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DEPARTMENT OF COMMERCE
Office of Consumer Services

MICHELE BECK
Director

To: Public Service Commission
From: The Office of Consumer Services
Michele Beck, Director
Cheryl Murray, Utility Analyst
Date: October 9, 2014
Subject: Docket 14-035-20 PacifiCorp's Semi-Annual Hedging Report

REDACTED

On August 15, 2014, PacifiCorp (Company) filed with the Public Service Commission (Commission) its confidential Semi-Annual Hedging Report (Report) for the period December 31, 2013 through July 1, 2014. On August 15, 2014 the Commission issued an Action Request for the Division of Public Utilities to provide a response by September 15, 2014. On September 9, 2014 the Office of Consumer Service (Office) requested an extension of time to respond to the Action Request (until September 23) and on September 10, 2014 the Commission issue a Notice of Filing and Comment Period allowing interested parties to submit comments on the Report on or before October 9, 2014 and reply comments by October 24, 2014.

PacifiCorp's Semi-Annual Hedging Report includes information on the Company's hedging activity for the period December 31, 2013 through July 1, 2014. Further it provides an indication of hedging activity for the subsequent six-months, July 1, 2014 through December 31, 2014.

Discussion

Following submittal of our comments on the prior Semi-Annual Hedging Report the Office and its consultants, Paul Wielgus and Lori Schell, discussed our future report recommendations and reasoning with the Company. We commend the Company for its willingness to work with us to include additional or expanded information to enhance the usefulness of the Report. We recognize that expanding and/or changing the design of tables and graphs requires additional data collection and programming on the Company's part and that requests for such expansions or changes should serve a useful purpose. Thus, when making recommendations for changes we state the value to be derived from the change.

The Office and its consultants have reviewed the Report and take this opportunity to provide comments and make recommendations for future reports.

Observations

- The Report appears to be complete, with consistency throughout between figures and text.
- The tables and graphs that the Company has added have made the Report more informative and the significant quantities of data underlying the Report more readily accessible to the reader. For instance, Confidential Figures 9 and 10 provide current basis values for natural gas and electricity and changes in basis values from the previous reporting period, respectively. Confidential Figure 9 facilitates a ready review of the Company's "Index plus Basis" new natural gas transactions and Confidential Figure 10 provides a quick read on the direction basis values have moved since the previous report.
- On page 9 of the Report, the Company states "The value differentials between hedge indices and physical requirement locations are predominately [sic] based on transportation differentials, either based to the Company's transportation holdings or based on transportation rates published in pipeline tariffs. Therefore, this risk is minimal." Some markets saw high volatilities related to basis swings during last winter's vortex weather event and there are predictions of going forward basis values reversing in some markets. The Office recommends that the Company re-evaluate its going forward basis risk and include the results in its next Report or sooner if findings dictate.
- The Company's inclusion in the Report of the "Market Fundamentals" discussion is important to get a sense of where the Company believes the markets to be headed, particularly given the Company's statement on page 4 that [Begin Confidential]



[Redacted]

[Redacted] [End

Confidential]

- The Company's response to several data requests indicates [Begin Confidential] [Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted] [End Confidential]

- The *number* of creditworthy counterparties appears to have stabilized with implementation of the reporting requirements of the Dodd-Frank Act. The current Report did not indicate whether the *identity* of the creditworthy counterparties had changed, an indicator that the Office recommends be included in future Reports to give a sense of the stability or dynamism/uncertainty in creditworthiness in U.S. financial markets.

- [Begin Confidential] [Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted] [End Confidential]

- The Company has again stated (see page 31) that it [Begin Confidential] “[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted] [End Confidential]

Recommendations

The Office makes the following recommendations for future semi-annual hedging reports:

- Re-evaluate the Company’s going forward basis risk and include the results in its next Report or sooner if findings dictate.
- Indicate whether the *identity* of the creditworthy counterparties has changed to give a sense of the stability or dynamism/uncertainty in creditworthiness in U.S. financial markets.
- Include a brief description of the Company’s investigation of [Begin Confidential] [Redacted] [Redacted] [End Confidential] (see page 31 of Report) and the results of that investigation.