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October 3, 2016

Via Electronic Filing

Public Utility Commission of Oregon
Attn: Filing Center
201 High St. SE, Suite 100
Salem OR 97301

Re: In the Matter of PORTLAND GENERAL ELECTRIC CO.
2017 Annual Power Cost Update Tariff
Docket No. UE 308

Dear Filing Center:

Please find enclosed the redacted version of the Confidential Opening Brief of the Industrial Customers of Northwest Utilities ("ICNU") in the above-referenced docket.

The confidential portions of ICNU's brief are being handled pursuant to the protective order issued in this proceeding and will follow to the Commission via Federal Express

Thank you for your assistance. If you have any questions, please do not hesitate to call.

Sincerely,

/s/ Jesse O. Gorsuch
Jesse O. Gorsuch

Enclosure

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the confidential pages of the **Opening Brief of the Industrial Customers of Northwest Utilities** upon the parties shown below by mailing copies via First Class U.S. Mail, postage prepaid, or by hand-delivery.

Dated at Portland, Oregon, this 3rd day of October, 2016.

Sincerely,

/s/ Jesse O. Gorsuch
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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 308

In the Matter of PORTLAND GENERAL ELECTRIC COMPANY 2017 Annual Power Cost Update Tariff	)))))))	OPENING BRIEF OF THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES (REDACTED)

I. INTRODUCTION

Pursuant to the Administrative Law Judges' April 18, 2016 Prehearing Conference Memorandum, the Industrial Customers of Northwest Utilities ("ICNU") submits this Opening Brief on Portland General Electric Company's ("PGE" or the "Company") proposed long-term natural gas hedging program. This Opening Brief is limited only to issues associated with long-term gas hedging; all other issues raised in this year's Annual Update Tariff ("AUT") proceeding have been settled among the parties.[1/]

ICNU opposes the Company's long-term hedging proposal. In the context of a narrowly tailored proceeding designed only to update PGE's net variable power costs ("NVPC"), the Company requests that the Commission preapprove a policy that hedging up to 30% of the Company's natural gas fueling requirements over the long-term is in the public interest. Although the Company does not distinguish between the question of whether the policy of long-term gas hedging is in the public interest and the question of whether the transaction it has

[1/] Docket No. UE 308, Stipulation between PGE, Staff, CUB, and ICNU (Aug. 18, 2016).

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negotiated with [redacted] [redacted] is prudent, these are distinct issues. If the Commission's answer to the policy-related question – a question that is outside the scope of the AUT – is negative, then the Company's transaction with [redacted] is, by definition, imprudent.

Even in the few months parties have had to review the Company's long-term hedging proposal – months that also have been occupied by other issues in this docket – ICNU, Commission Staff, and the Citizens' Utility Board ("CUB") have created a record that demonstrates that a policy of hedging natural gas over the long-term by purchasing a non-operating working interest in natural gas wells is not in the public interest. This arrangement is contrary to established legal and regulatory policy by assigning the majority of the risks and burdens of the transaction to customers while allowing PGE to reap the rewards and benefits. Moreover, the record shows that customers are likely to pay a significant premium relative to what they otherwise would have paid in order to achieve the modest price stability PGE is promising. The Company has not shown that customers are willing to pay such a premium for this level of price stability. Indeed, despite the Company's assertion that it is proposing its long-term hedging program for customers' benefit, the universal opposition to this proposal by ICNU, CUB, and Staff demonstrates that they are not. The Commission should reject PGE's request for relief in this phase of the docket.

II. BACKGROUND

PGE proposed its long-term hedging program as a hypothetical. The Company had not negotiated the terms of any particular transaction by the time of its application in this docket.[2/] Instead, the Company requested approval of a general strategy that would allow it to

[2/] PGE/300 at 15:8-18.

