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May 23, 2016

VIA ELECTRONIC FILING

Mr. Steven V. King
Utilities and Transportation Commission
1300 S. Evergreen Park Drive S.W.
Olympia, WA 98504-7250

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

Dear Mr. King,

Public Counsel submits these comments pursuant to the Commission's Notice of Opportunity to File Written Comments, dated April 11, 2016. Public Counsel appreciates that the Commission continues to work towards understanding the hedging practices of the natural gas local distribution companies (LDCs) regulated by the Commission. Public Counsel further appreciates the efforts the Commission is taking to evaluate regulatory changes that will positively impact customers and provide companies with the tools needed to rationally improve their hedging programs. Lastly, as mentioned during the workshop held on March 28, 2016, Public Counsel greatly appreciates the willingness and openness of the LDCs to have frank discussions regarding hedging, including current practices and what adopting a risk-management framework would mean to each of the companies.

Public Counsel recognizes that there is no cookie-cutter, one-size-fits-all hedging program that should be adopted by all LDCs. However, the concepts outlined in Michael Gettings' White Paper prepared for the Commission, *Natural Gas Utility Hedging Practices and Regulatory Oversight, An Inquiry into Local Natural Gas Distribution Companies' Hedging Practices and Transaction Reporting* (July 2015) (hereinafter, "White Paper") can be adopted in a way that each of Washington's LDCs can implement risk management at their own pace and level of ability, within the proper regulatory bounds set by the Commission.

Under the risk-management strategy proposed in the White Paper, the LDCs would present their risk-management strategy to the Commission for review. This would include the action boundaries and other hedging strategy decisions that make up the LDC's risk-management program. Additionally, the LDC would file a "capability blueprint," which would describe changes in how the LDC quantifies risk (including development of systems to measure risk),



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strategy formation, transactional capability, governance and controls, and staffing. The capability blueprint is not itself the LDC's hedging plan, but rather information that the Commission and other stakeholders can assess to determine whether the LDC is developing the appropriate competencies necessary to implement a risk-management hedging program. Because it will take some time for the LDCs to develop expertise and fully implement risk management systems and controls, the capability blueprint should explain the company's patch and schedule going forward, recognizing that changes in the company's hedging program will occur over time. If an LDC does not show growth in its risk-management capabilities over time, that would be cause for concern in later years.

Public Counsel encourages the Commission to establish a regulatory framework that incorporates an appropriate level of flexibility, allowing the LDCs to make the decisions with respect to their individual hedging programs, but with a level of certainty that the LDCs (and stakeholders) understand what is expected. For example, the Commission should require the LDCs to measure the risk they intend to mitigate through their hedging programs. Under the current system, this risk assessment is not happening, and this is a critical component to a successful hedging program. Additionally, reporting requirements should be clearly set forth by the Commission.

Public Counsel would favor rules over a non-binding policy statement, but recognizes that a policy statement followed by rules may be an efficient way to implement new policies. If the Commission issues a policy statement, it should follow up with a rulemaking soon thereafter. Public Counsel believes that the strategies outlined in Mr. Gettings' White Paper should be adopted by the Commission. Adopting a risk-management approach to hedging allows the utilities to hedge only when necessary, avoiding unnecessary risk and cost. This outcome is beneficial to customers, as it protects them against the upside costs and allows them to better participate in reductions in cost.

Sincerely,



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