UTAH DEPARTMENT OF COMMERCE
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
Brenda Salter, Assistant Director
Doug Wheelwright, Utility Technical Consultant Supervisor
Trevor Jones, Utility Technical Consultant
Joanna Matyjasik, Utility Analyst
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Date: April 15, 2024

Re: **Docket No. 24-035-07,** 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 associated attachments and data request responses, 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.

Issue

On February 15, 2024, RMP filed PacifiCorp's Semi-Annual Hedging Report with the Commission. On February 16, 2024, 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 15, 2024. On March 7, 2024, the Division requested an extension to allow for more time to receive data request responses and to thoroughly review

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and analyze the responses, while also considering the possibility of additional questions. The due date for the Division's comments was revised to April 15, 2024. This memo is 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, 2023.

Discussion

The PacifiCorp hedging program involves [redacted] used for power generation. The specific hedging strategy will 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 [redacted]

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[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.

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PacifiCorp implemented a significant change to the hedging strategy in July 2021. The current program uses [redacted] For power, [redacted][5] Power positions are calculated based on the [redacted] and represent the forecast [redacted][6] While the hedging horizon is looking [redacted] into the future, the Company begins electricity hedging transactions [redacted]

The Company contracts [redacted] to write reports that describe market fundamentals for power and natural gas. The power and natural gas reports are included in Confidential Attachment B and Confidential Attachment C, respectively.[7]

ELECTRIC HEDGING – HISTORICAL AND FORECAST

The electric portion of the hedging program primarily focuses on purchasing hedges to prevent [redacted] PacifiCorp has decided that the [redacted][8]

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

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[5] Semi-Annual Hedging Report, page 12.
[6] PacifiCorp Energy Risk Management Policy, April 17, 2023, page 10. [redacted]
[7] Semi-Annual Hedging Report, Attachments B and C.
[8] Risk Management Program Changes, Confidential Technical Conference, March 29, 2022, page 3.

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[redacted]

[redacted]

PacifiCorp hedges to a [redacted] Managing the system and the hedging program to the [redacted] PacifiCorp has indicated that market products [redacted] There has been no apparent analysis of the cost and possible [redacted] The hedging program and current report cannot verify that hedging against [redacted] While hedging programs have other purposes than finding the consistently lowest cost, measuring the hedges' performance against actual conditions is important to evaluate possible 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

[9] Energy Risk Management Policy, April 17, 2023, page 10.
[10] There is no maximum percentage.

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where PacifiCorp [redacted] consistent with the [redacted]

As of December 31, 2023, the Division calculated the cost of the hedging program for power for the year 2024 to be [redacted] This is simply calculated using the contracted volumes and price for each trade. These trades have an average cost of [redacted][11]. As the company continues to add more hedges throughout 2024, the total cost will increase. The Division estimates that the cost of the hedging program for power for 2024 [redacted]

The Company's conservative hedging program appears to be costing ratepayers significantly. It is not clear that it is prudent, though it may be. [redacted] Recent Company Integrated Resource Plans (IRP) have begun to limit the number of available front office transactions in outer years in order to reflect the increasing market scarcity it is observing.[12] That change may prove helpful to resolving this problem with supply resources. It is not clear whether the changes in available transactions are modeled with enough specificity as to season and price but it is also not clear what effect those details have on the modeling results. However, the Company's other judgmental decisions in its IRPs have artificially constrained the available resources to meet the need it sees in the market by unreasonably excluding or limiting gas resources, which the Division has noted in its IRP comments. These decisions make it somewhat less likely the Company's planning processes will expeditiously

[11] Total cost divided by total volumes.
[12] Docket No. 23-035-10, Integrated Resource Plan at 123-124.

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and economically solve the supply problem created by market scarcity and product structures. While the program might be the best the Company can do in the near term, it is not in the public interest in the long run. The longer these purchases and questionable IRP decisions continue, the more difficult it will be to find that the high level of purchases at high prices are prudently incurred expenses.

Additionally, this aspect of the hedging program appears to manifest itself primarily on one side of the system. As of December 31, 2023, looking at the calculated costs for 2024, the following table shows the difference between PACW and PACE:

[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

[redacted]

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

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have [redacted] per MMBtu or [redacted].[13] The following chart provides a comparison of the first of the month market prices for the Opal hub in the East and 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 successful in minimizing the impact of volatile prices during the price spikes in January and February 2023.

Confidential Chart 1

[redacted]

For the forecasted 36-month hedging period, minimum and maximum natural gas hedged position 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 forecasted natural gas requirement are as follows:

Confidential Chart 2

[redacted]

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

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Transactions extending [redacted] but must comply with Transaction Approval Limits.[14] The Company remained within established ranges except for a few excursions[15] which were resolved according to the Company's energy risk management policy.[16]

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.

To provide a comparison of how PacifiCorp's forward prices for natural gas have changed since the last report, Confidential Chart 3 shows the forward prices on the east and west side of the PacifiCorp service territory as reflected in the last two reporting periods.

Confidential Chart 3

[redacted]

[14] PacifiCorp Energy Risk Management Policy, April 17, 2023, Appendix E, page 33.
[15] Semi-Annual Hedging Report, pages 34-35.
[16] Semi-Annual Hedging Report, page 45.

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As economic conditions and market prices change, the forecasted requirement for natural gas used for electric generation will also change. Confidential Chart 4 shows how the forecasted 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.

Confidential Chart 4

[redacted]

As part of the review of the forecasted 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] 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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Confidential Chart 5

[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 period of January 1, 2023, through December 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 [redacted]

Also, considering the cost of power hedges, it is surprising the Company [redacted] On page 40 of the August 2023 report,[17] the average price of purchased electricity for PACW in Q3 of 2023 was [redacted]. The current report has an average price for PACW in Q3 of 2024 at [redacted].[18] Generating power through natural gas plants is [redacted]

[17] Semi-Annual Hedging Report, August 15, 2023, page 40.
[18] Semi-Annual Hedging Report, page 44.

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[redacted] does protect the Company from one form of risk. However, the Company has not been able to demonstrate [redacted]

Conclusion

The Division has reviewed the Semi-Annual Hedging Report, the attachments, and responses to the data requests. The information presented in the current report is similar in format and content to previous reports and includes both historical information and a forecast of future hedging activities. As of December 31, 2023, the natural gas and electric hedging activities are within the established guidelines. However, as noted above in this response, the Division is concerned that Company activities are resulting in imprudently incurred costs. The Division will continue to investigate the issues and advocate as it determines appropriate.

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