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hedge up to 30% of its natural gas fueling needs by purchasing non-operating working interests in natural gas wells.[3/] This strategy would be layered on to the Company's existing "mid-term strategy," which hedges its fueling needs out to five years.[4/] Consequently, approval of the long-term program would result in up to 60% of PGE's fueling requirements being hedged out to five years or longer.[5/]

To implement the long-term strategy, PGE identified four guidelines (the "Guidelines") that would provide the framework for the program: (1) establish that the "Long-Term Projected Cost" must be at or below the comparable "Long-Term Benchmark Price;" (2) establish a maximum gas purchase commitment, which the Company proposed to be between 15% and 30% of projected annual average gas burn; (3) enter into transactions for properties that contain "Proved Reserves" or "Probable Reserves;" and (4) establish limits within which the unit cost of the long-term gas is incorporated into PGE's annual power cost update, which the Company proposed to implement by limiting the rate included in the AUT to plus-or-minus 10% of the "Comparison Rate," which is based on the forecasted cost of the gas and the original projected volume.[6/] Approval of the Guidelines effectively would represent preapproval of any transaction it entered into that was within the Guidelines,[7/] presumably indefinitely.

Thus, the Company's initial application in this docket did not ask that the Commission establish the prudence of any particular transaction to be included in rates. Instead, it requested that the Commission approve a *policy* of hedging a percentage of the Company's

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3/ PGE/100 at 7-8.
4/ Id. at 6:14-15.
5/ ICNU/203 at 5.
6/ PGE/200.
7/ Id. at 2:5-6.

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fueling requirements through non-operating working interests in physical gas wells. In its Rebuttal Testimony, the Company indicated that it did not require approval of the Guidelines in order for it to move forward with a drilling program in 2017; however, it continued to request approval of the specific transaction it had negotiated.[8/]

That transaction was described in various filings subsequent to PGE's initial application, and leading up to ICNU, Staff, and CUB's reply testimony.[9/] The Company provided the details and agreements for a transaction it had agreed to in principal with ████ ████████████████████████████████.[10/] Execution of the transaction is subject to Commission approval.[11/] PGE proposes to establish an affiliate, Portland General Gas Supply Company ("PGGS") that would contract with ███, and flow all costs and revenues through to PGE.[12/] The transaction provides PGE with a non-operating working interest in 2017 in ████████████████████.[13/] It also allows the Company to participate in █████████████████████████████ ███.[14/] Like the 2017 drilling program, however, ████████████████████ ████████████████████████████████.[15/] In total, █████ ██

8/ PGE/800 at 51:3-12.
9/ PGE/600 & PGE/700.
10/ PGE/600 at 1:7-9; Staff/500 at 9:4-5.
11/ PGE/701C, ██████████ ¶ 13.21.
12/ PGE/100 at 19-20.
13/ PGE/600 at 2:3-8 (████████████████████████████████ █████████
14/ PGE/701C, ██████████, Article IV.
15/ Id. ¶ 4.4.2.

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at the cost of its non-operating working interest.[16]

III. ARGUMENT

A. PGE's Long-Term Hedging Program Is Not in The Public Interest and The Commission Should Not Consider Such a Policy in The AUT

Parties to this docket have raised procedural concerns with respect to PGE's decision to seek approval of a long-term gas hedging program in the AUT. Specifically, CUB has argued that, because the Company's proposal involves a rate based investment, it is inappropriate for consideration in a proceeding dedicated to updating the Company's projected NVPC.[17] Staff agrees with CUB that the AUT "is not the appropriate place … to evaluate substantial new risks that would be created by PGE's proposed ownership of natural gas reserves."[18] In response to these arguments, at the hearing in this docket Chair Hardie requested briefing on the question of whether the Company's proposed transaction is appropriate for the AUT and, if not, how review of such a transaction should be handled.

ICNU shares the concerns of CUB and Staff that the AUT is an inappropriate place to consider the Company's long-term hedging proposal. The AUT was an outcome of PGE's 2006 general rate case and was designed "to update the forecast of power costs included in rates to account for new information, *e.g.,* on expected market prices for electricity and natural gas, and for new PGE purchase power contracts."[19] Consequently, the AUT was supposed to be "narrowly designed."[20] Indeed, the AUT exists "in order to avoid many of the disputes that

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[16] PGE/800 at 39, Figure 1.
[17] CUB/100 at 4:4-8:24.
[18] Staff/400 at 8:9-12.
[19] Docket Nos. UE 180/UE 181/UE 184, Order No. 07-015 at 18 (Jan. 12, 2007).
[20] Docket No. UE 192, Order No. 07-445 at 1 (Oct. 17, 2007).

