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Action Request Response

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Chris Parker, Director
Brenda Salter, Assistant Director
Doug Wheelwright, Utility Technical Consultant Supervisor
Trevor Jones, Utility Technical Consultant
Joanna Matyjasik, Utility Analyst

Date: March 16, 2023

Re: **Docket No. 23-035-06,** PacifiCorp's Semi-Annual Hedging Report

Recommendation (No Action)

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 the previous three filings has changed significantly from 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 Division and RMP are working toward identifying and agreeing upon the needed information for reports. The Utah Public Service Commission ("Commission") has not been asked to approve or acknowledge this report and the Division asks that no action be taken at this time.

Issue

On February 15, 2023, RMP filed PacifiCorp's Semi-Annual Hedging Report with the Commission. On February 15, 2023, 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 March 17, 2023. This memo represents the Division's response to the Action Request.

Background

During an 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 December 31, 2022.

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

[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] Settlement Stipulation, Docket No. 10-035-124, page 14.
[4] Semi-Annual Hedging Report, page 1.
[5] PacifiCorp - Energy Risk Management Policy, revised March 3, 2022.

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also [redacted] 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] Power positions are calculated [redacted]

The implementation and impacts of the new program continue to evade sufficient understanding by the parties and have diverged from the 2012 collaborative discussion agreements. Since the measurement and reporting tools have diverged from the 2012 collaborative agreements, the semi-annual report, as a whole, is insufficient and does not provide the information necessary for regulators to analyze the hedging activity. The changes to the program and changes to the report have hampered the Division's ability to review the hedging activity and the prudence of the program cannot be meaningfully determined. While regulatory mechanisms must remain flexible enough to allow utilities to adapt practices to changing conditions, regulators must also be able to evaluate utility practices for prudence.

In a perceived attempt to expound on the provided information, [redacted]

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[6] Semi-Annual Hedging Report, page 11.
[7] PacifiCorp Energy Risk Management Policy, July 1, 2021, page 10. "[redacted]

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[redacted] The power and natural gas reports [redacted], respectively.[8]

ELECTRIC HEDGING – HISTORICAL AND FORECAST

Since June 30, 2022, [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]

The current reporting does not facilitate historical comparison to previous reports. PacifiCorp has communicated its intent to work with the Division to clarify future reporting, but little progress has been made in the past 18 months. Discussions continue.

The current hedging program focuses on the primary concern of [redacted] PacifiCorp has determined that the [redacted]

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

[8] Semi-Annual Hedging Report, [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.

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[redacted]

The guidelines have been established but it is unfeasible for the Division to calculate or determine compliance with the guidelines based on the reports that have been provided. The information provided as Confidential Figure: Position Composition – 10 through Confidential Figure: Position Composition – 39, which were present in the previous report, are charts that are intended to show the power position for each month. These 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] For example, Confidential Figure: Position Composition – 37 is a chart that shows the [redacted] The chart provides a comparison of the December 31, 2022, position to the June 30, 2022, 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

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program to the [redacted] PacifiCorp has indicated that market products for hedging these hours [redacted] for example. There has been no apparent analysis of the cost and possible [redacted] If hedging against [redacted] it cannot be explained or verified from the report in its current state. While hedging programs have other purposes than finding the consistently lowest cost, measuring the hedges' performance against actual conditions is important to evaluate alternatives.

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.

[12] Semi-Annual Hedging Report, page 60.
[13] Semi-Annual Hedging Report, page 1.

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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.

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 [redacted] has changed in the current report compared to the forecast requirement in the previous hedging report. The current

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forecast for the natural gas volume requirement is [redacted]

Confidential Chart 3

[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. Confidential Chart 4 displays the actual amount consumed and the forecast for the prior year.

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Confidential Chart 4

[redacted]

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 year did not follow the forecasted requirement very well. The Division will continue to monitor this and look for trends over time with the implementation of the new hedging program. The usage and forecast requirement will also be split between East and West in future reports. The Division will also monitor if there are any [redacted]

Conclusion

The Division has reviewed the Semi-Annual Hedging Report, has held meetings with Company representatives, and has reviewed responses to data requests. The Division will continue to work with the Company to better understand the current hedging program and will recommend and encourage changes for future filings. The current reporting lacks the details to adequately evaluate the impact of the changes to the hedging program that were implemented in 2021 and the program's overall prudence.

The Commission has not been asked to approve or acknowledge this report and the Division asks that no action be taken at this time. However, the Division is in discussions with the Company to better understand the new hedging program and establish adequate reporting in the future.

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