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Division of Public Utilities

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Action Request Response

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Chris Parker, Director
Artie Powell, Manager
Doug Wheelwright, Utility Technical Consultant Supervisor
Bhavana Venjimuri, Utility Analyst
Joanna Matyjasik, Utility Analyst

Date: April 29, 2022

Re: Docket No. 22-035-06, PacifiCorp's Semi-Annual Hedging Report

Recommendation (Acknowledge with Recommendation)

The Division of Public Utilities (Division) has reviewed PacifiCorp's Semi-Annual Hedging Report along with the information included as Attachments A – D, as filed by Rocky Mountain Power (RMP). The information presented in this filing has changed significantly from previous reports. The recent change in PacifiCorp's hedging program and the information provided in this hedging report has eliminated the Division's ability to compare the electric hedging in this filing to prior reporting periods. The Public Service Commission of Utah (Commission) has not been asked to approve or acknowledge this report; however, due to the significant changes to the hedging strategy and the reporting, the Division recommends the Commission order a second round of collaborative discussions to allow parties the opportunity to better understand the new hedging program and establish adequate reporting in a consistent structure.

Division of Public Utilities

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Issue

On February 15, 2022, RMP filed PacifiCorp's Semi-Annual Hedging Report with the Commission. On February 15, 2022, the Commission issued an Action Request and asked the Division to review the filing for compliance and make appropriate recommendations with comments due on or before March 17, 2022. Due to the significant changes in the hedging program and the reporting, on March 3, 2022, the Division requested a technical conference to allow PacifiCorp a venue to explain the changes to the hedging program and the new reports. On March 21, 2022, the Commission held a Scheduling Conference and on March 29, 2022, PacifiCorp held a virtual technical conference. The due date for the Division's comments was revised to April 29, 2022.

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 PacifiCorp¹ hedging transactions. As part of the settlement stipulation, RMP 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 PacifiCorp's hedging program and discuss appropriate changes to better reflect customer risk tolerances and preferences.² One of the terms outlined in the stipulation requires RMP to provide a semi-annual hedging report to the Commission.³ A hedging report is to be produced on a semi-annual basis representing 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 for the upcoming six months.⁴ The semi-annual report is also intended to describe market fundamentals, basis risk, liquidity, energy positions, hedging activity, products, instruments, and physical supply. The current report covers the six-month period ending December 31, 2021.

¹ Rocky Mountain Power is DBA PacifiCorp where the hedging transactions originate.

² Collaborative Process to Discuss Appropriate Changes to PacifiCorp's Hedging Practices, March 30, 2012, page 2.

³ Docket No. 10-035-124, Settlement Stipulation, page 14.

⁴ Semi-Annual Hedging Report, page 1.

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The hedging guidelines are outlined in PacifiCorp’s Energy Risk Management Policy⁵ but were significantly changed effective July 1, 2021. The format and content of the report are also significantly different than past hedging reports. Due to the specific content, **the hedging report and portions of this memo are considered confidential.**

Discussion

The PacifiCorp hedging program involves [REDACTED] used for power generation. The specific hedging strategy will also [REDACTED]. “PacifiCorp hedges and procures [REDACTED].”⁶ The decisions for when and how much to hedge can be influenced by the guidelines established in the Energy Risk Management Policy, the market strategy established by PacifiCorp’s Energy and Trading function, and by [REDACTED].

PacifiCorp has implemented a significant change to the hedging strategy since the last filing. Effective July 1, 2021, PacifiCorp implemented a new [REDACTED] and discontinued use of historical [REDACTED]. The new program uses [REDACTED].⁷ Power positions are calculated [REDACTED].⁸ [REDACTED]. The new program is likely an improvement since the [REDACTED] metric was no longer working and had been suspended for some time.

While the new program may be an improvement, the implementation and impacts were not clearly understood by the parties and many of the particulars agreed to as part of the collaborative

⁵ PacifiCorp - Energy Risk Management Policy, approved January 30, 2019.