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developed over the complexity of the [Resource Valuation Mechanism] process," the AUT's precursor.[21/] In approving the AUT, the Commission specifically "accept[ed] PGE's move to limit the number of model enhancements," noting that it shared "CUB's and Staff's concerns about not having enough time to review the filings each year."[22/]

The Company argues that its proposed gas hedge falls within the scope of its Schedule 125 (the Annual Power Cost Update Tariff) because that tariff allows for updates to contracts for the purchase or sale of power and fuel, and changes in hedges, options, and other financial instruments used to serve retail load.[23/] There is a difference, however, between "updates" to these contracts and hedges, and a proposal to establish a new and sweeping program to hedge up to 30% of PGE's natural gas fueling costs out to 35 years.

This raises a fundamental flaw in the Company's application, which is that it does not recognize that PGE is really making two distinct requests: (1) that the Commission find that a policy of hedging natural gas fueling requirements over the long-term by purchasing non-operating working interests in physical wells is in the public interest; and (2) that the Commission approve the specific transaction it has negotiated with ████ as a prudent means of implementing this policy. As ICNU interprets it, the first issue a threshold one – the terms of any specific transaction are irrelevant if the policy of a long-term natural gas hedging program is not in the public interest.

21/ Id.
22/ Order No. 07-015 at 19.
23/ PGE/800 at 11:16-20.

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Such a policy question that relates to the Company's long-term resource strategy is squarely within the purview of the integrated resource planning ("IRP") process.[24/] It relates to, and is dependent on, the Company's "future long-term resource needs, its analysis of the expected costs and associated risks of the alternatives to meet those needs, and its action plan to select the best portfolio of resources to meet those needs."[25/] Indeed, in its 2013 IRP, the Company proposed "to examine potential strategies, costs, and risks of pursuing longer-term supply sources for acquiring and managing natural gas."[26/] The Commission refused to acknowledge this action item, however, because, while it agreed that "PGE should assess all gas supply options to manage gas price volatility, the company proposes no specific action or deliverable needing acknowledgement."[27/]

That the Company fails to recognize the distinction between approval of a long-term hedging policy and approval of the drilling program it has negotiated with ███ is evident when it states that the evaluation of a long-term hedging strategy in the IRP is "perfectly logical," but then argues that such a process would not reflect reality because "[n]o actual transaction would be available for that long."[28/] This response conflates the distinct issues identified above. The Commission can determine whether it makes sense as a matter of policy to engage in long-term hedging of natural gas without evaluating a specific transaction. The Commission does this all the time in IRP dockets when evaluating, for instance, a utility's proposed need for new generation without preapproving any particular resource decision. If the

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24/ The prudence of a particular transaction implementing this policy would still be evaluated in a rate proceeding.

25/ OAR 860-027-0400(2).

26/ Docket No. LC 56, Order No. 14-415 at 12 (Dec. 2, 2014).

27/ Id.

28/ PGE/800 at 19:15-23.

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Commission determines in an IRP that it does potentially make sense to hedge natural gas over the long-term, then the Company can execute a specific transaction and justify the prudence of this transaction in a subsequent proceeding when it seeks to include the costs of the transaction in rates. PGE took a first step toward raising this policy question in its 2013 IRP, but never proposed a concrete action plan on which the Commission could render a decision.[29]

In its Rebuttal Testimony, the Company tacitly attempts to avoid the need for the Commission to make a determination on the policy question of long-term hedging by stating that it does not necessarily require approval of the Guidelines to move forward with the 2017 drilling program.[30] Such a concession is largely irrelevant, though, because the Company also requests pre-approval of the specific transaction it is proposing for 2017 with [REDACTED].[31] The Company has not executed its contract with [REDACTED] and this contract will not be effective [REDACTED] [REDACTED][32] Moreover, [REDACTED] [REDACTED].[33] Thus, approval of the 2017 drilling program [REDACTED] [REDACTED] [REDACTED] [REDACTED], a substantively similar prospect to blanket pre-approval, though likely more cumbersome for the Commission and stakeholders.

29/ Order No. 14-415 at 12.
30/ PGE/800 at 51:3-12; ICNU/301 at 2.
31/ PGE/800 at 50:14-16.
32/ PGE/701C, [REDACTED] ¶ 13.21.
33 Id. ¶ 4.4.2.

