



*In the Community to Serve*

8113 W. GRANDRIDGE BLVD., KENNEWICK, WASHINGTON 99336-7166  
TELEPHONE 509-734-4500 FACSIMILE 509-737-7166  
www.cngc.com

May 23, 2016

*Via Electronic Mail*

Mr. Steven V. King, Executive Director & Secretary  
Washington Utilities & Transportation Commission  
Attn: Records Center  
P.O. Box 47250  
Olympia, WA 98504-7250

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

Dear Mr. King:

Cascade Natural Gas ("Cascade") appreciates the opportunity to provide comments to the Washington Utilities and Transportation Commission ("WUTC") regarding the natural gas hedging reporting and practices of the four local distribution companies (LDCs). In particular, Cascade is pleased to expand upon our discussion as a participant of the March 28, 2016 workshop. We will address the individual questions posed by the WUTC in its April 11, 2013 notice requesting comments.

**1. Do you see benefits in a risk-management approach to hedging such as that presented in the White Paper as opposed to current hedging strategies used by utilities? Would the use of this methodology ultimately result in savings over traditional programmatic hedging to customers?**

In general, the risk-management approach benefit would be in the form of applying a more systematic approach to gas procurement. Cascade's current risk management program would change, particularly in terms of reporting and additional analysis. As we have stated on previous occasions, each LDC will have somewhat differing hedging strategies based on which supply basins are applicable to its systems, its load profile, credit tolerances, the percentage level of programmatic strategy in the portfolio makeup, use of fixed priced physicals, owning actual production or entering into financial derivatives. In theory, we believe that multi-year hedging such as Cascade's fixed priced physical portfolio allows for a variety of contract sizes over time periods while "smoothing out" volatility. The White Paper presented data that would imply additional savings could be obtained for ratepayers instead of through the implementation of a

traditional programmatic hedging strategy. However, until analyses of the practices described in the White Paper are more thoroughly compared to our past and current hedging practices we are reluctant to completely agree that the methodology presented in the White Paper would result in greater savings. It appears that in most situations there would be additional costs or increased rates to customers by utilizing the approach. In extreme circumstances there could be a savings to customers.

**2. If so, what are your current in-house capabilities to implement risk-management hedging practices of the kind proposed in the White Paper?**

Cascade has limited in-house capabilities to implement risk management hedging practices of the kind proposed in the White Paper. We have established an internal team that will focus on the hedging docket. We are currently assembling a list of potential hedging consultants who we intend to hire to review the Company's current practices, policies, applications, the two hedging docket, and make recommendations for appropriate action. In addition, we are working with our current gas management transaction software provider to determine the costs to turn on VaR, mark-to-market and risk transactional reporting functionality. We also anticipate that we will need to supplement our risk analytic tools through additional staffing via third parties, additional employees as well as securing a risk analytics application to help in risk management decisions. Identifying the specific metrics Cascade would need to modify or employ to establish a five part risk strategy similar to that suggested in the White Paper will require expertise we currently do not possess.

**3. What are the potential costs associated with adopting such a hedging program?**

- Possible additional third party or in-house trader expertise or combination of both might need to be hired
- Accounting systems/processes will need review and possible update. Certainly, time will be needed to train staff in new processes and/or applications
- Acquiring and/or gaining access to a risk analytics application
- Turning on risk management transaction functionality in our gas management application, establishing processes and training staff in use of that functionality
- Margining requirements that might be required as part of some financial derivative arrangements; there is cost exposure as a result.
- We would incur additional costs associated with a more robust credit monitoring requirement and Dodd-Frank reporting and compliance.
- The time and effort required to work with the Commissions and other stakeholders to agree to guidelines and communications strategies to avoid disallowance risk

- The potential of separating portfolios between states would reduce overall system flexibility thus increasing costs

**4. What transition period would be required to adopt such a program?**

In Cascade’s view, the investigation under UG-132019 is at an early stage as no new hedging guideline(s) have been identified by the WUTC. However, we would expect that establishing the appropriate staffing and knowledgeable resources plus making any modifications to processes, risk applications and policies will require a timeline that would allow for a “learning curve” of at least a few years. Additionally, if guidelines from WUTC docket UG-132019 have any significant conflict with guidelines that arise from OPUC hedging docket UM-1720 there is a possibility that Cascade would have to create separate and distinct portfolios for each jurisdiction. Separate Oregon and Washington supply resource and risk portfolios would likely lead to increased costs to ratepayers due to Cascade no longer being able to take advantage of the flexibility of utilizing supply resources across its entire multi-state system; instead resources would be captive to individual state jurisdictions. This would further complicate any timeline to adopt the program suggested in the White Paper.