⁶ Semi-Annual Hedging Report, page 27.

⁷ Semi-Annual Hedging Report, page 18.

⁸ PacifiCorp Energy Risk Management Policy, July 1, 2021, page 10. “[REDACTED].”

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discussions in 2012 have been eliminated in the most recent filing.⁹ Since the measurement and reporting tools have changed and are no longer included, a comparison of the current electric hedging position to previous reports is not available. The Division has been working with PacifiCorp to gain a better understanding of the new program, but a redesign of the reporting will need to occur in order to create meaningful reports in future periods. PacifiCorp has indicated that it is willing to continue collaborative discussions to facilitate a better understanding of the new program and is willing to make changes to future semi-annual hedging reports.¹⁰ Since the majority of the changes that have occurred deal with calculating the [REDACTED], the Division's analysis of the [REDACTED] in this report is very limited.

ELECTRIC HEDGING – HISTORICAL AND FORECAST

Since June 30, 2021, [REDACTED] forward price curve (FPC) for power on the east side of PacifiCorp's system [REDACTED] per megawatt-hour (\$/MWh), [REDACTED] [REDACTED] per megawatt-hour (\$/MWh), [REDACTED] on the west side.¹¹ The electric portion of the hedging program is unique since PacifiCorp [REDACTED] [REDACTED] [REDACTED].

Except for the above paragraph, the current reporting is new and does not facilitate historical comparison to previous reports. PacifiCorp has communicated its intent to work with the Division to clarify and improve future reporting, but it will take some time.

The new hedging program focuses on the primary concern of [REDACTED] [REDACTED]. PacifiCorp has determined that the [REDACTED] [REDACTED] [REDACTED]¹²

The new power position is calculated based on the [REDACTED] [REDACTED]. In periods where forecasted power positions are [REDACTED]

⁹ Semi-Annual Hedging Report, page 30.

¹⁰ Risk Management Program Changes, Confidential Technical Conference, March 29, 2022, page 19.

¹¹ Semi-Annual Hedging Report, page 1.

¹² Risk Management Program Changes, Confidential Technical Conference, March 29, 2022, page 3.

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[REDACTED]

[REDACTED] 13 [REDACTED]

[REDACTED]

[REDACTED] :

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

New guidelines have been established but it is impossible for the Division to calculate or determine compliance with the guidelines. The information provided as Confidential Figures 13 through 20 are new charts that are intended to show the power position for each month. These new charts, and the supporting information provided as attachment D, show [REDACTED]

[REDACTED]

[REDACTED]. This kind of limited information does not provide the level of detail necessary to evaluate the current electric hedging program.

The only information that has been provided is the [REDACTED]. For example, Confidential Figure 13 is a chart that shows the [REDACTED].

For August 2022, [REDACTED] PacifiCorp reports [REDACTED]. PacifiCorp has not provided, and there is no way to determine the [REDACTED],

[REDACTED]. (The values used to generate this chart are provided in Attachment D). This is just one example of how the new reporting is inadequate to evaluate the current hedging program. The new reports are broken down to report [REDACTED]

[REDACTED], however there is no ability to determine the [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED].

With the new reporting and limit structure format, PacifiCorp hedges to a [REDACTED]. PacifiCorp has indicated that the new hedging program [REDACTED]

¹³ Energy Risk Management Policy, July 1, 2021, page 10.

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[REDACTED], however, there has been no comparison or analysis to demonstrate if this is correct or an accurate statement. Managing the system and the hedging program to the [REDACTED]

[REDACTED]. There has been no apparent analysis of the cost and possible [REDACTED]

For the next six months of the power plan, PacifiCorp will continue to [REDACTED]. For periods where PacifiCorp [REDACTED]

[REDACTED] consistent with the [REDACTED], which began July 1, 2021. PacifiCorp will [REDACTED]. Additionally, PacifiCorp will [REDACTED], while not impacting the total portfolio.¹⁴

NATURAL GAS HEDGING – HISTORICAL AND FORECAST

PacifiCorp is exposed to natural gas price risk due to its natural gas-fired generating fleet. The new hedging program uses the [REDACTED] model to calculate the natural gas requirement. Based on the Division’s initial review, the new hedging program has limited impact on the [REDACTED] and the reporting is similar to previous reports.

