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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Voluntary Request of Rocky Mountain Power for Approval of Resource Decision to Acquire Natural Gas Resources of Up to a Total of [REDACTED] MMBtu/Day	DOCKET NO. 12-035-102 VOLUNTARY REQUEST FOR APPROVAL OF RESOURCE DECISION REDACTED VERSION
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Pursuant to Utah Code Ann. § 54-17-401 *et al.* and Utah Admin. Code R746-440-1, Rocky Mountain Power, a division of PacifiCorp (“Rocky Mountain Power” or “Company”), hereby requests that the Public Service Commission of Utah (“Commission”) approve the Company’s decision to enter into contracts to acquire natural gas resources up to a total of [REDACTED] MMBtu/day (“Voluntary Request”) resulting from a gas request for proposals issued by the Company May 14, 2012 (“2012 Gas RFP”).

Specifically, the Company requests authority to execute [REDACTED] each from [REDACTED] separate transaction groups involving [REDACTED] bidders, [REDACTED] transaction comprising [REDACTED] MMBtu/day, with terms ranging from [REDACTED] to [REDACTED] years, from the final short list of the 2012 Gas RFP, assuming the bids, as updated following approval of this Voluntary Request meet specified price parameters and a market ratio, as more fully described below.

COMMUNICATIONS AND DISCOVERY

1. Communications, including pleadings and other filings, regarding this Application should be addressed to:

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2. Rocky Mountain Power requests that any data requests regarding this Application be addressed to:

By email (preferred)

datarequest@pacificorp.com

By regular mail

Data Request Response Center
PacifiCorp
825 NE Multnomah, Suite 2000
Portland, OR 97232

Informal inquiries may be directed to David L. Taylor at (801) 220-2923.

OVERVIEW

A. Legal Standard

3. This Voluntary Request meets the requirements under Utah Code Ann. § 54-17-401 *et al.* (the “Voluntary Request Statute”) and Utah Admin. R746-440-1 (the “Voluntary Request Rules,” collectively referred to hereinafter, with the Voluntary Request Statute, as the “Voluntary Request Law.”) To obtain approval under the Voluntary Request Law, the Company must include the information required under the Voluntary Request Rules. The testimony supporting the Company’s Voluntary Request includes all of the information required, as follows:

4. The Confidential Direct Testimony of Ms. Stacey Kusters includes a detailed description of the Company’s decision to enter into the recommended transactions and the purposes and reasons for pursuing the acquisition of natural gas resources as recommended by the Company. This testimony includes the data, information and models used by the Company in evaluating the bids received in the 2012 Gas RFP. The Confidential Direct Testimony of Mr. Steve McDougal includes an analysis of the Company’s projected total system revenue requirement with and without the contemplated transactions.

5. Between the Confidential Testimony of Ms. Kusters and Mr. McDougal, the Company provides sufficient data, information, spreadsheets and models to permit an analysis and verification of the conclusions reached and models used by the Company. The Direct Testimony of Mr. Bruce Williams includes financial information demonstrating adequate financial capability to implement the Company’s decision to enter into the contemplated transactions. The proposed contracts the Company has negotiated with the bidders are appended to the Confidential Testimony of Ms. Stacey Kusters. Finally, there are no additional government approvals needed or required to enter into the recommended transactions.

6. In addition, in ruling on a request for approval of a resource decision, the Commission must determine whether the decision (a) was reached in compliance with “this chapter,”¹ including the Voluntary Request Statute and (b) is in the public interest, taking into consideration:

- (i) Whether it will most likely result in the acquisition, production, and delivery of utility services at the lowest reasonable costs to the retail customers of an energy utility located in this state;
- (ii) Short-term and long-term impacts;
- (iii) Risk;
- (iv) Reliability;
- (v) Financial impacts on the energy utility; and
- (vi) Other factors determined by the commission to be relevant.

7. The Company reached its decision in compliance with the Energy Resource Procurement Act. Specifically, the Company complies with all of the applicable parts in the Energy Resource Procurement Act.

8. The Company’s decision to execute the [REDACTED] from each of the [REDACTED] transaction groups is in the public interest. First, it will most likely result in the acquisition of natural gas resources at the lowest reasonable costs to the Company’s Utah retail customers. As discussed in detail in the Confidential Testimony, the transactions in the final shortlist were chosen out of a robust solicitation process.² The transactions the Company intends to execute will be the [REDACTED] from each of the groups in the final shortlist. The Confidential Direct Testimony of Mr. Steve McDougal supports this conclusion in his analysis of the projected costs of the Company’s decision compared with the projected costs of proceeding without these transactions. Specifically, Mr. McDougal includes a table that shows a comparison

¹ Chapter 17 is Utah Code Ann. § 54-17-101 *et seq.* (the “Energy Resource Procurement Act”).

