UTAH DEPARTMENT OF COMMERCE
Division of Public Utilities

SPENCER J. COX
Governor

DEIDRE M. HENDERSON
Lieutenant Governor

MARGARET W. BUSSE
Executive Director

CHRIS PARKER
Division Director

REDACTED

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
Joanna Matyjasik, Utility Analyst
Trevor Jones, Utility Analyst

Date: November 14, 2022

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

Recommendation

The Division of Public Utilities (Division) has reviewed the Semi-Annual Hedging Report from PacifiCorp, along with the information included as Attachment A, as filed by Rocky Mountain Power (RMP). The information presented in this filing and in the previous report has changed significantly from the preceding reports. The change in PacifiCorp's hedging program and the information provided in this hedging report has continued to impede the Division's ability to compare the electric hedging in this filing to prior reporting periods. Further, important evaluations of the hedging program's performance cannot be made with the information the reports provide. The Public Service Commission of Utah (Commission) has not been asked to approve or acknowledge this report; however, due to the continued significant changes to the hedging strategy and reporting, the Division recommends the Commission order RMP to work with PacifiCorp, and parties, to participate in collaborative discussions in order to allow parties the opportunity to better understand the new hedging program and to establish adequate and meaningful reporting.

REDACTED

Issue

On August 15, 2022, RMP filed PacifiCorp's Semi-Annual Hedging Report with the Commission. On August 16, 2022, the Commission issued an Action Request and asked the Division to review the filing for compliance and to make appropriate recommendations with comments due on or before September 14, 2022. On September 9, 2022, the Division requested an extension to allow for a meeting and further discussions with PacifiCorp and to gather additional information. The due date for the Division's comments was revised to November 14, 2022. This memo represents the Division's response to the Action Request.

Background

During a RMP 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[1] 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 June 30, 2022.

[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.

REDACTED

The hedging guidelines are outlined in PacifiCorp's Energy Risk Management Policy[5] 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 implemented a significant change to the hedging strategy, effective July 1, 2021. The program uses [redacted][7] Power positions are calculated [redacted][8] [redacted]

The implementation and impacts of the new program were not clearly understood by the parties and have evidently diverged from the 2012 collaborative discussion agreements. Since the measurement and reporting tools have changed, the deliverable, as a whole, is insufficient and does not allow regulators to analyze and report on the hedging program because the prudence of the program cannot be meaningfully determined. While it is important that regulatory mechanisms remain flexible enough to allow utilities to adapt practices to changing conditions, regulators must also be able to evaluate utility practices for prudence.

---

[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]

REDACTED

ELECTRIC HEDGING – HISTORICAL AND FORECAST

Since December 31, 2021, [redacted] forward price curve (FPC) for power on the east side of PacifiCorp's system [redacted] per megawatt-hour ($/MWh), [redacted] per megawatt-hour ($/MWh), [redacted] on the west side.[9] The electric portion of the hedging program is unique since PacifiCorp [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] PacifiCorp has determined that the [redacted][10]

The new power position is calculated based on the [redacted] In periods where forecasted power positions are [redacted][11] [redacted]

[redacted]

---

[9] Semi-Annual Hedging Report, page 1.
[10] Risk Management Program Changes, Confidential Technical Conference, March 29, 2022, page 3.
[11] Energy Risk Management Policy, July 1, 2021, page 10.

REDACTED

New guidelines have been established but it is impossible for the Division to calculate or determine compliance with the guidelines based on the reports that have been provided. The information provided as Confidential Figures 34 through 58 are new charts that are intended to show the power position for each month. These new charts, and the supporting information provided in Attachment A, show [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] without any comparison to the other hours or days within the month. For example, Confidential Figure 46 is a chart that shows the [redacted] The chart provides a comparison of the June 30, 2022, position to the December 31, 2021, position and identifies the change. Based on what has been provided, the Division is unable to determine the [redacted] 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] which is an improvement, however there is no ability to determine the [redacted]

With the new reporting and limit structure format, PacifiCorp hedges to a [redacted] PacifiCorp has indicated that the new hedging program [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] There has been no apparent analysis of the cost and possible [redacted] If hedging against [redacted] it cannot be told from the report in its current state. While hedging programs have other purposes than finding the consistently lowest cost, hedges' performance against actual conditions is important.