Natural gas hedging guidelines have been established [REDACTED]. During the previous six months, the market price of natural gas has [REDACTED] on the east side of the PacifiCorp service territory by [REDACTED] per million British thermal units (MMBtu) [REDACTED]. On the west side of the service territory, natural gas prices have [REDACTED] per MMBtu or [REDACTED].¹⁵

For the forecast [REDACTED] natural gas hedging limits have been established and are included in Appendix E of PacifiCorp’s Energy Risk Management Policy. Hedging and hedging limits are designed to [REDACTED]. The established ranges for hedging the forecast natural gas requirement are as follows:

¹⁴ Semi-Annual Hedging Report, page 11.

¹⁵ Semi-Annual Hedging Report, page 1.

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[REDACTED]

Transactions extending [REDACTED] but must comply with transaction limit approval guidelines.

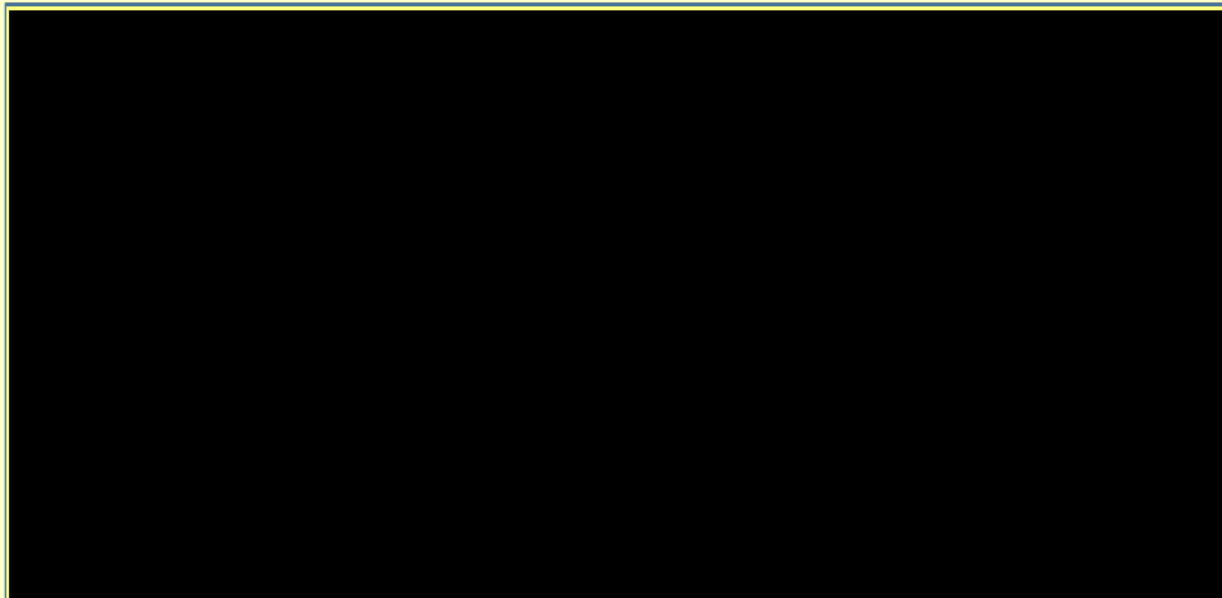
As of December 31, 2021, PacifiCorp had hedged [REDACTED] natural gas requirement,

[REDACTED]¹⁶
[REDACTED]
[REDACTED]

[REDACTED] as outlined in the Risk Management Policy. The current hedging position is largely in-line with the projections outlined in the previous report, which indicated that [REDACTED]

[REDACTED].¹⁷ Confidential Chart 1 has been prepared to graphically show the change in the hedging percentages of natural gas for the last eight reporting periods, including the recently necessitated 2021 PCI (Power Costs Incorporated) optimization model values.

