ITEM NO. 2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 24, 2018

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** **Upon Commission Approval**

DATE: March 28, 2018

TO: Public Utility Commission

FROM: Lisa Gorsuch

THROUGH: Jason Eisdorfer and JP Batmale

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF: (Docket No. UM 1286(3)) Modifications to Natural Gas Portfolio Development Guidelines.

STAFF RECOMMENDATION:

Staff recommends approval of parties' proposed modifications to the Natural Gas Portfolio Development Guidelines in Docket UM 1286.

DISCUSSION:

Issue

Whether the Commission should approve parties' proposed modifications to the Natural Gas Portfolio Development Guidelines in Docket UM 1286.

Applicable Law

The PGA mechanism was originally established by Order No. 89-1046 to minimize the frequency of gas cost-related rate changes and the fluctuation of rate levels pursuant to ORS 757.259(2)(e). Since the mechanism's creation in 1989, the Commission has issued a series of orders concerning PGA filings through open-docket UM 1286.[1] Order

[1] PGA Guidelines were acknowledged by the Commission in Docket No. UM 1286, Order No. 09-248, on June 23, 2009. The Guidelines in Docket No. UM 1286 have been modified three different times since they were first acknowledged by the Commission, in Order No. 10-197, in Order No. 11-196, and in Order No. 14-238.

No. 14-238 is the most recent of these orders, which set out the Commission's procedures and requirements concerning the processing of PGA filings.

Background
On November 17, 2017, In accordance with OAR 860-001-0420, Northwest Natural Gas Company ("NW Natural"), Avista Corporation ("Avista"), Cascade Natural Gas Corporation ("Cascade"), Public Utility Commission of Oregon Staff ("Staff"), the Oregon Citizens' Utility Board ("CUB") and the Northwest Industrial Gas Users ("NWIGU") (together, the "Parties") submitted a joint motion recommending that the Public Utility Commission of Oregon ("Commission") close Docket No. UM 1720,[2] which was the investigation into long-term hedging policies specific to local distribution companies ("LDCs").

This recommendation was made subject to the Parties' agreement that Docket No. UM 1286, Natural Gas Portfolio Development Guidelines, would be amended and taken before the Commission for consideration to include modifications that, at the request of an LDC, review and comment on any long-term hedge that the LDC believes is in the interests of its customers and into which the LDC proposes to enter. All active parties to Docket No. UM 1720 supported this joint motion.

On January 18, 2018, Docket No. UM 1720 was closed per Order No. 18-019.[3]

<u>Analysis</u>

Docket No. UM 1720 was initiated pursuant to Commission Order No. 15-064, to provide a forum for the Commission to examine LDCs' long-term hedging policies, and for the Parties to exchange ideas about the best way to evaluate long-term hedging opportunities.[4] The Parties engaged in several workshops addressing the LDCs' current hedging practices, the analysis needed to evaluate a hedging opportunity, the

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[2] Link to Docket No. UM 1720: http://apps.puc.state.or.us/edockets/docket.asp?DocketID=19453
[3] Link to Commission Order No. 18-019: http://apps.puc.state.or.us/orders/2018ords/18-019.pdf
[4] This investigation stems from NW Natural's 2014 Integrated Resource Plan ("IRP"), which included a proposal that NW Natural planned to increase its long-term hedging from 10 percent to up to 25 percent, subject to additional information and analyses that would be submitted by NW Natural.
During the review of its IRP, NW Natural proposed to conduct separate workshops to more thoroughly address long-term hedging, and filed a motion requesting a bifurcated procedural schedule. When Staff presented the hedging issue at the February 24, 2015 Special Public Meeting on the IRP, the Commission expressed interest in investigating hedging, and decided to open a new docket. At the meeting, NW Natural expressed its preference that a bifurcated docket focus on NW Natural's IRP proposal, and although the procedural path was not completely resolved at that time, the Commissioners suggested that they may want to examine the issue more broadly. This docket was opened by the Commission to provide the forum for investigating hedging by the LDCs, and determined that it would be processed pursuant to contested case procedures.

LDCs' customers' interest in hedging, and stakeholder concerns with long-term hedging. The Parties spent several months working to draft guidelines for LDC long-term hedging, but ultimately found that the diverse hedging instruments available and the optionality of the duration and timing of hedges did not lend itself to a "one size fits all" approach. For this reason, the Parties agreed to terminate their efforts to develop hedging guidelines, and instead to commit to a process for the LDCs to engage with stakeholders to receive feedback about specific potential long-term hedging opportunities.

Proposed Modifications to Docket No. UM 1286
Natural Gas Portfolio Development Guidelines under Hedging[5]
Parties propose the following revisions to Docket No. UM 1286, Natural Gas Portfolio Development Guidelines, and as shown in Attachment A.