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Consequently, the appropriate process for evaluating the Company's request in this docket is to first establish whether a policy of long-term gas hedging is in the public interest and is an appropriate component of PGE's long-term resource strategy. This is an issue that is best address in the IRP. Only after it has established the appropriateness of such a policy should the Commission evaluate a particular transaction meant to effectuate this policy.

B. PGE's Long-Term Hedging Program Improperly Allocates Benefits and Burdens.

Despite the narrow and abbreviated nature of the AUT, ICNU, Staff, and CUB have built a record that demonstrates that long-term hedging of natural gas by purchasing non-operating working interests in physical wells is poor regulatory policy. A fundamental purpose of ratemaking involves "a balancing of the investor and the consumer interests."[34/] One means of accomplishing this is to follow the principle that the one "who bears the financial burden of particular utility activity should also reap the benefit resulting therefrom."[35/] PGE's proposed hedging program turns this principle on its head.

Each of the non-Company parties has raised concerns about the incremental risks customers would assume under PGE's hedging program. This includes production risk, environmental risk, counterparty risk, risk associated with commodity prices, and risk associated with unexpected expenses.[36/] In response, PGE does not dispute that customers will indeed be assuming increased risk if the Company implements its hedging program. With respect to

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[34/] Federal Power Comm'n v. Hope Nat. Gas Co., 320 U.S. 591, 603 (1944); see also, ORS 756.040(1) ("The commission shall balance the interests of the utility investor and the consumer in establishing fair and reasonable rates").

[35/] Democratic Cent. Committee v. Washington Metropolitan Area Transit Comm'n, 485 F.2d 786, 806 (D.C. Cir. 1973).

[36/] ICNU/200 at 12-14; Staff/400 at 8:1-12; Staff/500 at 6-11; CUB/100 at 13:4-25; CUB/200 at 21-32.

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environmental risk, the Company notes that its "due diligence efforts indicate that the likelihood of PGE incurring significant costs for cleanup is low."[37] Accurate or not, a "low" risk of customers incurring significant cleanup costs is greater than the existing risk, which is none at all. With respect to production risk, the Company cites the [REDACTED] it has negotiated with [REDACTED], but admits that this mitigates much of the production risk, but does not eliminate it altogether.[38] In response to concerns over commodity risk, the Company states that it is "currently examining hedging strategies to lock in [] forecasted prices" for oil and non-gas liquids.[39] Not only would this effectively create a hedge on top of a hedge, but the potential need for such action admits to the commodity price risk concerns parties have raised.

Additionally, it is possible, if not likely, that there are additional risks associated with the hedging program of which the parties, including PGE, are unaware. The Company "acknowledge[s] that [the program] entails significant complexity and is outside of PGE's normal business operations."[40] It is also a business that is largely unfamiliar to the Commission, its Staff, and stakeholders. It is not unreasonable to assume that the parties to this docket have not identified all of the potential costs and risks to which the hedging program could expose customers.

While customers bear increased risk from the Company's hedging program, PGE reaps the vast majority of the reward. The Company will effectively rate base a portion of its power costs, allowing it to earn both a return of and a return on these costs. Yet, this increased

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[37] PGE/800 at 21:17-18.
[38] Id. at 27:17-18, 21-22.
[39] Id. at 30:1-2, 4-6.
[40] Id. at 18:12-13.

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return to the Company comes without the Company agreeing to assume any of the risks parties have identified that are inherent to the proposed transaction.[41]

The National Regulatory Research Institute ("NRRI") supports ICNU's position that PGE's long-term hedging program represents an imbalanced allocation of risk and reward. NRRI Principal Researcher, Ken Costello, evaluated a number of vertical arrangements for gas procurement by utilities, including proposals like PGE's to purchase non-operating working interests in gas wells, and concluded that these arrangements "almost always involve[] little risk to utilities relative to the risk borne by their customers."[42] Mr. Costello finds that:

> From the perspective of utility customers vertical integration seems to be a high-risk strategy. Under most proposals and actual plans, utility customers would be shouldering much more risks than utility or holding-company shareholders. Vertical arrangements create several risks. They include: (1) gas-production operating cost, (2) level of gas reserves and production (e.g., "dry holes"), (3) liability and incomplete contractual agreement (leaving room for opportunism or, more generally, bad behavior[)], (4) counterparty risk, and (5) regulatory-induced risks, derived from less-than-full commission commitment, regulators knowing little about the upstream side of the gas business and having to evaluate complex contract provisions.[43]