Confidential Chart 1



¹⁶ Semi-Annual Hedging Report, page 17, Confidential Figure 21.

¹⁷ Semi-Annual Hedging Report, page 4.

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As demonstrated in Confidential Chart 1, PacifiCorp has maintained a fairly consistent natural gas hedging strategy.

As part of the review of the updated reporting of hedging practices, Confidential Figure 22 through Confidential Figure 27¹⁸ provide a visual comparative depiction of PacifiCorp's weighted average hedging price and a relevant daily spot price.¹⁹ These figures were reported to replace previous reports' Confidential Figure 25, a volatility coefficient table, which provided a comparison of the weighted average price for the hedged natural gas contracts with the weighted average spot market index price.

The impact of the coronavirus disease (COVID-19) pandemic continues to affect various aspects of the economy and the natural gas market.²⁰ By hedging [REDACTED]

To provide a comparison of how PacifiCorp's Official Forward Price Curve (OFPC) for natural gas has changed over time, Confidential Chart 2 has been prepared to show the OFPC as reflected in the last six reporting periods.

Confidential Chart 2



¹⁸ Semi-Annual Hedging report, pages 19-21.

¹⁹ Semi-Annual Hedging report, page 30.

²⁰ Semi-Annual Hedging Report, page 3.

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The PacifiCorp OFPC for natural gas is reflecting [REDACTED] compared to the June 30, 2021, forecast. The longer-range forecast in the OFPC is anticipating natural gas prices that are [REDACTED].

As economic conditions and market prices change, the forecast requirement for natural gas used for electric generation will also change. Confidential Chart 3 has been prepared to show how the forecast natural gas requirement for the next 24 months has changed in the current report compared to the forecast requirement in the two previous hedging reports. The current forecast of the natural gas requirement is [REDACTED]. It is unclear if the [REDACTED] in the requirement is due to the new [REDACTED] or if the [REDACTED] is due to market conditions.

Confidential Chart 3



As part of the review of the forecast natural gas requirement, it is useful to compare the historical usage and actual volume of natural gas consumed to the volume that was forecast. A comparison of the actual natural gas consumption with the previous forecast is important since [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED].

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[REDACTED]. For the physical natural gas supply and balancing, PacifiCorp's plan will remain consistent with the past practices [REDACTED]

[REDACTED], PacifiCorp [REDACTED]

[REDACTED]²²

Conclusion

The Division has reviewed the Semi-Annual Hedging Report and responses to numerous data requests. The information presented for the natural gas portion of the report is similar in format and content to previous reports and includes both historical information and a forecast of future hedging activities. The information presented for the electric portion of the report has changed significantly from previous filings. The recent change in PacifiCorp's hedging program and the information provided in this hedging report has not been presented in a manner that is easily understood and does not facilitate a comparison to previous reporting periods.

As of December 31, 2021, the natural gas hedging activities are within the established guidelines. Due to the changes that have occurred in this report, the Division cannot determine if the electric hedging activities comply with PacifiCorp's new guidelines. Furthermore, the Division is unable to adequately evaluate the impact of the new program on the electric hedging activity.

The Commission has not been asked to approve or acknowledge this report, however, due to the significant changes to the hedging strategy and the reporting, the Division recommends the Commission order a second round of collaborative discussions to allow parties the opportunity to better understand the new hedging program and establish adequate reporting.

cc: Joelle R. Steward, Rocky Mountain Power
Jana Saba, Rocky Mountain Power
Michele Beck, Office of Consumer Services

²² Semi-Annual Hedging Report, page 11.