

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of a Working Docket to Address     )  
the Hedging Practices of Electric Utilities        )  
used to Mitigate the Rising Costs of Fuel         )     **File No. EW-2013-0101**

**STAFF'S NOTICE OF FILING OF  
AGENDA FOR INITIAL STAKEHOLDER MEETING**

**COMES NOW** the Staff ("Staff") of the Missouri Public Service Commission ("Commission"), by and through counsel, and respectfully states:

1. On September 5, 2012, the Commission issued a *Notice Opening File* and an *Order Directing Notice and Directing Filing*, which opened this docket to review electric companies' hedging programs, and directed Staff to file a schedule for workshops to discuss this issue.

2. On October 5, 2012, in response to the Commission's order, Staff scheduled an initial stakeholder workshop to be held on November 14, 2012, beginning at 1 p.m., in Room 310 at the Governor's Office Building, 200 Madison Street, Jefferson City, Missouri 65102.

3. The complete agenda for the November 14 workshop is attached here as Appendix A and incorporated by reference.

4. As explained in Appendix A, the agenda for November 14 includes time for each IOU and LDC to present a general overview of its hedging policies and practices. Each company's presentation should last approximately 10 minutes.

5. After the general overview presentations, the attendees will discuss potential topics and possible dates for future workshops. The agenda attached as Appendix A includes a list of possible dates and a list of potential topics.

**WHEREFORE**, Staff submits the Agenda for the initial hedging practices workshop to be held on November 14, 2012, attached here as Appendix A.

Respectfully Submitted,

**STAFF OF THE MISSOURI  
PUBLIC SERVICE COMMISSION**

/s/ John D. Borgmeyer

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**CERTIFICATE OF SERVICE**

I hereby certify that true and correct copies of the foregoing were served electronically to all counsel of record this 1<sup>st</sup> day of November, 2012.

/s/ John D. Borgmeyer

Hedging Practices Workshop  
File No. EW-2013-0101

Docket Purpose: “[T]o review the policies or procedures with regard to electric companies’ hedging programs that will hopefully assist the utilities with developing effective hedging programs that serve the public interest by mitigating the rising costs of fuel.”

Workshop Outcome: Staff will file a report with the Commission summarizing the workshop discussions and will submit any handouts or presentations to the file.

November 14, 2012

Agenda

- |                   |   |
|-------------------|---|
| 1:00 pm           | Welcome, Opening Remarks  |
| 1:15 pm – 3:30 pm | IOU and LDC presentations on utility-specific hedging policies/practices <ul style="list-style-type: none"><li>• Each company will have approximately 10 minutes</li><li>• Presentations should be general in nature and discuss the company’s hedging policies and practices</li></ul> |
| 3:30 pm – 4:00 pm | Topics to discuss during and dates for future workshops   |

Potential dates:  
December 19, 20  
January 15, 17  
January 22  
January 29, 31  
February 5  
February 14  
March 5  
March 19

Potential topic for future workshops:

Applicable to IOUs and LDCs

1. What is a hedge?
2. Should hedging gains and losses even out over time? If yes, over what period?
3. What are current hedging opportunities?
4. What markets are available for hedging opportunities?
5. How predictable are the volumes to be hedged?
6. Is there a matching between the physical supply volume under contract and the hedge instrument volumes and prices?
7. Is a “buy and hold” strategy the prevailing practice? Is it optimal?
8. What methods are employed to test “hedge effectiveness”?
9. What is the proper accounting for hedges for financial reporting purposes and for regulatory accounting or ratemaking purposes?

10. Should electric utility hedges be treated as a regulated expense or non-regulated (below-the line) expense with shareholders enjoying hedging gains and absorbing hedging losses?
11. Should financial hedges be treated as regulatory assets or non-regulatory assets? How do they affect testing hedge effectiveness?
12. Is it appropriate for a utility to hedge for its spot purchased power price exposure?
13. Should all hedging gains and losses for natural gas fuel hedges and purchase power hedges (or cross-hedges) be charged to Account 547 Natural Gas fuel account?
14. How have the utilities' hedging procedures and policies changed since the significant decrease in natural gas prices and volatility over the past few years? In Missouri? In other states?
15. What is the relationship between hedging and the utility's ability to earn its authorized return?
16. Should utility's shareholders have some risk in the success or failure of a utility's hedging operations?
17. How do you determine if a hedging program has been successful in meeting the stated goals of the hedging program or has failed to meet these goals?
18. What is the Commission's authority to approve hedging transactions?
19. Should the Commission promulgate rulemakings to outline procedures for hedging practices?
20. Should the utility have stated written goals of the hedging program that are measurable?
21. Should utilities provide annual updates to stakeholders on hedging plans for upcoming year?
22. Should utilities have a written hedging plan that describes the methodologies and value to customers? Should such plan be available upon request to the Commission/Staff/Stakeholders? Should such a plan include any or all of the following elements:

**Management Policy (or equivalent policy) which describes:**

- Hedging objectives
- Risk identification and assessment including that associated with exposure to gas price fluctuations and counter-party credit risk
- Scenarios of various hedging strategies
- Description of approved hedging instruments with examples
- A hedging plan specifying percent of portfolio to be hedged and the timing of implementation
- Process and approval levels for modification of changes to the Policy
- Process and approval levels for exceptions to the Policy
- Financial counter-party credit risk management procedures
- Compliance with business ethics guidelines

**The method of evaluation of hedging performance including appropriate benchmarks and metrics, such as:**

- Program costs versus program benefits
- Gas prices as benchmarked against appropriate comparisons or indices
- Un-hedged vs. hedged prices, etc.
- Cumulative or total net loss or gain on transactions

**Specify the hedging and risk management governance structure and process, including:**

- Role of senior risk management in the governance of the hedging program
- Process for reviewing with Management guidelines and policies for assessing and managing risk
- Membership roster of the risk management oversight committee
- The role of senior management in reviewing and evaluating the performance of the hedging program
- Internal controls to ensure compliance with the policies
- Internal processes for determining, monitoring, and assessing key risk areas
- Approval protocols
- Corporate Delegation of Authority policies

**For any basic trading functions, what transactions and supporting information is recorded.**

- Financial and trading position reporting systems
- Internal audit practices
- Firewall separation between the utility gas hedging function and any gas portfolio asset management or non-regulated trading activities
- Identifying the sources of any natural gas market information or gas load forecasts used in the utility hedging activity and whether those sources for information are shared among the gas portfolio asset management or nonregulated trading activities

**Describe the hedging functional organization including:**

- The number of people engaged in hedging
- Their job titles, roles, and responsibilities
- Their location within the organization
- Their relationship, if any, to non-regulated business activities
- Role of corporate organizational units, such as Treasury, Legal, Accounting, Auditing, etc.
- The accounting treatment of any revenue, including interest earned or expended, on funds used for or gained by hedging activities
- Any sharing of personnel between the utility gas hedging activity and non-regulated trading activities
- The cost allocation practice for expenses incurred by any of the above

Applicable to IOUs

1. Why should electric utilities hedge?
2. What are the goals of electric utility hedging?
3. How many dollars should be tied up in hedging?
4. What hedging dollars can be flowed through the FAC?