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UTAH DEPARTMENT OF COMMERCE

Division of Public Utilities

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REDACTED

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 Matyasik, Utility Analyst
Jonathan Lee, Utility Analyst

Date: September 18, 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 Attachments A – C, as filed by Rocky Mountain Power ("RMP"). The information presented is similar in format and content to the previous report and includes historical information along with a forecast of future hedging activities. The Public Service Commission of Utah ("Commission") has not been asked to approve or acknowledge this report and no further action is needed. If it becomes necessary, the Division may refine its recommendation and review based on the data request responses that have not yet been provided at this time.

Issue

On August 15, 2023, RMP filed PacifiCorp's Semi-Annual Hedging Report with the Commission. On August 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

Division of Public Utilities

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on or before September 14, 2023, which date was superseded by September 18, 2023, as found in the Notice of Filing and Comment Period issued by the Commission. 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 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. Changes to the hedging program and subsequent changes in the hedging report have made the Division's review and evaluation of the program more difficult. The current report covers the six-month period ending June 30, 2023.

Discussion

The PacifiCorp hedging program involves [REDACTED] [REDACTED] used for power generation. The specific hedging strategy will also [REDACTED] [REDACTED]. The decisions for when and how much to hedge can be influenced by the guidelines established in the Energy Risk Management

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.

Policy, the market strategy established by PacifiCorp's Energy and Trading function, and [REDACTED]

PacifiCorp implemented a significant change to the hedging strategy in July 2021. The program uses [REDACTED]

[REDACTED]

[REDACTED] Power positions are calculated [REDACTED]

[REDACTED]

[REDACTED]⁶ [REDACTED]

[REDACTED]

The implementation and impacts of the new program continue to evade sufficient understanding by the Division. The semi-annual report, as a whole, is insufficient and does not provide the information necessary for regulators to analyze 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. For example, what is the difference in cost of the new hedging program versus the old program? Would it be cheaper to build a new peaker plant for those few short hours rather than [REDACTED]? Would batteries be more effective [REDACTED]? The Company has not provided any analysis to support the costs of the hedging program.

The Company contracts [REDACTED] to write reports that describe market fundamentals for power and natural gas, which replaced formerly titled sections – Market Dynamics, Supply, and Demand. The power and natural gas reports are included in Confidential Attachment B and Confidential Attachment C, respectively.⁷

⁵ Semi-Annual Hedging Report, page 11.

⁶ PacifiCorp Energy Risk Management Policy, April 17, 2023, page 10. [REDACTED]

⁷ Semi-Annual Hedging Report, Attachments B and C.

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ELECTRIC HEDGING – HISTORICAL AND FORECAST

Since December 31, 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.⁸ The electric portion of the hedging program is unique since PacifiCorp [REDACTED]

[REDACTED]

The hedging program focuses on the primary concern of [REDACTED]

[REDACTED]

PacifiCorp has determined that the [REDACTED]

[REDACTED]

[REDACTED]⁹

The power position is calculated based on the forecasted [REDACTED]

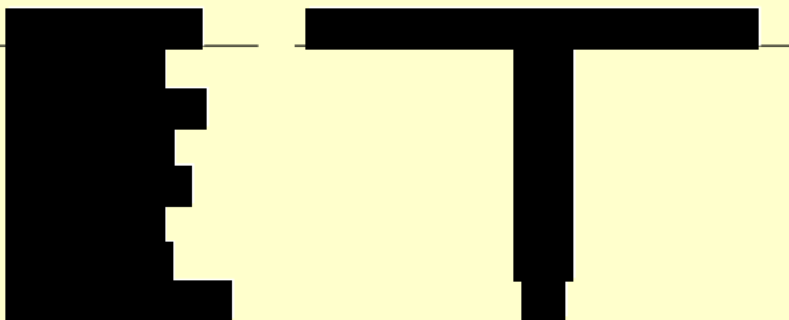
[REDACTED] In periods where forecasted power positions are [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]¹⁰ [REDACTED]

[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

⁸ Semi-Annual Hedging Report, page 1.

⁹ Risk Management Program Changes, Confidential Technical Conference, March 29, 2022, page 3.

¹⁰ Energy Risk Management Policy, April 17, 2023, page 10.

