

April 30, 2024

VIA ELECTRONIC FILING

Utah Public Service Commission
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84114

Attention: Gary Widerburg
Commission Secretary

RE: **Docket No. 24-035-07 – PacifiCorp’s Semi-annual Hedging Report**
Rocky Mountain Power’s Confidential Reply Comments

In accordance with the Amended Notice of Filing and Comment Period issued by the Public Service Commission of Utah (“Commission”) on March 8, 2024, PacifiCorp *d/b/a* Rocky Mountain Power (“the Company”) submits its reply comments in response to the comments filed on April 15, 2024, by the Division of Public Utilities (“Division”).

Background

As part of a general rate case in Docket No. 10-035-124, a collaborative process was initiated to discuss the Company’s hedging policies and develop reporting requirements for an ongoing semi-annual hedging report to the Commission. The Company has since filed the semi-annual hedging reports for six months periods ending June and December of each year as required. The DPU is tasked with reviewing PacifiCorp’s semi-annual hedging reports for compliance and providing recommendations to the Commission.

Response to Division’s Comments

In comments, the Division notes that the Commission has not been asked to approve or acknowledge the hedging report but “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.”¹ Specifically, the Division’s comments raise three issues: 1) the Company’s use of market purchases and resource planning, 2) that the Company’s “hedging program appears to manifest itself primarily on one side of the system” and 3) certain concerns related to the Company’s operation of its natural gas facilities. Rocky Mountain Power disagrees with these conclusions and provides these comments to address these issues.

- 1.) Comments regarding the Company’s reliance on market purchases are outside the scope of this proceeding.

The Division has raised concerns that go beyond a hedging program and delve into the Company’s portfolio and resource selection. Specifically, the Division notes that “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

¹ *Comments from the Division of Public Utilities* at 11 (Apr. 15, 2024).

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planning processes will expeditiously 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.”²

These questions go beyond whether the Company has a well-developed hedging program, and such issues and questions are best addressed in the Company’s Integrated Resource Planning (IRP) process. The purpose of the Company’s hedging activities is to protect customers against energy price volatility, as well as help meet the physical needs of the system. It is not within the purview of the hedging policy to make resource decisions or even evaluate the Company’s open market position. It is through the IRP that the Company evaluates its reliance on market purchases as part of the portfolio of resources necessary to serve customers. In PacifiCorp’s 2023 IRP, the Company completed an “assessment of market reliance in addition to consideration of its active participation in wholesale power markets”³ and as a result, established restrictive limits on market purchases / exposure “based on future market availability concerns [...] and as a hedge against the risk of future high market reliance.”⁴ The 2023 IRP evaluated historical market purchases and its associated trends and found that in the short term,⁵ the least-cost portfolio was one which incorporated some measure of market purchases and that this is the least-cost option for customers.

To the extent that the Division wants to evaluate the use of market purchases over other resource options, the appropriate forum to have those discussions is the Company’s IRP proceeding and stakeholder input meetings. Rocky Mountain Power understands that the Division is an active participant in that process for the 2025 IRP and those issues are best addressed in that forum.

2.) Rocky Mountain Power hedges in a least-cost manner for its entire system.

The power volume hedge limits are specifically designed to identify capacity deficit positions and require hedging to reduce the capacity deficit. The structure of the program was established in recognition of the fact that as a load serving entity (LSE), PacifiCorp’s risks are fundamentally driven by the need to serve customer load over the shortest hour. Where the Company has a deficit position in its near-term operations, the Company relies on spot market purchases to meet those short system positions.

The Company uses the PCI Energy Solutions (PCI) optimization model to forecast forward power and natural gas positions. The model considers system conditions like transmission availability, anticipated load, variable energy resource output forecasts, dispatchable generator availability forecasts, and market prices for both natural gas and power markets to optimize loads and resources on the PacifiCorp system. These daily model runs identify where the system is short, so that traders can make hedging decisions related to the management of those short positions.

² *Id.* at 5-6.

³ 2023 *Integrated Resource Plan* at 125-126 (May 31, 2023), available at https://www.pacificorp.com/content/dam/pcorp/documents/en/pacificorp/energy/integrated-resource-plan/2023-irp/2023_IRP_Volume_I_Final_WA_5-31-23.pdf.

⁴ *Id.*

⁵ Short term defined as now till end of calendar year 2027.

[REDACTED]

The Division alleges that [REDACTED]

[REDACTED] However, this claim is misleading due to faults in the DPU's analysis.

Due to the diversity of load and generation along with transmission rights, the Company has the ability to hedge short positions at the most affordable liquid markets. [REDACTED]

[REDACTED]

The Division's observation simply reflects that the Company leverages the size and diversity of its system to lower power costs for its customers, and the Division's statement that "most of the [Company's power] hedging purchases are made to satisfy the short power position on the west side of the PacifiCorp system" is a mischaracterization of how the Company operates. That statement considers *where* hedges are procured but fails to also consider *for whom* they are procured and where that power goes *after purchase*. The Company hedges the two balancing areas as a system in order to leverage the diversity of the two BA's. It is this diversity that allows the Company to fully optimize Company generation resources, load diversity and transmission assets in order to meet system needs.

3.) Rocky Mountain Power is appropriately dispatching its natural gas facilities.

The decision to dispatch a gas unit or any dispatchable generating unit is based on system needs and economic dispatch. [REDACTED]

[REDACTED]

⁶ Comments from the Division of Public Utilities at 6.

Actual natural gas consumed in operations can differ from forecast for a variety of reasons. For instance, there are always changes in unit availability and spark spreads between a forecast and actual operations. In addition, load forecasts can change, variable energy forecasts can change, and the availability of other Company-owned resources can change. Finally, the Company's participation in the Western energy imbalance market (EIM) can lead to natural gas units operating in ways not initially forecast.

Conclusion

The Company appreciates the opportunity to provide the foregoing additional information to the Commission regarding its semi-annual hedging reports.

Sincerely,



Joelle Steward

Senior Vice President, Regulation and Customer & Community Solutions

Enclosures

CC: Service List

CERTIFICATE OF SERVICE

Docket No. 24-035-07

I hereby certify that on April 30, 2024, a true and correct copy of the foregoing was served by electronic mail to the following:

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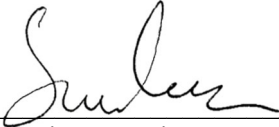
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