Conversely, Mr. Costello points out that the "proposals for ownership of gas reserves seem to pose little risk for utilities but allow them to profit from the rate-basing of the investment."[44] Mr. Costello notes that the prospect of rate stability from a long-term hedging program is largely illusory because the percentage of the utility's gas needs that are subject to the hedge is relatively

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41/ See PGE/800 at 20-31.
42/ ICNU/202 at 6.
43/ Id. at 53.
44/ Id.

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small.[45] Like other utilities that have pursued long-term gas hedging programs, PGE is proposing a cap at 30% of its gas needs.[46] Mr. Costello notes that:

> if the share of gas under a vertical arrangement is so small relative to a utility's total gas needs, simple arithmetic would say that it would have a minimal effect on the average cost of gas. The hedging benefit would therefore seem very small compared with the cost of arranging the agreement and other transaction costs that a utility would incur. It is puzzling that a utility would make all the necessary effort for such a miniscule benefit. One conclusion is that the utility is making these arrangements … more for its benefit than customers' …. Commissions should start with this presumption when evaluating vertical arrangements.[47]

Mr. Costello's observations are supported by the parties' respective positions in this case. The Company has continued to pursue its long-term hedging proposal, claiming that it is acting for customers' benefit, yet not a single customer representative in this docket supports what the Company is requesting. This is because imposing the costs and risks of acquiring a non-operating working interest in natural gas wells on customers while earning a return from customers on that interest does not appropriately match the benefits and burdens of the transaction.

C. The Evidence Demonstrates that Long-Term Hedging is Likely to Increase Costs for Customers, and PGE Has Not Demonstrated That This Increase is Warranted.

PGE has been clear that its long-term hedging program does not represent a "beat the market" strategy.[48] Rather, the Company relies on the "price stability" aspect of the hedging program as the basis for the benefits such a program provides to customers.[49] ICNU, however,

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[45] Id.
[46] PGE/200 at 4:19-20; ICNU/202 at 15-19.
[47] ICNU/202 at 52 (internal citation omitted).
[48] PGE/100 at 17:8-9.
[49] PGE/800 at 48:12-15.

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has demonstrated in this docket that, far from being cost-neutral, this modest amount of increased rate stability likely will come at significant cost to customers.

One of the Company's proposed guidelines for its hedging program is that the "Long-Term Projected Cost" of the investment must be at or below the comparable "Long-Term Benchmark Price."[50/] In other words, if the real, levelized cost of the proposed gas hedge is at or below the equivalent real, levelized forecast cost of gas used in PGE's IRP, "then the proposed transaction would be deemed cost-effective."[51/] In his testimony, ICNU's witness, Mr. Bradley Mullins, performed an analysis of the risk premium embedded in the Company's forward price curves relative to the spot market price of gas in the same month over the period 2010 to the present. The analysis shows that the Company's forward curves consistently over-estimate the ultimate price of gas, and that this over-estimation increases in significance the farther into the future the estimate goes:

50/ PGE/200 at 3:6-7.

51/ Id. at 4:7-11.