There does not appear to be any significant change in the hedging strategy going forward. For the next six months of the power plan, PacifiCorp will continue to [redacted] For periods where PacifiCorp [redacted] consistent with the [redacted] which began July 1, 2021. PacifiCorp will [redacted] Additionally, PacifiCorp will [redacted] while not impacting the total portfolio.[12]

NATURAL GAS HEDGING – HISTORICAL AND FORECAST

PacifiCorp is exposed to natural gas price risk due to its gas-fired power plants. The updated hedging program uses the [redacted] model to calculate the natural gas requirement. The 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 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].[13] The following chart displays the market prices for the Sumas and Opal hubs representing the West and East respectively, and the price the Division has calculated for PacifiCorp based on total cost and amount consumed of natural gas for each month.

[12] Semi-Annual Hedging Report, page 66.
[13] Semi-Annual Hedging Report, page 1.

REDACTED

Confidential Chart 1

[redacted]

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:

Confidential Chart 2

[redacted]

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

Based on the June 30, 2022, information, the Division has prepared three graphs of the Hedges vs Forecast Fuel Burn ("Requirement") for the time period August 2022 through July 2023. The charts provide a summary for the Total System, East, and West. The percentage for each data point is calculated by dividing the hedge by the forecasted requirement.

REDACTED

Confidential Chart 3

[redacted]

Confidential Chart 4

[redacted]

Confidential Chart 5

[redacted]

REDACTED

Based on the information provided, it is clear that PacifiCorp is not managing the natural gas hedging program in the same way on both sides of the system. PacifiCorp cannot transfer gas from East to West or vice versa, so looking at the system percentage is inappropriate. The hedging program should have a clear distinction between hedging for the East side of the system and hedging for the West side of the system. The graphs show that [redacted] The Division asked about this in Data Request 5.6.

5.6 DPU

[redacted]

5.6 RMP

[redacted]

The Company's response lacks specificity and does not explain why they are hedged [redacted] If there is a factor that contributed, then that factor should be explained in more detail. [redacted] No explanation has been provided for the reason for the [redacted] or the cost impact of this decision.

Another Data Request asked about the difference between East and West.

5.2 DPU

[redacted]

REDACTED

5.2 RMP

> [redacted] *Additionally, please refer to the Company's response to DPU Data Request 5.7.*

For reference, the following is Data Request 5.7.

5.7 DPU

> [redacted]

5.7 RMP

> [redacted]

The Division is seeing an issue between the [redacted] responses and thinks PacifiCorp should amend its natural gas hedging guidelines. Changing the natural gas hedging program from a system level to a more granular East and West level will provide greater transparency and understanding. Furthermore, the level of vagueness in Company responses is troubling. Responses should be reasonably calculated to better inform regulators, yet many responses seem calculated to reveal little. The Division encourages a higher quality of responses to data requests to help ensure better understanding. Differential access to information is a common challenge in the regulatory arena. Vague responses do little to engender trust or to demonstrate prudence.

As economic conditions and market prices change, the forecast requirement for natural gas used for electric generation will also change. Confidential Chart 5 has been prepared to show

how the forecast natural gas requirement for the next [redacted] has changed in the current report compared to the forecast requirement in the previous hedging report. The current forecast for the natural gas volume requirement is [redacted]

Confidential Chart 6

[redacted]

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 forecasted volume. A comparison of the actual natural gas consumption with the previous forecast is important since [redacted] In response to data requests, PacifiCorp has provided the actual MMBtu consumed by each of the natural gas generating units. The actual amount consumed is normally charted against the forecast for comparison purposes but due to the change in the method of hedging and reporting, it cannot be done at this time. The Division may be able to include a comparison in future reports.

As demand and market conditions change, it is reasonable to expect that the actual usage will vary from the anticipated requirement. The actual usage of natural gas for the previous three years followed the forecast requirement trend, albeit loosely. The usage and forecast

REDACTED

requirement will also be split between East and West in future reports. The Division will continue to monitor the actual usage compared to the forecast requirement and will also monitor any [redacted]

Conclusion

The Division has reviewed the Semi-Annual Hedging Report, has held meetings with Company representatives, and has reviewed 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. However, 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. Due to the changes that have occurred in the hedging program and 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.

As of June 30, 2022, the natural gas hedging activities are within the established guidelines on a system basis, but questions remain concerning the gas hedging [redacted]

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 in the future.

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