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Action Request Response

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Chris Parker, Director
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Date: April 11, 2025

Re: **Docket No. 25-035-10,** 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 reports and includes historical information and forecasts. The Public Service Commission of Utah ("Commission") has not been asked to approve or acknowledge this report.

Issue

On February 14, 2025, RMP filed PacifiCorp's Semi-Annual Hedging Report with the Commission. On February 14, 2025, 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, 2025. On March 12, 2025, the Division requested an extension to allow for more time due to the complexity of the hedging program and to analyze data requests while also considering the possibility of additional questions. The due date for the

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Division's comments was revised to April 17, 2025. This memo is the Division's response to the Action Request.

Background

During a previous 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, 2024. PacifiCorp's hedging program has changed dramatically in recent years in ways that deviate from the agreements in the hedging collaborative. The report remains useful to identify the changes and activity, even if it has become harder to evaluate the program's prudence and performance.

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

[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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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 current program uses [redacted] For power, each month's load and resource values are based on [redacted][5] Power positions are calculated based on the [redacted] for peak and off-peak periods and represent the forecast [redacted][6] While the hedging horizon is looking [redacted] into the future, the Company begins electricity hedging transactions approximately [redacted] in advance. The physical dispatch model (PCI) creates a combined optimal dispatch solution for PacifiCorp's two balancing authorities PacifiCorp East (PACE) and PacifiCorp West (PACW).

The Company contracts [redacted] to write high-level reports that describe market prices in the non-CAISO WECC region as well as market fundamentals.[7]

ELECTRIC HEDGING – HISTORICAL AND FORECAST

PacifiCorp's electric hedging program operates based on a [redacted]. Its primary objective is to secure enough power to prevent [redacted] PacifiCorp has determined that the [redacted][8] It is not clear that this practice is prudent because it results in purchasing significantly more power

[5] Semi-Annual Hedging Report, page 12.
[6] PacifiCorp Energy Risk Management Policy, July 23, 2024, 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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than is likely to be needed. While hedging is never designed to achieve least cost results, the current program seems uniquely suited to over-procuring at significant cost. Furthermore, PacifiCorp's resource planning functions do not seem well-designed to reflect the reality that the Company is spending significant sums to procure power in the market with products that are ill-suited to target the actual resource need. It seems unlikely that an entity without captive ratepayers would undertake such a program.

The power position is calculated by [redacted] The forecasted [redacted] is then analyzed for being long or short. If long, PacifiCorp could sell some of its length like it does in PACE. To mitigate potential [redacted][9] The power limits apply only to the [redacted] and are applied separately to PACE and PACW as follows:

[redacted]

PacifiCorp contends that available market products [redacted] Consequently, managing the hedging program based on the [redacted]

[9] Energy Risk Management Policy, Juny 23, 2024, page 10.
[10] There is no maximum percentage.

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[redacted]

Notably, the Company has not provided any documented analysis regarding the costs associated with operating this hedging program. While hedging programs can serve purposes beyond simply achieving the lowest cost, it is crucial to evaluate the performance of these hedges against actual market conditions to identify potential alternative strategies. PacifiCorp seems stubbornly unwilling to even attempt such measurement and evaluation.

The Company's hedging program appears to be adding significant costs for ratepayers, and its prudence is questionable. While acknowledging the inherent difficulty in predicting exact peak demand days, the strategy of [redacted] warrants close scrutiny. Nevertheless, the program is harder than ever to evaluate given the Company's inability to articulate its full cost or the cost of alternatives.

The company has articulated both economic and operational rationales for this program. However, the economic rationale— that [redacted] has not been supported by analysis showing that the [redacted]

Operationally, the utility is correct that it must [redacted] However, its resource planning does not seem optimally designed for a least-cost, least-risk strategy when addressing the known issue [redacted] Recent Integrated Resource Plans (IRP) have begun to limit the number of available front office transactions in outer years in order to reflect the increasing

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market scarcity it is observing.[11] While this change may prove helpful to resolving the problem with supply resources, it remains unclear whether the modeling incorporates sufficient specificity regarding season and price, and what impact those details will have on the results. The Company should more clearly demonstrate that its resource planning processes, resource adequacy programs, and hedging and trading practices harmonize with one another. While they serve different purposes, they should all inform one another, operate consistently with each other, and meet an underlying strategy of least-cost, least-risk planning for the benefit of ratepayers.

Moreover, the Company's judgmental decisions within its IRPs have artificially constrained available resources by unreasonably excluding or limiting gas resources, a point noted by the Division in its IRP comments. These decisions potentially hinder the Company's ability to efficiently and economically resolve supply challenges arising from market scarcity and product structures. These decisions seem aimed at maintaining a common resource portfolio that complies with other states' resource policies rather than serving Utah ratepayers at the least cost and least risk. While the current hedging program might represent a short-term solution given past planning shortcomings, its long-term sustainability and cost-effectiveness for the public interest are questionable. The continued reliance on these purchases and potentially flawed IRP decisions increases the difficulty in determining the prudence of incurring high market purchase expenses.

The next two charts are from an IRP presentation[12] given by the Company and represent some of the issues the Division is seeing with the Company's planning process.