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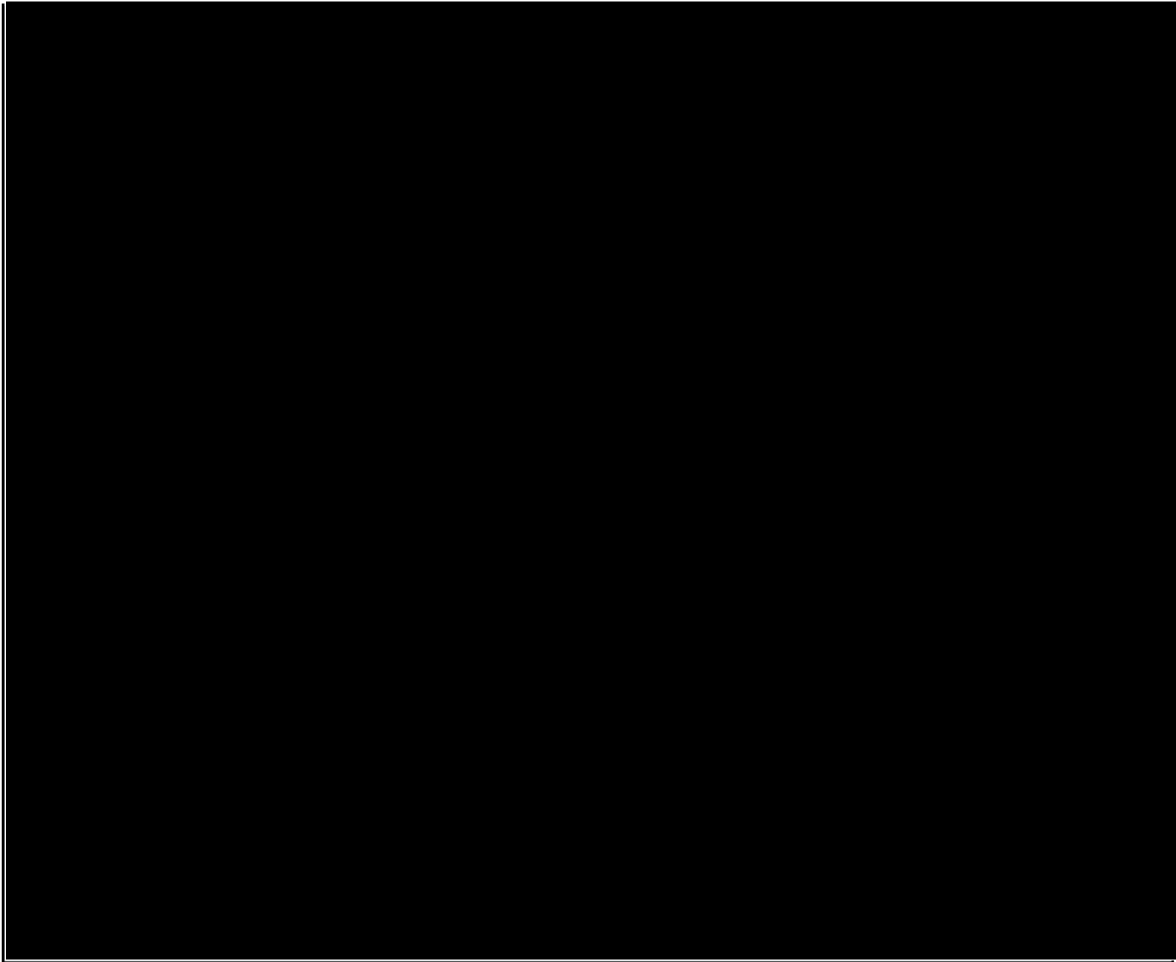
Empirically Observed Risk Premiums, Rockies Gas, 2010 – 2016[52/]



As Mr. Mullins describes in his testimony, if there were no risk premium embedded in the Company's forward price curves, then the "percent forward curve forecast error" should average to zero.[53/] Instead, the median forecast error is always greater than zero, and steadily increases the farther out the forecast goes.

52/ ICNU/200 at 7.
53/ Id. at 8:19-23.

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In its rebuttal testimony, PGE did not dispute the accuracy of the analysis.[54/] Rather, the Company questioned the data on which Mr. Mullins relied. Specifically, the Company argued that Mr. Mullins' analysis is flawed because it "only uses data from a period with declining market prices."[55/] The Company claimed that "[o]ver a longer period of time, which includes both increasing and decreasing prices … the data would provide very different results."[56/] PGE references a "back cast" analysis it performed using data from 2003 to the present and states that "[u]sing ICNU's approach over the entire back cast period, the results would likely reflect a net variance near zero."[57/]

To assess this claim, ICNU requested that the Company update the data on which ICNU relied for its analysis to include data from 2000 to the present.[58/] ICNU then performed a new analysis using this data. The result is contained in ICNU/300 and reproduced below:

54/ PGE/800 at 48:5-7.
55/ Id. at 47:18-19.
56/ Id. at 47:20-21.
57/ Id. at 48:1-5
58/ ICNU/300 at 3-4.