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Figure: Position Composition – 39, 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]
[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]
[REDACTED]. For example, Confidential Figure: Position Composition – 37 is a chart that shows the [REDACTED]
[REDACTED]. The chart provides a comparison of the June 30, 2023, position to the December 31, 2022, position and identifies the change. Based on what has been provided, the Division is unable to determine the [REDACTED]
[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 PACE and PACW separately, which is an improvement, however there is no ability to determine the [REDACTED]. The Division is also unable to determine if there are any [REDACTED] when calculating the on-peak and off-peak positions.

With the new reporting and limit structure format, PacifiCorp hedges to a [REDACTED]
[REDACTED]. PacifiCorp has indicated that the new hedging program [REDACTED]
[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]. PacifiCorp has indicated that market products for hedging these hours [REDACTED]
[REDACTED]. There has been no apparent analysis of the cost and possible [REDACTED]
[REDACTED]. If hedging against [REDACTED]
[REDACTED]
[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]. The current program has been in place since July 1, 2021. PacifiCorp will [REDACTED]. Additionally, PacifiCorp will [REDACTED] while not impacting the total portfolio.¹¹

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) or [REDACTED]. On the west side of the service territory, natural gas prices have [REDACTED] per MMBtu or [REDACTED].¹² The following chart provides a comparison of the first of the month market prices for the Opal hub in the East, the Sumas hub in the West compared to the actual price paid by PacifiCorp for the last 12 months. During this time period, it is easy to see how the hedging program for natural gas was been successful in minimizing the impact of volatile prices.

¹¹ Semi-Annual Hedging Report, page 60.

¹² Semi-Annual Hedging Report, page 1.

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[REDACTED]

[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:

[REDACTED]

[REDACTED]

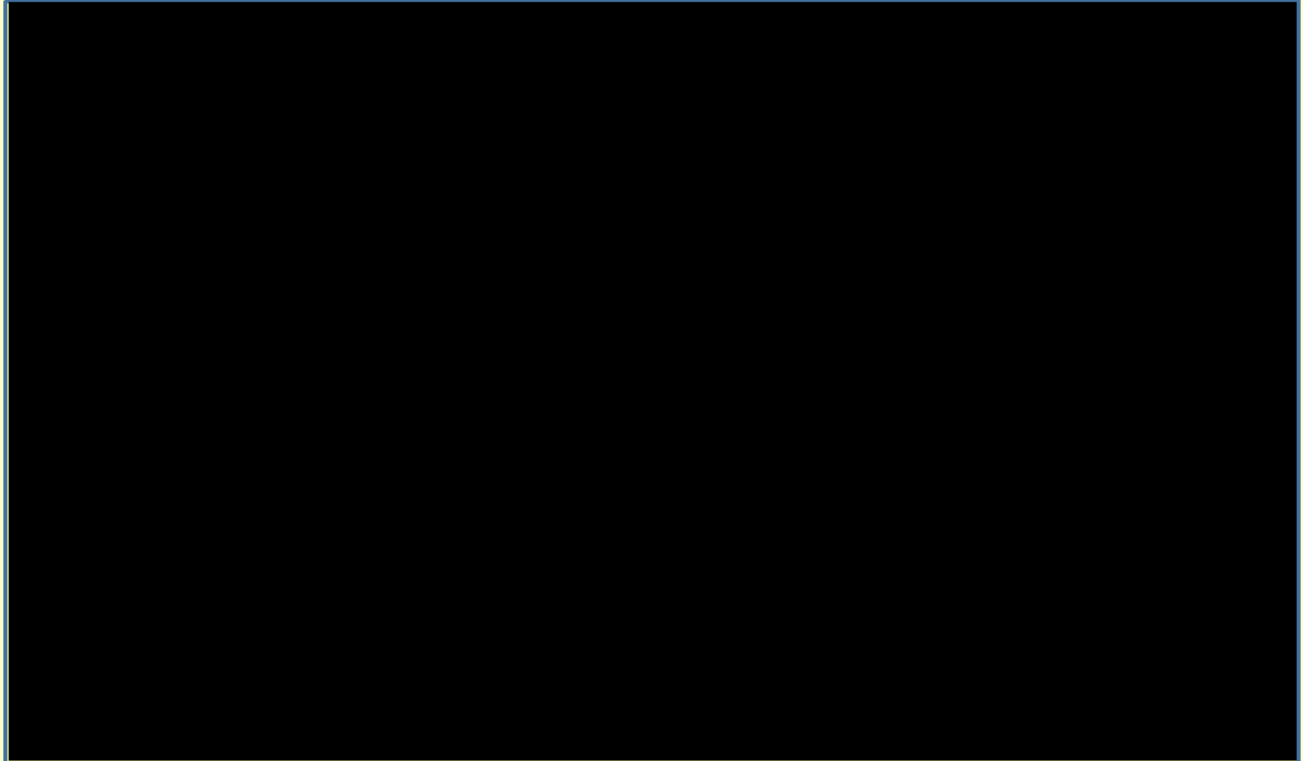
Transactions extending [REDACTED] but must comply with transaction limit approval guidelines. The Company remained within the established ranges except for a few minor excursions which were resolved according to the Company's energy risk management policy.

