

Agenda Date: April 5, 2013
Item Numbers: A3

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

Staff: E.J. Keating, 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

This memorandum is a follow-up to the Commission's open meeting on March 22, 2013 when Staff recommended for all four natural gas local distribution companies that the Commission dismiss its pending complaints and orders of suspension in order to allow all proposed Purchased Gas Adjustment tariff revisions to become effective on a permanent basis by operation of law. Staff also recommended that the Commission issue a CR 101 and commence workshops that could develop into a rulemaking or policy statement, or both, with respect to the natural gas hedging practices and policies of commission-regulated natural gas companies.

The rationale for Staff's recommendations were detailed in a report, filed March 1, 2013, regarding the gas hedging policies and practices of the companies. Staff's report was based upon its review, with the assistance of an outside consultant, of voluminous documents provided by the companies during this investigation, including each company's written hedging policies, which Staff confirmed were followed by each company. Public Counsel filed its own report and recommendations on March 8, 2013.

After considerable discussion at the March 22nd open meeting, the Commission decided not to adopt the Staff recommendation at that time. Instead, Staff and Public Counsel were directed to continue their investigations into the companies' hedging practices and report back today on whether the Commission should set one or more of these dockets for hearing.

Consistent with the Commission's directive, Staff issued data requests on March 25, 2013, asking each company to provide:

1. Meeting minutes from any oversight group or committee as defined in policy or procedural manual that drove hedge decision making for the years 2009, 2010, 2011 and 2012; and
2. Any changes, updates or supplements to policies or procedural manuals related to natural gas hedging or procurement for the years 2009, 2010, 2011 and 2012.

With respect to this second data request, the companies were asked to state the date and purpose of any change, and what group/committee or individual recommended and approved any change. They were also directed to provide the old and new language for any change.

The purpose of the Staff data requests was to review company documentation that would allow Staff to judge, under the Commission's established prudence standard, whether a company's hedging transactions at issue in these dockets were reasonable based on what the company knew or reasonably should have known at the time the transaction was entered.

Each company provided the documents requested by Staff and Staff reviewed all of the materials provided. Staff also reviewed documents provided by all companies in response to similar data requests issued by Public Counsel.

Discussion

On the basis of Staff's review of all documents provided in this investigation, Staff has concluded that Puget Sound Energy, Inc. (PSE) implemented a reasonable hedging program for the PGA period at issue, consistent with the Commission's prudence standard. The large volume of data reviewed by Staff showed that PSE reviewed information from a variety of sources regarding the direction of the natural gas markets and ensuing hedging decisions were made based on that analysis. Forecasted prices were based on projections of supply and demand, the current and future state of the economy, shale gas expansion, weather, storage, rig counts, and forward market prices, among other things. There was internal discussion among personnel regarding new hedging strategies, timing and volume of hedges and market prices supporting the company's hedging execution.

In support of Staff's conclusion, we have attached the following representative sampling of confidential data provided by Cascade in response to Staff's most recent data requests:

Confidential PSE Market Data Nov11-Oct12 PGA. This attachment summarizes hedge data for the PGA survey period. The first page is for winter and the second page is for summer. The attachment contains forward price data in comparison with purchase price data, volumes by tranche and a comparison of hedge prices during each tranche with the PGA commodity rate in place at the time. That attachment shows that most of the tranches were hedged at prices lower than the current PGA commodity rates.

Confidential Fundamentals and market prices affecting Winter11. This attachment summarizes the discussion of the regarding hedging decisions/changes and recommendations going forward.

Therefore, based on the responses to the previous and current data requests, and Staff's analysis and review of all data, Staff continues to recommend that the Commission:

1. 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.
2. 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.

Finally, Staff's recommendation to allow rates to become effective permanently should not be construed to mean that any company's hedging policies and practices cannot be improved for regulatory purposes. However, such improvements are better left addressed in the workshops and other processes Staff recommends on a going forward basis.

ATTACHMENT 1
TO
STAFF MEMO
IN
DOCKET UG-121569

CONFIDENTIAL PER WAC 480-07-160*

ATTACHMENT 2
TO
STAFF MEMO
IN
DOCKET UG-121569

CONFIDENTIAL PER WAC 480-07-160*