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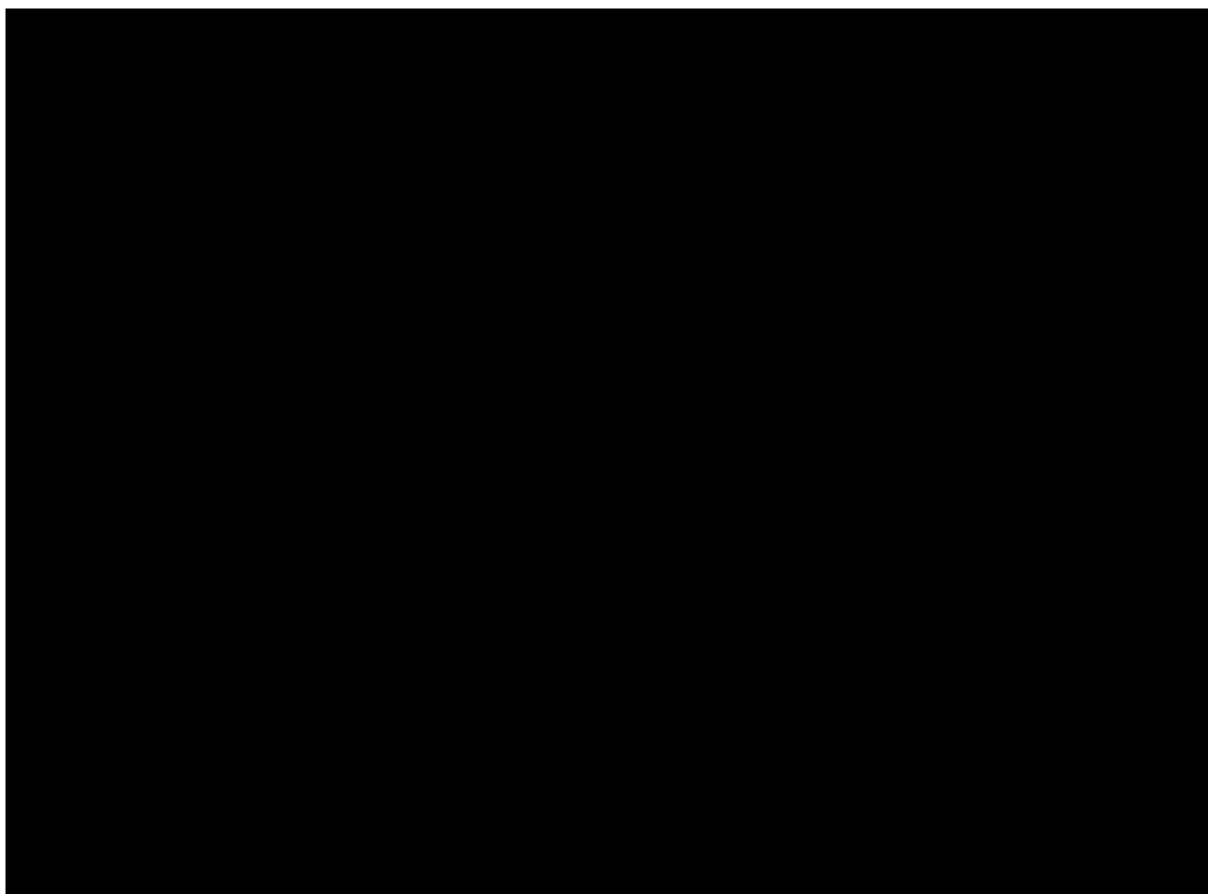
Empirically Observed Risk Premiums, Rockies Gas, 2000 – 2016[59/]



As can be seen from a comparison of the two graphs, the result is largely unchanged when one considers data going back to 2000. In other words, this data confirms ICNU's conclusion that there is a persistent risk premium embedded in the Company's forward price curves that are used as the basis for determining the cost-effectiveness of its long-term hedging program, a risk premium that, contrary to the Company's claim, is present in periods of both increasing and decreasing gas prices. Moreover, the conclusion that this risk premium increases the farther into the future the forecast goes continues to hold. Thus, a long-term hedging strategy is statistically

59/ ICNU/300 at 5.

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likely to cost customers substantially relative to the price that will be available on the spot market.