² The Company did not obtain approval of the solicitation process used in the 2012 Gas RFP because Part 2, i.e., the solicitation process of the Energy Resource Procurement Act, applies only to a solicitation process to acquire a significant energy resource.

of the costs if the Company does not execute the transactions with the projected costs of executing the proposed [REDACTED].

9. Second, Mr. McDougal's table indicates that because the fixed price transactions are levelized, the expected impact of executing the recommended transactions is that customers may pay slightly higher costs than market in the short-term, while in the long-term customers will pay lower costs than market. A detailed discussion related to projected natural gas prices is included in the Confidential Testimony.

10. Third, fundamental analysis including third party experts referenced in the Confidential Testimony demonstrates there is a greater risk that natural gas prices will rise as opposed to decline in the future. Thus executing the recommended transactions would reduce customers' risk of paying higher prices. And if natural gas prices unexpectedly decline in the future, it is unlikely that they would decline much below current prices. Consequently, the Company's position is that executing the [REDACTED] as recommended is the best course of action. There is a higher risk to customers that they will be paying higher prices in the future if the Company does not execute the transactions. While there is a risk that they would pay slightly lower costs if natural gas prices decline and the Company does not execute the transactions, the risk of paying more is greater than the risk of paying slightly less. In addition, the proposed transactions together comprise [REDACTED] of the Company's long-term projected natural gas requirements; therefore, even if all [REDACTED] proposed transactions are executed, the Company's remaining long-term unhedged natural gas position will still [REDACTED] the volume that is hedged.

11. Fourth, the Company's decision to execute the recommended transactions will lock in natural gas resources at low prices, for up to [REDACTED] years.

12. Fifth, the Company is financially capable of entering into the transactions as demonstrated in the testimony of Mr. Bruce Williams.

13. Based on the foregoing, it is in the public interest for the Company to execute the proposed transactions.

B. Public Policy

14. The Voluntary Request is consistent with the Principles and Guidelines set forth in the “Collaborative Process to Discuss Appropriate Changes to PacifiCorp’s Hedging Practices” report filed by the Division of Public Utilities with the Commission March 30, 2012 (the “Division Report”). Specifically, Principle 7 and Guideline 5, respectively, state: “[v]oluntary pre-approval procedures under Utah Code § 54-17-402 may be used for long-term commitments that fall outside of the suggested guidelines” and “[p]roposals for long-term natural gas supplies, transportation, storage and price hedges should be solicited and evaluated as part of an Energy Planning and Procurement process, particularly in an environment of favorable Fundamentals. The [REDACTED] guideline for financial hedges and the suggested annual percentage guidelines should not limit the opportunities for longer term hedges, supply commitments or storage contracts in a price environment advantageous to natural gas consumers as determined by Fundamentals analyses.”³

15. To avoid unnecessary costs to the Company’s customers, and to ensure that customers truly benefit from historically low natural gas prices, no bidder was requested to hold its prices fixed during the 180-day review process of this Voluntary Request. The Company has not executed final agreements with any bidder; however, the terms and conditions of the underlying agreements, and the confirmations are fully negotiated and ready for execution if

³ See “Collaborative Process to Discuss Appropriate Changes to PacifiCorp’s Hedging Practices”, Exhibit A, pp. 14 and 15, Division of Public Utilities, Docket No. 10-035-124 (Utah PSC March 30, 2012).

approval is granted and updated bids meet price parameters and a market ratio, as discussed more fully below. Thus, while the Company does not yet know which of the transactions it will execute, if any, it has set forth price parameters and a market ratio which transactions must meet, and if so the Company intends to execute the recommended [REDACTED] in each transaction group. The Company has indicated to bidders in the final shortlist that upon Commission approval of this Voluntary Request, they will be asked to refresh their prices. Subsequently, the Company intends to enter into the [REDACTED] from each transaction group that, when adjusted for credit costs, meets the preapproved price parameters and market ratio. The Company deems this process to be the best way to deliver the least-cost natural gas resources to its customers.

16. Stakeholder interest in securing long-term low natural gas prices, evident in the Principles and Guidelines cited above, coupled with general consensus that natural gas prices will rise rather than decline in the future, prompted the Company to explore long-term opportunities for the acquisition of natural gas resources. The Company also reviewed and evaluated specific forward prices from several sources that are identified and fully explained in the Confidential Testimony filed with this Voluntary Request. Based on the results of the 2012 Gas RFP, the [REDACTED] transactions within each of the [REDACTED] transaction groups that meet the preapproved price parameters and market ratio, adjusted for credit, (1) will lead to the lowest reasonable cost, qualifying natural gas resources and (2) are in the public interest.