**5. Given that several LDCs have operations in states that do not use a risk management approach to hedging, rather instead expect the use of programmatic hedging, what challenges does this Commission face in considering this situation in implementing a risk management approach to hedging?**

Both Oregon and Washington commissions have open dockets regarding hedging (UM-1720 and UG\_132019, respectively). Cascade considers risk analysis of the impacts of the dockets as a work in progress which may lead to conflicting guidelines in each state. Ideally, Cascade encourages both Commissions to work closely together to ensure that any hedging guidelines can be applied consistently across both states. In addition to working with the OPUC on hedging guidelines, Cascade encourages the WUTC to monitor the Louisiana Public Service Commission’s June 2015 general order R-32975 regarding a hedging pilot program and to review the Florida Public Service Commission’s docket number 150001-EI approval of the Florida Natural Gas’s hedging program which prioritizes price stability over cost savings.

**6. How should companies assess the tolerance of customers for bill increases, due to commodity price volatility?**

The Commission could sponsor a poll or questionnaire, funded by the utilities. Cascade feels it is important to remember that surveys can be subjective. Therefore, while we believe a survey or

study would be helpful, it is important for the Commission and the LDCs to continue to have an on-going dialogue as to the proper balance.

- 7. At his workshop presentation March 28, Mr. Gettings proposed that the Commission create a “rebuttable presumption” that hedging expenses were prudently incurred if a company adopted and faithfully executed a risk management hedging strategy. Can the Commission legally create such a presumption? If not, what sort of standard can the Commission offer to the gas LDCs that would mitigate against any future?**

If a process is implemented that allowed for review of the “Capability Blueprint” and the utilities executed to the plan the PGA rules would allow for the recovery of costs. Cascade believes this falls in line with the Commission’s current prudence standards.

- 8. At the workshop, Mr. Gettings also proposed that utilities would file with the Commission a “Capability Blueprint” or similar hedging plan. By what standard would the Commission review such a filing? Could it acknowledge such a plan similar to how it reviews integrated resource plans? Should a “Capability Blueprint” be separate from a PGA filing or concurrent with it?**

Cascade has the ability to provide at least a general description of our risk quantification systems, strategy formulation, transactional capability, internal governance and staffing assessment. We feel a Capability Blueprint should be concurrent with the PGA filing since hedging gains and losses can potentially have a material impact of the rate adjustment. An acknowledgement process similar to the integrated resource plan would likely require additional Commission and Cascade staffing.

- 9. What kind of communication with or reporting to the Commission on hedging strategies is appropriate?**

Cascade believes the current annual PGA process is a good foundation for communications. Certainly, a “Capability Blueprint” document similar to our response to question 8 could be an enhancement to that communication. In addition, each LDC should meet staff in technical workshops as needed to discuss what the staff feels is or is not working regarding the utility’s hedging strategies. Because the utilities are unique a one size fits all approach may not fully work but certain aspects can be incorporated uniformly.

- 10. If the Commission determines that the proposals in the White Paper set out a template for hedging best practices, should the Commission proceed with a non-binding policy statement on hedging, issue a CR-101 with intent to adopt a rule, or consider other possible procedures?**

In general, taking the broad approach in Mr. Getting's White Paper and applying it to a more detailed risk management application will likely raise additional issues/concerns amongst the LDCs. Consequently, Cascade urges the Commission and stakeholders to do additional vetting to understand those impacts before final WUTC guidelines are created. Cascade believes that each LDC is unique and a one-size fits all approach cannot completely work. However, we do believe that there are aspects such as VaR reporting that could be standardized across the LDC group, allowing Staff to improve its ability to compare each LDCs risk management effectiveness. Therefore, Cascade feels a non-binding policy statement on hedging is most appropriate. Each LDC will continue to have different factors that will impact its hedging strategies. For example, each LDC's unique geographical makeup will have different levels of access to supply basins and transportation resources, leading to different hedging strategies. A non-binding policy that allows for a periodic review would allow the LDC to fulfill its role as the party best suited to determine the ideal hedging strategies (as we are closest to the market and better understand our unique systems) while strengthening Staff's ability to review and analyze LDC strategies hedging through the development, discussion and review of general hedging guidelines.

Once again, Cascade appreciates the opportunity to provide these comments. We look forward to working with the Staff, our fellow LDCs and the other stakeholders as this hedging inquiry moves forward. Please contact me at (509) 734-4589 (email at [mark.sellers-vaughn@cngc.com](mailto:mark.sellers-vaughn@cngc.com)) if you have any questions regarding these comments.

Sincerely,  
CASCADE NATURAL GAS CORPORATION

A handwritten signature in black ink that reads "Mark Sellers-Vaughn". The signature is written in a cursive, flowing style.

Mark Sellers-Vaughn  
Manager, Supply Resource Planning