, and two undecided. Consumer Protection staff advised consumers that they may access company documents about these cases at [www.utc.wa.gov](http://www.utc.wa.gov), and that they may contact Roger Kouchi at 1-888-333-9882.

## **General Comments**

- Three customers stated that natural gas costs are at an all-time low. They questioned why the residential gas rate does not decrease at the same rate as the wholesale cost of natural gas.

### **Staff Response**

Staff explained the PGA is a regulatory mechanism to adjust the price of natural gas to reflect the changing cost of gas in the wholesale market. Staff advised the customers that the utilities do not receive a profit from the wholesale purchase of natural gas. Staff further explained that there is an ongoing investigation into the gas utilities' hedging practices. The consumers were informed of the opportunity to participate at the open meeting.

## **Public Counsel Comments**

On March 1, 2013, Public Counsel submitted comments and a recommendation that the Commission keep all tariff revisions for all companies under suspension and, if necessary, set for hearing, in order to allow Public Counsel to continue its review of the companies' hedging practices and policies. In support of its recommendation, Public Counsel explains that its investigation has been constrained, first, by a delay until mid-January 2013 to secure non-disclosure agreements with the companies and, second, by responses to certain of its data requests that remain outstanding. However, Staff submits that the Commission should not hold these cases open because Public Counsel could not secure non-disclosure agreements until two and one-half months after the tariffs were suspended. Moreover, the Commission's prior orders only provided for further investigation and report by Staff. While the companies have cooperated with Public Counsel's discovery efforts, they have done so as a courtesy and not out of any formal obligation to respond to Public Counsel's data requests.

Public Counsel notes the size of the hedging losses and the need for more robust regulatory review. However, Public Counsel's recommendation to keep all of these cases open and perhaps set for hearing does not distinguish between companies, while Staff's analysis shows varying degrees of hedging performance among the companies. Staff Report at Attachments A and B. Moreover, the need for more robust regulatory review is precisely why Staff has recommended the Commission allow the filed tariff revisions to go into effect permanently and to issue a CR 101 with workshops and the potential for rulemaking or policy statement. The issues and policies raised by the companies' hedging activities are broad and complex in nature and, therefore, best reviewed broadly outside case schedules that are time-limited by the statutory suspension period that expires on September 1, 2013. Any issues regarding the provision and sharing of confidential data within the workshops can be addressed at that time.

### **Conclusion**

For the reasons set forth above and in the Staff March 1, 2013, Report, Staff recommends that the Commission issue orders that dismiss the Complaint and Order Suspending the Tariff Revisions; Allowing Rates on a Temporary Basis, Subject to Revision, for Avista Corporation in Docket UG-121501, Puget Sound Energy, Inc. in Docket UG-121569, Cascade Natural Gas Corporation in Dockets UG-121592 and UG-121623, and Northwest Natural Gas Company in Docket UG-121434, and allow the tariff revisions in all dockets to become effective on a permanent basis.

Staff also recommends that the Commission issue a CR 101 and commence workshops to examine whether a rulemaking, policy statement or other procedure should be pursued with respect to the natural gas hedging practices and policies of commission-regulated natural gas.