In fact, despite claiming that ICNU's analysis "would likely reflect a net variance near zero" if data from periods of increasing prices were considered,[60/] the Company admits "that a premium does exist to hedge price certainty into the future and that this premium increases as the length of the transaction grows."[61/] The Company argues that this is acceptable because this premium "represents the implicit value of price stability and was exactly what PGE's business customers said they were willing to pay …."[62/] As support for this claim, however, the Company cites two surveys of its customers, one from 2006, and another from 2005 that was included in its 2007 IRP.[63/] In addition to the fact that these surveys were performed 10 or more years ago, they provide no evidence that customers support paying a risk premium for hedging natural gas prices over the long-term.

A review of PGE's 2007 IRP demonstrates that the 2005 survey provided one of the bases for the Company's decision to move away from its reliance on the market for energy and capacity in favor of acquiring additional generation. The survey focused on PGE's resource mix, not fuel prices, hence the statement that business focus groups "would be willing to pay more for a particular *resource or mix of resources* if they were assured long-term price predictability."[64/] PGE followed through on this preference. It notes that "when PGE was an energy-short utility, we had a large open position and those costs reflected the significant short-

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60/ PGE/800 at 48:4-5.
61/ Id. at 48:9-11.
62/ Id. at 48:12-14.
63/ Id. at 16:6-19.
64/ Id. at 16:9-12 (quoting PGE's 2007 IRP at 138, Docket No. LC 43) (emphasis added).

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term nature of energy market purchases. With the addition of [] renewable and gas-fired generation … PGE effectively replaced short-term costs with a combination of long-term fixed plant costs and short-term fuel costs."[65] The Company notes that, by doing this, it is "effectively hedging market energy with fixed plant …."[66]

Ironically, in this docket, the Company is claiming that its decision to increase rates in favor of price stability by replacing its reliance on the market with physical generation – generation both PGE and the Commission determined to be least-cost and least-risk – has resulted in an unacceptable level of fuel price risk which now also must be hedged. In addition to being at least a decade old, the customer surveys the Company cites provide no evidence that customers are willing effectively to double-pay for price stability – that is, to pay for PGE's desire to hedge both electricity market prices and natural gas market prices.

As Mr. Costello from NRRI states, "[h]edging is not a costless activity, so the utility should provide evidence, other than conjecture, that customers are willing to pay something for more stable prices over the long term."[67] PGE has not provided any evidence that customers are willing to accept the level of risk premium ICNU's unrebutted analysis demonstrates is likely to result from the Company's long-term hedging strategy in exchange for the level of gas price stability PGE is proposing. The only evidence of customer preference *on this issue and in this docket* is the uniform opposition to the Company's long-term hedging program from both customer advocacy groups – ICNU and CUB – as well as Staff of the

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[65] Id. at 17:5-9.
[66] Id. at 17:19.
[67] ICNU/202 at 6.

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Commission, an administrative agency charged with representing customers and the public generally in all matters respecting public utility rates.[68]

D. If the Commission Approves a Long-Term Hedging Program for PGE, It Should Impose Conditions to Mitigate Risks to Customers

ICNU demonstrates above that PGE has not shown that its proposed long-term hedging strategy is in the public interest. Despite ICNU's concerns, as well as those raised in Staff's and CUB's testimony, if the Commission determines that it should either approve a long-term hedging program for PGE, or the Company's proposed transaction for 2017, then it should impose conditions to mitigate risks to customers. Specifically, ICNU recommends that the Commission require PGE to assume all incremental risks associated with its investment in gas wells, including unanticipated environmental liabilities, commodity price risks, production risk, and the insolvency or non-performance of the operator.[69] Additionally, the Commission should not preapprove any transaction that would result in more than 30% of the Company's natural gas fueling requirements being hedged out longer than one year, including PGE's existing mid-term strategy.[70]

IV. CONCLUSION

For the foregoing reasons, ICNU recommends that the Commission reject the Company's long-term hedging proposal. Such a proposal is outside of the scope of the AUT, is poor regulatory policy because it increases risks to customers while assigning the rewards to PGE, and is likely to cost customers greatly over the long-term.

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[68] ORS 756.040(1).
[69] ICNU/200 at 18:6-9.
[70] Id. at 18:10-11.

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Respectfully submitted,

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