[11] Docket No. 23-035-10, Integrated Resource Plan at 123-124.
[12] 2025 Integrated Resource Plan – Public Input Meeting – February 27, 2025

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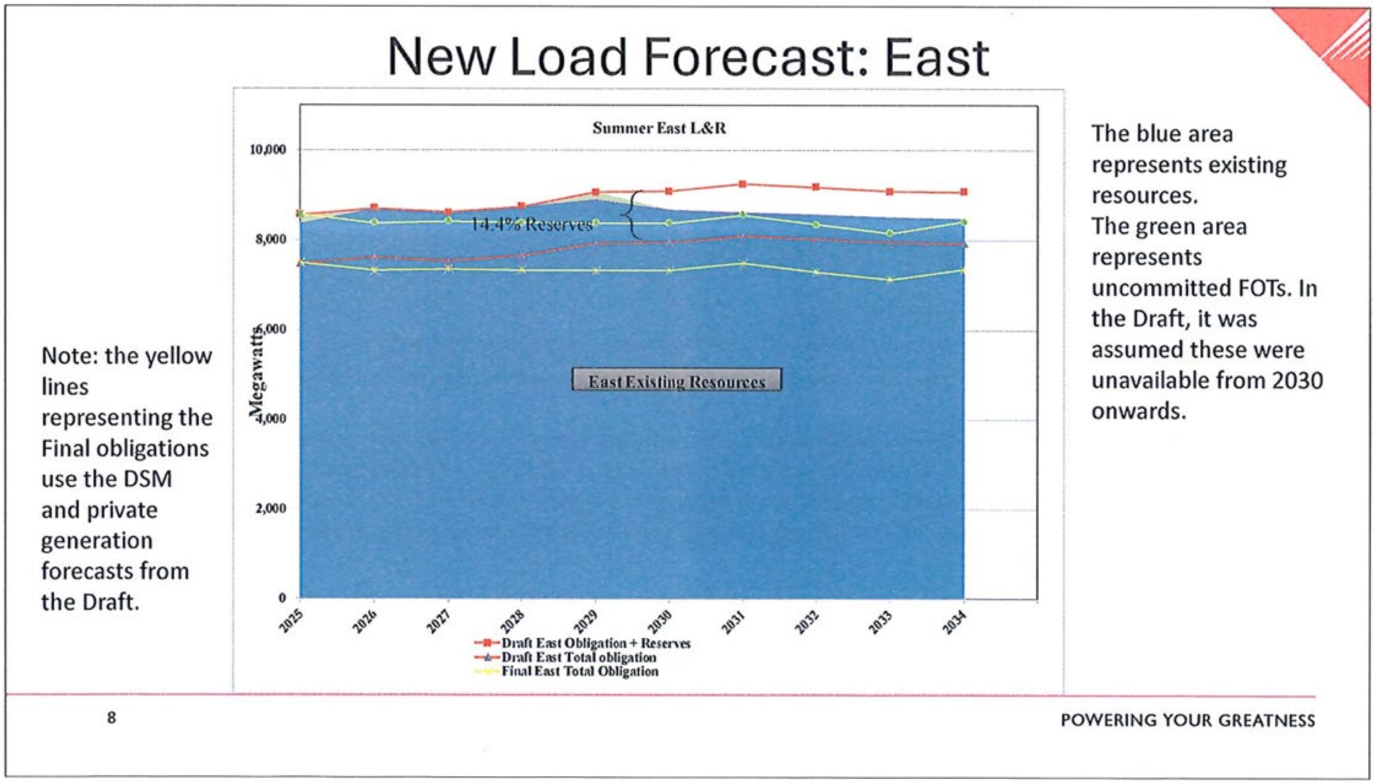
Figure 1: New Load Forecast East



This indicates that resources are sufficient to cover the load forecast for the East side of the system. The states on the West side of the system with significant restrictions on resource types are where the need is focused.