1. *If an LDC identifies a long-term hedge instrument that it considers in the interests of customers, and that it intends to enter into (subject to appropriate regulatory review processes), the LDC may request a meeting with stakeholders, including OPUC Staff, CUB, and NWIGU.*

2. *The Parties agree to hold the meeting within 30 days of the LDC's request.*

3. *At the meeting, the LDC will present the proposal and any supporting analyses and documentation.*

4. *Within 30 days of the meeting, each Party will provide a written response to the LDC's proposal indicating whether the Party (a) believes that the LDC should proceed to enter into the transaction or continue making progress towards executing the transaction, or (b) has reservations or concerns about the proposal, and a description of those reservations or concerns.*

It was agreed that in the event that one or more Parties believe that the proposal needs further review by the Commission, the Parties would use the above-described process to establish an appropriate forum for review of any proposals for long-term hedges.

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[5] See Attachment A: Proposed modifications to the Natural Gas Portfolio Guidelines are shown in red on page 6 of Attachment A under the following heading: 3. Stakeholder Review of Utility Proposed Hedging Opportunities.

Conclusion

Staff appreciates the hard work of the Parties in the Docket No. UM 1720 investigation, and appreciate the collaborative development of the above-proposed revisions to the Natural Gas Portfolio Development Guidelines. Staff recommends incorporating these proposed revisions to the Natural Gas Portfolio Development Guidelines in Docket No. UM 1286. The last revisions to the Guidelines took place in 2011, per Commission Order No. 11-196.[6]

PROPOSED COMMISSION MOTION:

Approve parties' proposed modifications to the Natural Gas Portfolio Development Guidelines in Docket UM 1286.

Docket No. UM 1286(3)

[6] Link to Commission Order No. 11-196: http://apps.puc.state.or.us/orders/2011ords/11-196.pdf

Natural Gas Portfolio Development Guidelines

I. Introduction

To the extent practicable, a natural gas utility (utility) should comply with these guidelines. However, the guidelines are not intended to restrict or hamper utility gas portfolio planning and procurement to the detriment of the utility's sales customers, and a utility is always expected to act in the best interests of its customers. These guidelines are not intended to be a static document and should be updated to meet the evolving needs of utility operational, financial, or demand circumstances, as well as changes to natural gas market conditions, contracting, and other market rules.

These guidelines are intended to be applied as drafted until altered by the unanimous agreement of the parties or by the Commission. Any party seeking changes to these guidelines must consult first with all other parties prior to proposing such changes to the Commission.

II. Definitions and Acronyms

1. Gas Year: Delivery period running November through October.
2. IRP: Integrated Resource Plan
3. LNG: Liquefied Natural Gas
4. PGA: Purchased Gas Adjustment

III. Portfolio Planning Guidelines

A. Portfolio Planning and the IRP

The IRP provides the framework for the portfolio planning process, and the portfolio planning process should build upon the IRP; this nexus includes both forecasting methodology and supply options. The gas supply process should begin with a strategic planning effort to provide a reliable supply and consider how best to balance the issues of price, flexibility, and diversity in the context of the utility's system and its customers' needs. The portfolio planning process should be regularly updated to capture changes in forecast load, available resources, and market conditions. For natural gas utilities, each IRP preparation process and final published IRP will address both planning to meet normal annual expected demand (as defined by the LDC – both base-load and swing) by day and planning to meet annual peak demand by day. The planning will include gas supply and associated transportation along with expected use of storage.

B. Quarterly Portfolio Planning Meetings

Each utility will meet with Staff quarterly during the year, unless more frequent meetings are requested by a utility or Staff. These meetings will be open to other interested parties, within the limits of confidentiality requirements of certain information and data to be discussed at the meetings. Notice of these meetings will be sent via email to the service lists for each utility's most recent PGA filing. A protective order will be established to address any confidential information to be distributed at the quarterly meetings.

C. Portfolio Planning Process: General

The portfolio planning process should consider the following:

1. Expected monthly average core and peak load based on normal weather conditions. Development of the utility's load forecast should be based on the same methodology that was utilized in the utility's most recently acknowledged IRP or IRP update, while considering any changes to conditions since that time. Any differences in the methodology used to forecast load for gas portfolio development from that used in the IRP process should be identified and explained.
2. All reasonable supply-side and demand-side resources (physical and financial) available to meet each segment of a utility's forecast load.
3. Fundamental analysis.

