



State of Utah  
Department of Commerce  
Division of Public Utilities

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## ACTION REQUEST RESPONSE - REDACTED

To: Utah Public Service Commission

From: Utah Division of Public Utilities

Chris Parker, Director

Artie Powell, Energy Section Manager

Charles Peterson, Technical Consultant

Doug Wheelwright, Technical Consultant

Date: March 17, 2016

Re: **Information Memo**

Docket No. 16-035-08 - PacifiCorp's Semi-Annual Hedging Report

### RECOMMENDATION (NO ACTION)

The Division of Public Utilities (Division) has reviewed the Semi-Annual Hedging Report along with the information included as Attachments A – E. The information presented is similar in format and content to previous reports and includes both historical information and a forecast of future hedging activities. As of the date of this report, the Company is in compliance with the current hedging guidelines. This report does not require approval or acknowledgement from the Commission and no further action is required.

### ISSUE

On February 15, 2016, Rocky Mountain Power (Company) filed the PacifiCorp Semi-Annual Hedging Report with the Utah Public Service Commission (Commission). On February 16, 2016, the Commission issued an Action Request to the Division and requested a review for compliance. This memo is the Division's response to the Action Request.

## **BACKGROUND**

During a general rate case, Docket No. 10-035-124, it became apparent that parties did not understand the various products, timing, volume and nature of the PacifiCorp<sup>1</sup> hedging transactions. As part of the settlement stipulation in that General Rate Case, the Company agreed to participate in a Collaborative Process to discuss appropriate changes to PacifiCorp's existing hedging practices. The goal of the collaborative process was to provide a better understanding of the PacifiCorp hedging program and discuss appropriate changes to better reflect customer risk tolerances and preferences.<sup>2</sup> One of the terms outlined in the stipulation requires the Company to provide a semi-annual hedging report to the Commission.<sup>3</sup> The hedging report is to be produced on a semi-annual basis with periods ending in June and December of each year.

The purpose of the report is to provide insights into PacifiCorp's hedging activity for the previous six months, report on the current market conditions and provide an indication of future hedging activities. The current report covers the six month period ending December 31, 2015. The report describes market fundamentals, basis risk, liquidity, energy positions, hedging activity, products, instruments and physical supply. As of December 31, 2015, the Company was within the hedging guidelines that have been established in the current risk management policy.<sup>4</sup> Due to the specific content, **the hedging report and portions of this memo should be considered confidential.**

## **DISCUSSION**

[REDACTED]

[REDACTED]

[REDACTED]

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<sup>1</sup> Rocky Mountain Power is a dba of PacifiCorp where the hedging transactions originate.

<sup>2</sup> Collaborative Process to Discuss Appropriate Changes to PacifiCorp's Hedging Practices, March 30, 2012, p. 2.

<sup>3</sup> Docket No. 10-035-124, Settlement Stipulation, p. 14.

<sup>4</sup> PacifiCorp - Energy Risk Management Policy, Approved September 8, 2015.

[REDACTED]

[REDACTED]

[REDACTED]

**ELECTRIC HEDGING – HISTORICAL AND FORECAST**

During the previous six months, the three year forward prices for power has decreased by an average of \$4.73 per megawatt-hour (\$/MWh) or 15.8% on the east side of the PacifiCorp service territory and \$4.51 per MWh or 16.4% on the west side.<sup>5</sup> [REDACTED]

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<sup>5</sup> Semi-Annual Hedging Report, page 1.

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**NATURAL GAS HEDGING – HISTORICAL AND FORECAST**

The Company is exposed to natural gas price risk due to its natural gas-fired generating fleet. Natural gas hedging guidelines have been established to address the exposure to changes in market conditions. During the previous six months, the market price of natural gas prices has decreased on the east side of the PacifiCorp service territory by an average of (\$0.55) per million British thermal units (MMBtu) or (17.4%). On the west side of the service territory, natural gas prices have decreased by (\$0.61) per million British thermal units (MMBtu) or (20.6%).

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**CONCLUSION**

The Division has reviewed the Semi-Annual Hedging Report and responses to data requests. The information presented is similar in format and content to previous reports and includes both historical information and a forecast of future hedging activities. As of the date of this report, the Company is in compliance with the current hedging guidelines and no further action by the Commission is required.

- cc: Jeffrey Larsen, Rocky Mountain Power
- Bob Lively, Rocky Mountain Power
- Paul Clements, Rocky Mountain Power
- Yvonne Hogle, Rocky Mountain Power
- Michele Beck, Office of Consumer Services
- Cheryl Murray, Office of Consumer Services
- Williams Evans, Parsons Behle & Latimer
- Gary Dodge, Hatch James & Dodge
- Kevin Higgins, Energy Strategies