By hedging a portion of the total natural gas requirement, PacifiCorp can purchase the remaining unhedged portion of the gas requirement at the spot market price, which should help control the total net power cost.

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To provide a comparison of how PacifiCorp's forward prices for natural gas have changed, Confidential Chart 3 has been prepared to show the forward prices as reflected in the last two reporting periods.

[REDACTED]



As economic conditions and market prices change, the forecast requirement for natural gas used for electric generation will also change. Confidential Chart 4 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], and follows the previous forecast closely, in the long term.

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[REDACTED]

[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 forecast volume. A comparison of the actual natural gas consumption with the previous forecast is important since

[REDACTED] outlined in the Energy Risk Management Policy is based on [REDACTED]

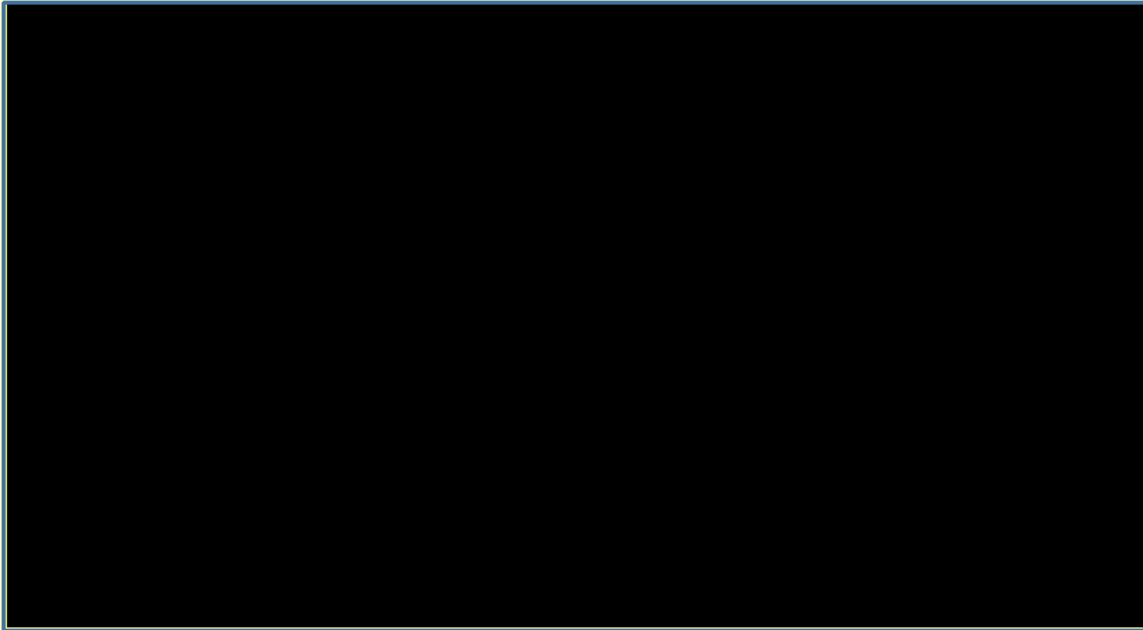
[REDACTED]


[REDACTED]

[REDACTED]

[REDACTED] In response to data requests, PacifiCorp has provided the actual MMBtu consumed by each of the natural gas generating units. Confidential Chart 5 displays the actual amount consumed and the forecast for the prior year.

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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 period of August 1, 2022, through June 1, 2023, did not follow the forecasted requirement. The Division will continue to monitor this and look for trends over time. The Division will also monitor if there are any 

Conclusion

The Division has reviewed the Semi-Annual Hedging Report and has reviewed responses to the data requests. The Division will continue to work with the Company to better understand the hedging program and will recommend and encourage changes for future filings.

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