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Steven V. King
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Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, Washington 98504-7250

SENT VIA EMAIL AND ABC LEGAL MESSENGER

March 8, 2013

Dear Mr. King:

Re: WUTC v. Cascade Natural Gas Company, Docket UG-121592 and UG-121623

On March 1, 2013, Public Counsel filed a letter regarding the above-referenced docket, as well as the current PGA dockets for the other three natural gas local distribution companies (LDCs) serving Washington State.[1] In that correspondence, Public Counsel indicated that we would have additional comments once anticipated additional data was received. Enclosed for filing in the above-referenced docket, please find Public Counsel's Report on Natural Gas Procurement Practices of Cascade Natural Gas Company (Cascade Report). The Cascade Report was written by Mr. Sebastian Coppola, President of Corporate Analytics, Inc., who Public Counsel retained as an expert consultant to assist in analyzing Cascade's natural gas procurement and hedging strategies.

Public Counsel has reviewed the report filed by Commission Staff with the Commission on March 1, 2013. The Staff report makes recommendations regarding the disposition of the case and next steps. While Public Counsel agrees with many of the findings and shares some of Staff's concerns, we disagree with the proposed disposition of this case. Public Counsel recommends the Commission adopt an alternative approach, as described by Mr. Coppola in the Cascade Report in greater detail.

It is premature to dismiss the Complaint and Order Suspending Tariff Revisions and allow the tariff revisions to become effective on a permanent basis. Some of the companies have failed to provide all of the information requested. Of note, Cascade was particularly reluctant to provide data, and despite providing some data, still has not provided considerable amounts of data requested.[2] Additionally, some of the companies, Cascade included, have changed their hedging program and are using physical contract fixed price hedging instead of financial hedging.

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[1] Northwest Natural Gas (Docket UG-121434); Avista Corp. (Docket UG-121501); Puget Sound Energy, Inc. (Docket UG-121569).

[2] Additional data was received on March 7, 2013, but not in time to incorporate in the analysis presented in the Cascade Report.

Physical contract hedging accomplishes the same result as financial hedging by a different means. We do not yet have all the information from physical contract hedging to define a clear picture of the extent of the price hedging problem.

According to their report, Staff considered seeking disallowances for some or all of the survey period hedging losses for one or more of the LDCs.[3] Staff decided against recommending disallowances for two basic reasons. First, Staff noted that the Commission has not issued policies or guidelines for price hedging. This would imply that without guidelines, Companies do not have a duty to make reasonable and prudent decisions which unnecessarily increase the cost of gas to customers. We find this conclusion sets the bar too low and should be dismissed.

Secondly, Staff noted that in two prior cases, the Commission ruled against disallowance of excessive price hedging costs. In both the 2009 and 2011 Puget Sound Energy general rate cases, the issues involved consistent application of market-to-market cost accounting related to gas price hedges for electric generation and the removal of all hedging costs from power cost rates.[4] Those issues are not germane to the issues in this docket.[5] This investigation seeks to determine the prudency of decisions that have resulted in consistently large price hedging losses over multiple years, and the Commission should consider the disallowances proposed by Public Counsel.

Staff also proposes that the Commission issue a CR 101 to determine whether it should engage in a rulemaking, policy statement, or other action regarding the companies hedging policies and practices.[6] This recommended process would commence with workshops in which all companies and interested parties would participate. We view the issue as being two separate issues: (1) Modifications to the companies' hedging policies and strategies, and (2) Modifications to the PGA regulatory process. While we agree that modifications are necessary to the companies hedging policies and strategies, we do not believe that the rulemaking workshop forum would be the best approach to identify fixes to complex hedging strategies that require considerable statistical analysis and study. Public Counsel recommends instead a Technical Collaborative with the Company, Staff, and Public Counsel to study technical issues and develop guidelines on hedging levels, hedging windows and other hedging program features. A report (or reports) from the Technical Collaborative group (or groups) could then be used by the Commission to develop necessary rules and regulations.

The second issue, modifications to the PGA regulatory process, should be dealt with through the CR-101 process. There is a clear need to modify the entire PGA regulatory process to increase oversight, transparency, and insight into the Company's planned gas procurement strategies and decisions, as discussed in the Cascade Report. Thus, the Commission should initiate a rule

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[3] Staff Report, March 1, 2013, at Page 5.

[4] Dockets UE-090704 & UG-090705, and Dockets UE-111048 & UG-111049, respectively.

[5] The PSE cases are notable in that the Commission seems to indicate an acceptance of hedging as an appropriate tool, but the issues addressed in the PSE cases are not dispositive to the issues in the current docket.

[6] Staff Report, March 1, 2013, at Page 5.

decisions, as discussed in the Cascade Report. Thus, the Commission should initiate a rule making on development of a more robust PGA regulatory process. Both of these recommendations are discussed in further detail in the Cascade Report.

Summary of Public Counsel Recommendations

1. The Commission should continue the suspension of Cascade's PGA tariff and consider the disallowances proposed by Public Counsel. The Commission should immediately issue a protective order in this docket and provide that discovery is available per WAC 480-07-400 through -425. If necessary, this matter should be set for hearing.

2. The Commission should order Cascade to suspend entering into any new hedging transactions until it has received recommendations from Staff, Public Counsel, and other interested parties on an appropriate hedging program. These recommendations would be developed in collaboration with the Company in a Technical Conference or Collaborative.

3. The Commission should order Staff to organize and lead a Technical Collaborative with the participation of Public Counsel and the Company to develop recommendations to the Commission on appropriate price hedging guidelines, policies and technical aspects of an effective hedging program, including percentages of the gas supply to be hedged, the length or window in which to hedge and acceptable hedging tools to minimize hedging costs.

4. The Commission should commence a CR-101, at such time as would be appropriate, to modify and strengthen the PGA initial filing requirements and the subsequent gas cost reconciliation.

Public Counsel will be present at the March 14, 2013, Open Meeting to discuss its recommendations with the Commission and parties.

Sincerely,

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Assistant Attorney General
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Enclosures