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State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

MICHELE BECK
Director

To: Public Service Commission

From: The Office of Consumer Services
Michele Beck
Cheryl Murray

Date: September 16, 2013

Subject: Docket 13-035-21 PacifiCorp's Semi-Annual Hedging Report

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Background

On August 15, 2013, PacifiCorp (Company) filed with the Public Service Commission (Commission) its confidential Semi-Annual Hedging Report (Report)[1].

On September 4, 2013, the Division of Public Utilities (Division) filed comments on the Report in response to a Commission issued Action Request. The Division provides background on the processes (Stipulation and Collaborative Process) that led to the agreement that the Company would file a hedging report semi-annually. Based on its review of the Report the Division concludes that, "As of the date of this report, the Company is in compliance with the current hedging guidelines".

The Office of Consumer Services (Office) and our consultant experts[2] have also reviewed the Report and the information provided in Attachments A – E and concur with the Division that the Company is in compliance with its current hedging guidelines.

Discussion

At page 1 of 5 in Attachment E to the 8/15/13 Report, the Company included Confidential Figure 1 showing increases in Net Power Costs (NPC) for each year compared to the previous Report. The following explanation for changes is provided.

"NPC for each 12-mongh period reported in Confidential Figure 1 increased compared to the prior Semi-Annual Hedging Report, but by less than 2% in each of the 12-month periods. The majority of the difference is attributed to rolling forward the 12-month periods from calendar years

[1] Attachment C, hedging definitions was filed as a public document.

[2] Consultant experts Paul Wielgus, of GDS Associates, and Lori Smith Schell, of Empowered Energy, participated in the original collaborative process that established hedging guidelines.

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to the 12-months ended August each year. For example, Year 1 rolled forward from calendar year 2013 in the previous report to the 12 months ending July 2014 in the current report.

Furthermore, changes in wholesale sales revenue and purchased power expense were largely offsetting, but coal expenses increase in each of the three 12-month periods."

The Company's explanation is helpful in understanding the NPC changes. However, coal expenses are cited as a driver of the increase in the NPC and no information regarding coal expenses is provided. The Office recommends that in future reports the Company include information regarding coal expenses.

Although the Office agrees the current Report complies with current hedging guidelines the Office asserts that with new regulations or changes in market conditions modifications to future semi-annual hedging reports would be beneficial. For example, new regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act have impacted the market for hedging instruments. Specifically, this has manifested itself in reducing the number of counterparties with whom the Company can transact financial swaps. [Begin Confidential] [redacted] [End Confidential] Also, the dynamics of the current crude oil and natural gas markets have changed the need for other market participants to seek longer term hedge products for natural gas hence impacting liquidity. The Office recommends that the Semi-Annual Hedging Report continue to monitor and report on how these factors and others are impacting the Company's expected going forward ability to enter into hedging transactions.

The Office also recommends two enhancements to the Semi-Annual Hedging Report going forward.

1) The Office recommends adding two graphs to the Semi-Annual Hedging Report to complement Confidential Figure 15. The recommended graphs should show the Company's monthly economic generation, retail load, and power requirements as of the current and previous report dates. Such graphs would make the drivers impacting changes in the Company's long power and short natural gas positions more readily apparent to the reader.
2) The Office recommends that transactions reported in Confidential Attachment A that are for balancing purposes be clearly identified as such and that Confidential Figures 31 and 32 be expanded to report balancing transactions in the same manner as the other categories of transactions.

Recommendations

As explained above the Office recommends that:
1) Future reports contain cost information regarding coal expenses;

2) The Company continue to monitor and report on how changes in regulations and the dynamics of the crude oil and natural gas markets impact the Company's ability to engage in hedging activities;
3) Two graphs be added to complement Confidential Figure 15; and
4) Transactions reported in Confidential Attachment A that are for balancing purposes be clearly identified.