



State of Utah
Department of Commerce
Division of Public Utilities

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ACTION REQUEST RESPONSE

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: October 9, 2014

Re: **Information Memo**

Docket No. 14-035-20 - PacifiCorp's Semi-Annual Hedging Report

RECOMMENDATION (NO ACTION)

The 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 August 15, 2014, PacifiCorp (Company) filed the Semi-Annual Hedging Report with the Utah Public Service Commission (Commission). On August 15, 2014, 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.

DISCUSSION

During the 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 hedging transactions. As part of the settlement stipulation in the 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.¹ One of the terms outlined in the stipulation require the Company to provide a semi-annual hedging report² to the Commission.

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 and provide an indication of future hedging activities. The current report covers the six month period ending June 30, 2014. The report describes market fundamentals, basis risk, liquidity, energy positions, hedging activity, products, instruments and physical supply. As of June 30, 2014, the Company was within the hedging guidelines that have been established in the current risk management policy.³ Due to the specific content, **the hedging report and portions of this memo should be considered confidential.**

[REDACTED]

¹ Collaborative Process to Discuss Appropriate Changes to PacifiCorp’s Hedging Practices, March 30, 2012, p. 2.

² Docket No. 10-035-124, Settlement Stipulation, p. 14

³ PacifiCorp Energy Commercial and Trading Risk Management Policy, Approved 2/06/2014

[REDACTED]

ELECTRIC HEDGING – HISTORICAL AND FORECAST

During the previous six months, the three year forward prices for power have increased by an average of \$1.71 per megawatt-hour (MWh) or 4.9% on the east side of PacifiCorp’s system. On the west side, prices have increased by an average of \$2.64 per megawatt-hour (MWh) or 7.7%.

The Company’s view of future electric prices is [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

NATURAL GAS HEDGING – HISTORICAL AND FORECAST

During the previous six months, natural gas prices have decreased on the east side by an average of (\$0.08) per million British thermal units (MMBtu) or (1.9%). On the west side, natural gas prices have increased by an average of \$0.24 or 6.0%. The Company's view of future natural gas prices is [REDACTED]

[REDACTED]

[REDACTED]

ADDITIONAL INFORMATION

[REDACTED]

As part of the review of the current hedging report, the Division compared the forecast natural gas requirements projected in this report with the forecast natural gas requirements identified for Net Power Cost in the most recent PacifiCorp general rate case. The reason for the comparison is the overlapping time periods used in the general rate case and the forecast provided in the hedging report. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

In addition to this memo, the Division has included Confidential Exhibit 1 with two charts to graphically show the change in the hedging percentages of natural gas and electricity from 2008 through 2014. The values used to prepare the DPU charts have been derived from Confidential Figure 21 of the current semi-annual hedging report. [REDACTED]

[REDACTED]

CONCLUSION

As of the date of this report, the Company is in compliance with the current hedging guidelines and no further action is required.

CC Dave Taylor, Rocky Mountain Power
Yvonne Hogle, Rocky Mountain Power
Michele Beck, Office of Consumer Services
Cheryl Murray, Office of Consumer Services
Williams Evans, Parson Behle & Latimer
Gary Dodge, Hatch James & Dodge
Kevin Higgins, Energy Strategies

[REDACTED]

[REDACTED]

[REDACTED]