D. Portfolio Planning: Physical Natural Gas

A physical natural gas portfolio should meet the following objectives:

1. The portfolio should include a sufficient number of nonaffiliated suppliers to ensure diversity of supply sources.
2. The utility's portfolio should include contracts of varying duration.
3. The utility's portfolio should include contracts entered into at various times throughout the gas year.
4. To the extent reasonable and feasible, the utility's portfolio should include contracts that allow the utility to vary its gas take and pricing requirements on a seasonal or monthly basis. Physical arrangements may also cover annual and multi-year periods.
5. The utility should be able to demonstrate that its gas supply portfolio is sufficiently flexible to meet reasonably expected weather, pipeline operations, gas supply shortage, system load reduction events, and market scenarios.
6. A utility should comply with its own minimum standards for creditworthiness and financial stability when evaluating

counterparties in order to minimize the risk of counterparty failure or diminished performance.

E. Portfolio Planning: Financial Natural Gas

If the utility maintains a financial natural gas portfolio, that portfolio should meet the following objectives:

1. The portfolio should include a sufficient number of nonaffiliated counterparties to ensure diversity of counterparties.
2. The portfolio should include financial contracts covering both annual and seasonal periods. Financial arrangements may also cover multi-year periods. A utility should thoroughly evaluate qualitatively and, if possible, quantitatively, the use of multi-year financial arrangements in preparing its portfolio.
3. The portfolio should include financial arrangements for natural gas entered into at various times throughout the gas year.
4. When it is reasonable and feasible, no single financial transaction should cover more than 25% of the total annual volumes for the portfolio. Also, to the extent reasonable and feasible, multiple types of financial arrangements should be considered.
5. A utility's gas supply financial arrangements should be sufficiently flexible to meet reasonably expected weather, pipeline operations, gas supply shortage, system load reduction events, and market scenarios.
6. A utility should comply with its own minimum standards for creditworthiness and financial stability when evaluating counterparties in order to minimize the risk of counterparty failure or diminished performance.

F. Portfolio Planning: Contractual Arrangements

In developing its natural gas supply portfolio, a utility should consider at least the following:

a. A wide range of physical and financial contracts and hedges based on market conditions, the utility's annual, seasonal, and peak demands; varying weather conditions; and other utility-specific conditions;

b. Storage;

c. Demand response programs;

d. Coordinated purchasing with other companies;

e. Natural gas exchange opportunities;

f. Arrangements with third parties already on the utility system that have their own gas supply;

g. Direct purchases from a non-utility LNG facility; and

h. Direct purchases from producers of natural gas.

IV. Portfolio and the PGA Filing: Information and Work Papers

As part of its annual PGA filing the utility should include the following general information and data regarding its natural gas supply portfolio, including related transportation, upon which its PGA filing is based.

1. General Information

a) Definitions of all major terms and acronyms in the data and information provided. This should include definitions used by each LDC for each category of physical natural gas included in the Portfolio and PGA filing, with back-up support and documentation. All presentations regarding natural gas volumes, whether in text documents, or work papers for, or directly related to the annual PGA filing, should ensure that the measurement unit for each such volume statement is clearly stated with or adjacent to the actual volume information.

b) Any significant new regulatory requirements identified by the utility that in the utility's judgment directly impacts the Oregon portfolio design, implementation, or assessment.

c) All forecasts of demand, weather, etc. upon which the gas supply portfolio for the current PGA filing is based should be based on a methodology and data sources that are consistent with the most recently acknowledged IRP or IRP update and most recently concluded general rate review for the utility. If the methodology and/or data sources are not consistent each difference should be identified, explained, and documented as part of the PGA as well as the IRP and general rate review filings work papers.

2. Work papers

Work papers to the PGA should include:

a) **<u>PGA Summary Sheet</u>:** Utilities should provide a PGA Summary Sheet. See Appendix A.

b) **<u>Gas Supply Portfolio and Related Transportation</u>:** Utilities should provide the following work papers related to the gas supply portfolio and related transmission:

1. Summary of portfolio planning process.
2. LDC sales system demand forecasting.
3. Natural gas price forecasts.

4. Physical resources for the portfolio.

5. Financial resources for the portfolio (derivatives instruments and other financial arrangements).

6. Storage resources.

7. Forecasted annual and peak demand used in the current PGA portfolio, with and without programmatic and non-programmatic demand response, with explanation.

8. Forecasted annual and peak demand used in the current PGA portfolio, with and without effects from gas supply incentive mechanisms, with explanation.

9. Summary of portfolio documentation provided.

V. Portfolio and the PGA Filing: Supporting Data and Analysis

As part of its annual PGA filing the LDC should include the following information and data regarding the PGA gas supply portfolio, including related transportation. Historical data requirements will go into effect over a three year period, beginning with the 2009 PGA filing. During the first year the guidelines are in effect, historical data for three years should be provided, adding one additional historical data year for each of the subsequent two years, for a total of five years.