BACKGROUND

17. Rocky Mountain Power is a division of PacifiCorp, an Oregon corporation. The Company is authorized to do business in the state of Utah and is an electrical corporation holding a certificate of public convenience and necessity issued by the Commission authorizing it to provide electric service in many parts of the state of Utah. Rocky Mountain Power currently provides electric service to approximately 830,000 customers in the state of Utah and is an

electrical utility as defined in the Energy Resource Procurement Act. Rocky Mountain Power also provides electric service to customers in Idaho and Wyoming. Pacific Power, another division of PacifiCorp, provides electric service to customers in California, Oregon and Washington. Rocky Mountain Power and Pacific Power share generation and transmission resources for the Company's east and west control areas.

18. During the hedging collaborative workshops held pursuant to the Commission's approval of the Settlement Stipulation in Docket Nos. 10-035-124, 09-035-15, 10-035-14, 11-035-46 and 11-035-47, stakeholders recognized that current market conditions warranted exploring long-term transactions for the acquisition of natural gas resources. This sentiment was formalized in the Principles and Guidelines of the Division Report. Since that time, natural gas prices have continued to decline. Indeed, forward natural gas prices have been declining steadily since 2008, reaching new lows in 2012.

19. In accordance with the Principles and Guidelines of the Division Report, on May 14, 2012 the Company issued a natural gas resource request for proposals seeking up to [REDACTED] MMBtu/day of firm [REDACTED] natural gas products deliverable to various receipt points starting April 2013. The Company sought proposals for terms of [REDACTED] years for transactions consisting of a minimum of [REDACTED] MMBtu/day each.

20. Proposals were submitted by various bidders by June 28, 2012, including a total of [REDACTED] bids, of which [REDACTED] were analyzed.⁴ The bids were grouped by [REDACTED].

[REDACTED]

⁴ [REDACTED]

21. The Company used an evaluation process that is described in detail in the Confidential Testimony filed with this Voluntary Request. Generally, all of the proposals were evaluated against the forward price curve to develop an initial shortlist. The initial shortlist was created by calculating the market ratio of each bid (defined as bid cost divided by bid market value).

22. The initial shortlist was further evaluated taking into consideration credit costs and credit terms and conditions for each of the bids on the initial shortlist. After credit cost was determined it was subtracted from the value of each bid, and a new market ratio was calculated for bids with market ratios that continued to be less than 100 percent.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

23. The foregoing steps resulted in the final short list which consists of [REDACTED] selected transaction groups from [REDACTED]. Each of the [REDACTED] transaction groups includes a [REDACTED] product. All [REDACTED] transaction groups will start based on the preapproval date of the transactions. The Company is recommending execution of transactions of [REDACTED] MMBtu/day from each transaction group if the updated price is at or below a market ratio of 100 percent as calculated from the Company's most current forward price curve⁵

⁵ In the case of the [REDACTED] bids, the 100% market ratio test is conducted by examining the ratio of the market value of the [REDACTED] over the market value of the [REDACTED], adjusted for credit costs. This ratio must be less than 100%.

at the time and less than [REDACTED] of the [REDACTED] official forward price curve, used to evaluate bids for selection to the final short list.⁶

24. Given the commercially sensitive nature of the information regarding the 2012 Gas RFP, more detailed, confidential information will be provided in the Confidential Testimony filed with this Voluntary Request. The Confidential Testimony will be made available to interested parties who do not have a competing interest with the Company and pursuant to the parties' written certification to comply with Rule R746-100-16.

APPROVAL OF RESOURCES

25. The Company requests the Commission consider the Company's proposed ranking of the [REDACTED] transaction groups as it considers preapproval of [REDACTED] in one or more of the [REDACTED] transaction groups. The Company recommends the Commission pre-approve up to [REDACTED] transactions, [REDACTED] in each transaction group, in the following order: [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] bid. [REDACTED] will be determined by the updated market ratio in May 2013, adjusted for any changes in credit and not to exceed [REDACTED]

[REDACTED].

26. The rationale for this ranking is as follows. First, [REDACTED]

[REDACTED]

[REDACTED]

⁶ The proposed ceiling is based on the average ten month change in forward prices over [REDACTED] terms commencing with the Company's official forward price curves since September 2009 relative to market conditions at the time bids were initially analyzed. This threshold was selected to represent a magnitude of change in market prices that would warrant reassessment of whether market fundamentals have materially changed before proceeding to hedge longer term at such higher prices. In such event, the Company would consider whether and when to reissue an RFP for long-term and structured natural gas hedge products.

