Natural Gas Procurement Plan and Hedging Strategies

Oregon PUC Hedging Workshop, UM 1720

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Natural Gas Supply Governance

**Risk Management Committee (RMC)**
- Comprised of Executive Officers & Sr. Management
- Responsible for the Risk Management Policy
- Provides oversight and guidance on natural gas procurement plan

**Natural Gas Supply (Energy Resources)**
- Monitors and manages the Procurement Plan on a daily basis
- Leads in the annual Procurement Plan review and modification

**Commission**
- Quarterly updates (per Docket No UM 1286, Order No 14-238)
- New Procurement Plan is communicated annually in the fall
- Intra-year changes communicated to staff on an ad-hoc basis

**Strategic Oversight Group (SOG)**
- Cross functional group consisting of:
  - Credit, Electric/Gas Supply, Rates, Resource Accounting, Risk
  - Co-develops the Procurement Plan
  - Meets regularly
Procurement Plan Philosophy

Mission

To provide a diversified portfolio of reliable supply and a level of price certainty in volatile markets.

- Future natural gas prices cannot be accurately predicted; however, market conditions, analysis, and experience shape our overall approach.

- The Company’s goal is to provide reliable supply at competitive prices, with a level of price certainty, in volatile commodity markets.
Procurement Plan Structure

The Plan is disciplined, yet flexible, and layers in fixed-price purchases over time and term to provide a level of price certainty to customers.

This portfolio is diversified in the following manner:

- **Components**: The Plan utilizes a mix of index, fixed price, and storage.
- **Transaction Dates**: Hedge windows distribute the transactions throughout the Plan.
- **Term**: Hedges are completed in annual, seasonal and/or monthly timeframes. Long-term hedges (1 to 3 years in length) may also be executed.
- **Counterparty**: Deals are transacted with various counterparties.
- **Supply Basins**: Plan to primarily utilize Alberta, execute at lowest price basis at the time.
Risk Evaluation

- Load Volatility
  - Seasonal Swings

- Legislation
  - Does it impact our plan?

- Price Volatility
  - Cash vs. Forward

- Foreign Currency
  - Canadian Exchange rate differences

- Market Liquidity
  - Is there enough?

- Counterparty
  - Who can we transact with?
Comprehensive Review of Previous Plan

Review conducted with Avista’s Strategic Oversight Group
includes:

• Mission statement and approach
• Current, historical, and forecasted market trends
• Fundamental market analysis
• Demand forecasting
• Hedge percentage
• Storage and transportation resources
• Hedge windows length and duration
• Long term hedging program
• Storage utilization
• Analysis (volatility, past performance, scenarios, etc.)
Hedging Components

1. **Previous Year(s) Hedges** – longer-term, fixed-price purchases executed as a part of previous year’s natural gas Procurement Plan.

2. **Current year Hedges** – purchases with monthly or longer delivery durations less than twelve months occurring in the current natural gas operating year.

3. **Prompt year Hedges** – the portion of the portfolio addressed through utilization of hedge windows. In each window, fixed price purchases are made for various prompt year delivery period.

4. **Discretionary Long-Term Hedges** – opportunistic purchases based on a set of price levels or targets, which trigger possible execution for 2, 3, or 4 years from the prompt year.

Transactions are generally comprised of fixed-price physical, basis swaps, fixed-for-float swaps, and swing swaps. Options, reserves, derivatives, and other market contracts maybe considered if appropriate.
Hedging Strategy

The Procurement Plan provides flexibility to exercise judgment in revising and/or adjusting in response to changing market conditions.
In the 2016-2017 Procurement Plan discretionary hedges were put in place in response to the storage optimization program.
2016 – 2017 Procurement Plan

Natural Gas Procurement Plan vs. System Demand
November 2016 through October 2017

[Graph showing the natural gas procurement plan and system demand comparison from November 2016 to October 2017.]