1. Physical Gas Supply

a) For each physical natural gas supply resource that is included in a utility's portfolio (*except spot purchases*) upon which the current PGA is based, the utility should provide the following:

1. Pricing for the resource, including the commodity price and, if relevant, reservation charges.

2. For new transactions and contracts with pricing provisions entered into since the last PGA: competitive bidding process for the resource. This should include number of bidders, bid prices, utility decision criteria in selecting a "winning" bid, and any special pricing or delivery provisions negotiated as part of the bidding process.

3. Brief explanation of each contract's role within the portfolio.

b) For purchases of physical natural gas supply resource *from the spot natural gas market* included in the portfolio at the time of the filing of the current PGA or after that filing, the utility should provide the following:

1. An explanation of the utility's spot purchasing guidelines, the data/information generally reviewed and analyzed in

making spot purchases, and the general process through which such purchases are completed by the utility.

2. Any contract provisions that materially deviate from the standard NAESB contract.

2. **Hedging**

The utility should clearly identify by type, contract, counterparty, and pricing point both the total cost and the cost per volume unit of each financial hedge included in its portfolio.

3. **Stakeholder Review of Utility Proposed Hedging Opportunities**

1. If an LDC identifies a long-term hedge instrument that it considers in the interests of customers, and that it intends to enter into (subject to appropriate regulatory review processes), the LDC may request a meeting with stakeholders, including OPUC Staff, CUB, and NWIGU.

2. The Parties agree to hold the meeting within 30 days of the LDC's request.

3. At the meeting, the LDC will present the proposal and any supporting analyses and documentation.

4. Within 30 days of the meeting, each Party will provide a written response to the LDC's proposal indicating whether the Party (a) believes that the LDC should proceed to enter into the transaction or continue making progress towards executing the transaction, or (b) has reservations or concerns about the proposal, and a description of those reservations or concerns.

4. **Load Forecasting**:

a) Customer count and revenue by month and class.

b) Historical (five years) and forecasted (one year ahead) sales system physical peak demand.

c) Historical (five years), and forecasted (one year ahead) sales system physical annual demand.

d) Historical (five years), and forecasted (one year ahead) sales system physical demand for each of following,

1. Annual for each customer class.

2. Annual and monthly baseload.

3. Annual and monthly non-baseload.

4. Annual and monthly for the geographic regions utilized by each LDC in its most recent IRP or IRP update.

4. **Market information:** General historical and forecasted (one year ahead) conditions in the national and regional physical and financial natural gas purchase markets. This should include descriptions of each major supply point from which the LDC physically purchases and the major factors affecting supply, prices, and liquidity at those points.

5. **Data Interpretation**: If not included in the PGA filing please explain the major aspects of the LDC's analysis and interpretation of the data and information described in (1) and (2) above, the most important conclusions resulting from that analysis and interpretation, and the application of these conclusions in the development of the current PGA portfolio.

6. **Credit worthiness standards**: A copy of the Board or officer approved credit worthiness standards in place for the period in which the current gas supply portfolio was developed, along with full documentation for these standards. Also, a copy of the credit worthiness standards actually applied in the purchase of physical gas and entering into financial hedges. If the two are one and the same, please indicate so.

7. **Storage:**

   Work papers should include the following information about natural gas storage included in the portfolio upon which that PGA is based.

   a) Type of storage (e.g., depleted field, salt dome).

   b) Location of each storage facility. Provide GPS coordinates, if possible.

   c) Total level of storage in terms of deliverability and capacity held during the gas year.

   d) Historical (five years) gas supply delivered to storage, both annual total and by month.

   e) Historical (five years) gas supply withdrawn from storage, both annual total and by month.

   f) Historical (five years) cost of gas supply injections into and withdrawals from storage, both annual total and by month.

   g) An explanation of the methodology utilized by the LDC to price storage injections and withdrawals, as well as the total and average (per unit) cost of storage gas.

   h) Copies of all contracts or other agreements and tariffs that control the LDC's use of the storage facilities included in the current portfolio.

   i) For LDCs that own and operate storage:

a. The date and results of the last engineering study for that storage.

b. A description of any significant changes in physical or operational parameters of the storage facility (including LNG) since the current engineering study was completed.

8. As part of the PGA filing, final IRP submission, and general rate case filing each LDC will include an attestation that it has verified, to the best of its knowledge, the historical values for (but not limited to) customer number, sales volumes, etc. are consistent if not totally equivalent among the following:

   a) All filings with FERC and the Securities and Exchange Commission (SEC);
   b) Results of operations reports submitted to the OPUC;
   c) Most current IRP or IRP update;
   d) Most recent PGA filing (final); and
   e) Most recent general rate review filing.

   If the LDC cannot make such an attestation, it should explain the variations and why these variations should be allowed.