[REDACTED]

[REDACTED] Second [REDACTED]

transaction group is ranked more favorably than the [REDACTED] transaction group because there is [REDACTED] price transparency and liquidity [REDACTED]. As a result, the Company does not have the same level of confidence in the forward market price out [REDACTED] years using one static curve at one point in time out [REDACTED] years in the horizon. Some price transparency and liquidity [REDACTED] out; however, this price transparency and liquidity is not as great as that in shorter-term markets. Although the [REDACTED] transaction group proposals currently result in a favorable market ratio to the [REDACTED] transaction group, this ranking must also consider the potential speculative nature of forward prices going out [REDACTED] due to the lack of liquidity and transparency.

27. Based on the 2012 Gas RFP process, acquisition of natural gas resources pursuant to the [REDACTED] from each of the [REDACTED] separate transaction groups, each transaction comprising [REDACTED] MMBtu/day, with terms ranging from [REDACTED] years, more fully described above, is in the public interest for several reasons:

a. The bids received in the [REDACTED] transaction groups are the result of a competitive procurement process. The final shortlist bids in the [REDACTED] transaction groups were identified as the best resources available through the 2012 Gas RFP process. Based on that process, the [REDACTED] within each transaction group will provide cost-effective natural gas resources to help deliver low cost energy to the Company's customers.

b. The Confidential Testimony provides summaries of all bids received in the 2012 Gas RFP; summaries of the Company's rankings and evaluations of the bids; and

identification of all information, data, models, and analyses used by the Company to evaluate and rank the bids.

c. A copy of the complete 2012 Gas RFP with appendices and attachments; is provided as an exhibit to the Confidential Testimony to this Voluntary Request.

d. As explained in more detail in the Confidential Testimony, in the long-term, the Company expects that customers will pay lower costs if the Company executes the recommended transactions.

e. As explained in more detail in the Confidential Testimony, current market conditions and consensus in the market regarding future natural gas prices, indicate it is more likely that natural gas prices will rise than decline in the future. Thus, from the perspective of risk mitigation, customers will likely be paying more for natural gas resources if the Company does not enter into the recommended transactions.

f. The Company's decision to execute the recommended transactions will lock in natural gas resources at low prices, for up to [REDACTED] years.

g. Based on the 2012 Gas RFP process, the final agreements will be fair and reasonable, assuming they meet the specified price parameters, market ratio, adjusted for credit and not to exceed [REDACTED] of the Company's [REDACTED] official forward price curve for the applicable tenors in each transaction group. Copies of the proposed agreements are provided as exhibits to the Confidential Testimony. The Company will provide the final versions upon their execution.

h. The Company has the financial ability to execute the recommended transactions without impairing its credit or financial viability, as demonstrated in the Testimony of Mr. Bruce Williams.

REQUEST FOR RELIEF

WHEREFORE, Rocky Mountain Power requests that the Commission:

1. Notice a scheduling conference to set a schedule for:
 - a. A technical conference as may be deemed useful to the Commission or interested parties.
 - b. Interested persons to file comments and reply comments on this Voluntary Request.
 - c. A hearing on the Voluntary Request.
 2. Other processes and procedures deemed reasonable or necessary by the Commission in determining to approve Rocky Mountain Power's decision to acquire up to [REDACTED] MMBtu/day by entering into up to [REDACTED] transactions, [REDACTED] from each of [REDACTED] separate transaction groups involving [REDACTED] bidders, each transaction comprising [REDACTED] MMBtu/day, with terms ranging from [REDACTED] years.
 3. Following hearing and, by May 15, 2013, issue an order:
 - a. Approving specified price parameters and a market ratio, as more specifically described in the Confidential Testimony;
 - b. Authorizing Rocky Mountain Power to execute up to [REDACTED] transactions, [REDACTED] from each of [REDACTED] separate transaction groups involving [REDACTED] bidders, each transaction comprising [REDACTED] MMBtu/day, with terms ranging from [REDACTED] years from the final short list of the 2012 Gas RFP;
 - c. Allowing a reasonable period after the Commission issues its order in this docket, within which the Company can execute the approved transactions;
 - d. Granting such other authorizations and approvals as may be necessary;
- and

e. Granting such other relief as is deemed just and reasonable in the public interest.

DATED this 15th day of November, 2012.

Respectfully submitted,

ROCKY MOUNTAIN POWER

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Rocky Mountain Power

Gregory B. Monson
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Attorneys for Rocky Mountain Power

CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing **VOLUNTARY REQUEST FOR APPROVAL OF RESOURCE DECISION [PUBLIC VERSION]** to be served upon the following by electronic mail and the foregoing **VOLUNTARY REQUEST FOR APPROVAL OF RESOURCE DECISION [CONFIDENTIAL VERSION]** to be served upon the following by hand delivery to the addresses shown below on November 15, 2012:

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