October 19, 2015

VIA Electronic Mail

Oregon Public Utility Commission
P.O. Box 1088
Salem, OR 97308

RE: In the Matter of Northwest Natural Gas Company, dba NW Natural, Investigation into Long-Term Hedging Policy, Docket UM 1720

America's Natural Gas Alliance's (ANGA) Comments on the Referenced Proceeding

On behalf of its seventeen independent natural gas producing member companies, America's Natural Gas Alliance[1] appreciates the opportunity to provide comments on the Public Utility Commission of Oregon's ("PUCO") Investigation into Long-Term Hedging Policy. We commend the PUCO for opening this docket and displaying a willingness to explore the benefits associated with long-term hedging that can provide for a stable and reliable natural gas supply. ANGA encourages the PUCO to expand the investigation in this docket to include consideration of general principles for long-term contracting that can apply to all utilities, both gas and electric. All gas utilities can benefit from the price certainty that long-term contracts can provide for their end-use customers.

ANGA and its members recently participated in the Louisiana Public Service Commission's rulemaking to develop a pilot program that requires utilities to explore long-term hedging programs and to consider an array of long-term gas procurement instruments. The Louisiana Commission recognized the benefit of allowing the marketplace to come forward with a variety of price and contract structures.[2]

[1] Representing North America's leading independent natural gas exploration and production companies, ANGA works with industry, government, and customer stakeholders to ensure the continued availability of natural gas and to promote the increased use of this abundant domestic resource for a clean and secure energy future.

[2] Louisiana Public Service Commission, *General Order R-32975, Long-term Natural Gas Hedging Pilot Program*, July 13, 2015, Docket No. R-32975. http://lpscstar.louisiana.gov/star/portal/lpsc/PSC/PSCDocumentDetailsPage.aspx?DocumentId=3a7969ab-2b0e-4df6-89ce-f0166b1dc116&Class=Order

While every state regulatory environment is unique, successful programs and regulations that allow for long-term arrangements can and should benefit all parties involved. All stakeholders must recognize the benefits and goals of a long-term contract; namely, that a long-term gas contract should be considered part of a portfolio strategy designed to deliver price stability and predictability for a utility's gas needs, not an attempt to outperform the spot market on any one day.

Long term supply contracting programs need to be structured to provide a fair, flexible, timely, and transparent process for utilities to enter into long term natural gas arrangements. These important program characteristics will also incent producers and marketers to deliver contract structures that meet the stated objective of price stability and predictability, delivering benefits to Oregon consumers. Our members are committed to develop long term products for counterparties and the commission to consider.

ANGA recommends that the PUCO not set a prescriptive standard, but instead aim to set guidelines that allow the utilities to establish flexible policies that can be adjusted to meet changing market conditions, and to accommodate the basic types of long-term arrangements: contractual arrangements that allow for fixed or formula-priced contracts for natural gas supplies between the utility and a fuel provider (sellers can vary from producers, to marketers, to other customers), or reserves-investment arrangements that allow utilities to invest in natural gas reserves for future production at a predictable cost. Again, the goal of these long-term natural gas contracts is not to outperform the spot market on any one day, or any single year. Rather, these contracts add diversity to the products used in a portfolio strategy designed to deliver price stability and predictability for a utility's gas needs.

ANGA is not endorsing any one arrangement over another. We are encouraging the Commission to create an environment that enables a variety of long-term arrangements by providing process guidelines and standards of review for utilities and counterparties who may wish to consider long-term hedging activities. To that end, we have identified critical characteristics of guidelines that create a regulatory environment where all stakeholders have confidence in the approval process when long-term agreements are executed between counterparties. These characteristics are summarized as follows:

Term: Guidelines should allow for a contract of at least 5 years in duration.

Volume: Guidelines should allow for sufficient volume to draw market interest, but not dictate what these might be for each utility. By providing flexibility, market participants are free to design company specific products aimed at producing price predictability.

Transparency: Guidelines should promote a transparent process to ensure a level playing field where all entities understand what information needs to be presented for commissioners to make a determination.

Flexibility: Guidelines should encourage diverse and creative responses to addressing fuel supply and/or generation solutions. The guidelines should allow the marketplace to provide a variety of pricing structures (e.g. not limited to fix-priced deals) that meet the stated objective of price stability and predictability. Four illustrative examples of price structures include:

- A fixed price per MMBtu for the entire term of the agreement.
- An initial fixed price adjusted by a fixed rate (i.e. 1% per year) or indexing mechanism.
- A series of fixed prices over the term of the agreement (i.e. five or ten one year prices)
- Costless collars with a floor & cap price.

Confidentiality: Guidelines should assure confidentiality of business sensitive information throughout the contract negotiation process and any solicitation process that might precede the contract negotiation process (such as a request for proposals), as well as during the life of the resulting transaction, while ensuring potentially affected intervening parties have appropriate access to information during the commission review and approval process.

Prudency: Guidelines should establish a clear standard for review, reflecting the purpose and benefits of a long term contract. A long term gas contract is not an attempt to outperform the spot market on any one day. Rather, a long term gas contract should be considered part of a portfolio strategy designed to deliver price stability and predictability for a utility's gas needs.

Certainty: Transactions should receive permanent prudency approvals to ensure certainty for the utility and the fuel provider. Regulatory certainty is a must for both parties to a long-term contract. Much like the approval of long term power purchase agreements, a finding that a long-term gas contract is just, prudent, and in the public interest should constitute final approval.

Optionality: Guidelines should also allow for fuel and/or generation based proposals that provide the flexibility to decouple components (i.e. bring alternate fuel structure to an appropriate generation proposal). For example, this creates the option to solicit bids for delivered power, where a long-term arrangement for gas could be one component of a natural gas combined cycle bid to compete to provide delivered power.

Timeliness: The guidelines should establish an up-front process that enables the commission to understand the utility proposal requests and forthcoming deals and that provides for appropriate intervention opportunity, so that when producers and marketers deliver their offers, review time is expedited. Recognizing that markets change rapidly, the process should also allow for a price refresh. If a solicitation process preceding the contract negotiation process) is used, this provision would afford utilities and commissioners the opportunity to determine whether front-runners following preliminary analysis still provide the best deal and to quickly finalize the transaction.

Defined Process: If a solicitation process preceding the contract negotiation process is offered, guidelines for the solicitation process should include specific bidding instructions, including how bids should be delivered, specific due dates and times, which will allow for market based bids to be comparable.

Sound Contracting Practices: Long-term arrangements should abide by sound contracting practices, and as such, transactions should:

- Address security and credit concerns for both counterparties
- Permit flexibility of supply origin and allow for supplier contingencies,
- Describe contract governance for proposed transaction,
- Provide quantity minimums and maximums for fuel based proposals,
- Describe desired supply type (baseload, swing…),
- Include service level (firm, interruptible, peaking…), and
- Request delivery point(s) and pipeline(s) while allowing for alternatives.

In summary, ANGA appreciates the PUCO's recognition that long term natural gas arrangements can play a part in a portfolio strategy designed to deliver price stability and predictability. We encourage the Commission to develop a general regulatory framework that will afford natural gas producers the opportunity to offer products that can deliver benefits to Oregon's energy consumers. If you have any questions, please contact Amy Farrell at afarrell@anga.us or Sari Fink at sfink@anga.us.

Respectfully Submitted,

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