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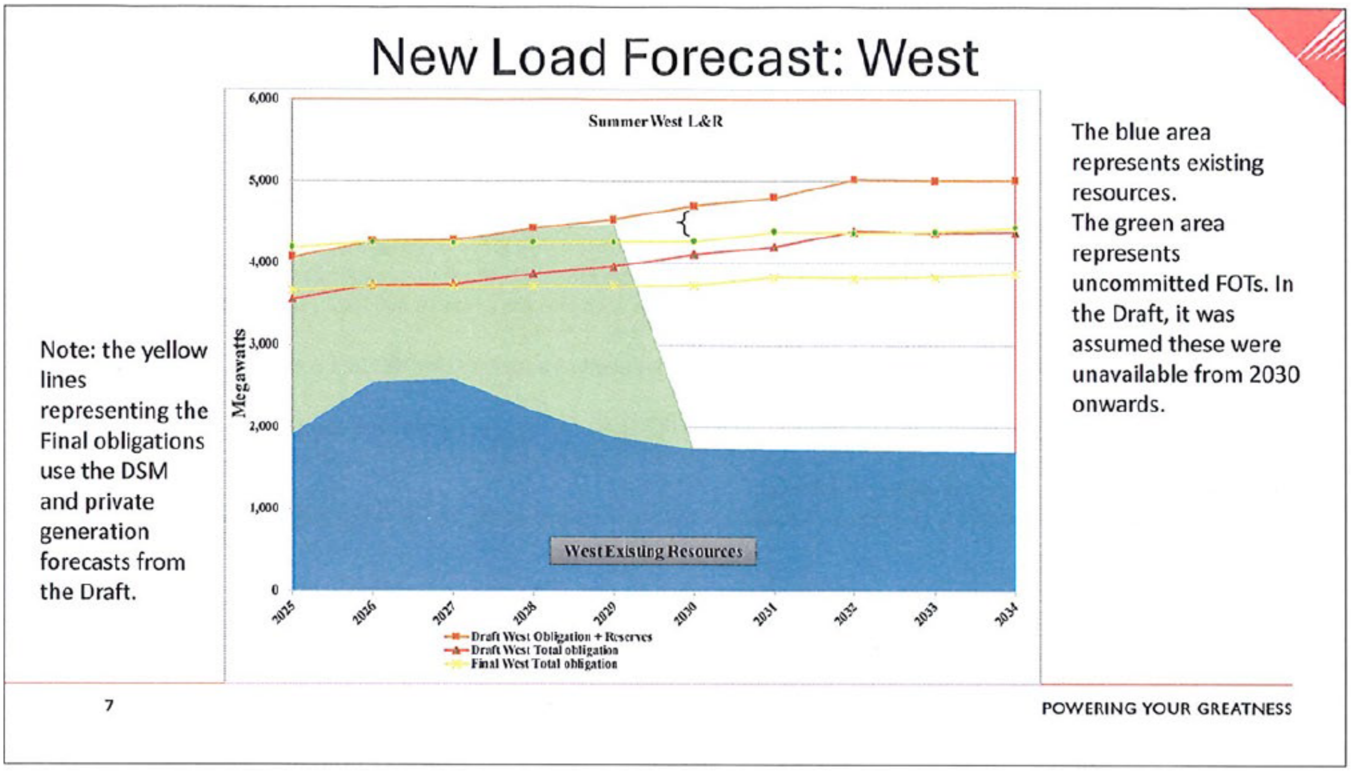
Figure 2: New Load Forecast West



The Division has significant concerns regarding the West side of PacifiCorp's system for several key reasons. First, a [redacted]. This [redacted]. Second, the Company appears to be [redacted]. This reliance on market availability introduces significant risk. If the market fails to deliver, the Company cannot guarantee power supply, highlighting potential inadequacies in long-term planning. Third, the development of necessary baseload resources in the West is constrained by state laws and policies. For all practical purposes, coal and natural gas development have been restricted in these Western states, guiding the Company's recent resource planning decisions, including artificial modeling constraints. While nuclear power represents a potential alternative, concrete plans for its implementation in the West remain absent. Fourth, [redacted] Even if the East has a significant power surplus, [redacted] with Utah potentially bearing a

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disproportionate share of these expenses. As the West side states depart from their shares of existing thermal plants in coming years, it is not at all clear that there will be enough resources to meet needs. Furthermore, it seems evident that the Company plans to have customers on the East side continue to pay for a significant share of newer, more expensive resources. The East side states do not exist to be energy colonies for the West side states, yet the figures above seem to indicate that they are operating in that way. Utah's energy resources and transmission corridors will always have significant interstate character but the Company's planning and allocation processes should account for what is really driving its needs. To be sure, Utah's load growth matters, but so does the growing divergence between resource preferences. Governor Cox has implemented the "Operation Gigawatt" initiative to establish Utah as an energy powerhouse but that will not make a bit of difference in regards to the hedging program until the Company builds sufficient resources in and for the West because [redacted] Lastly, the Company's approach to cost allocation and system design is inconsistent. While seeking system cost allocation, the Company hedges and designs the East and West as distinct entities. Consequently, despite the assertions from the Company that hedging is for the entire system, the data reveals that [redacted]. While the Company has argued its practices take advantage of locational liquidity, reality appears far different. [redacted]

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 states it "will continue to [redacted] For periods where the Company [redacted] consistent with the [redacted]"[13]

[13] Hedging Report, February 14, 2025. Page 57.

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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].[14] 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 entire period, the actual price paid by PacifiCorp was [redacted] than the first of the month market prices for both the Opal and Sumas hubs. Previous years' comparisons had shown times of benefit from natural gas hedging and times of drawbacks, which is normal for hedging. Consistent [redacted] may indicate a need for reevaluation of the hedging program. While price spikes have occurred in recent years, it is not clear that the Company's preference for stabilizing its prices benefits ratepayers. Again, it may be instructive to consider whether a company without captive ratepayers would hedge in such a way.

[redacted]

[redacted]

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

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For the forecasted [redacted] 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:

[redacted]

Transactions extending [redacted] are not prohibited but must comply with Transaction Approval Limits.[15] The Company remained within established ranges except for a few excursions[16] which were resolved according to the Company's energy risk management policy.[17] 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.

[15] PacifiCorp Energy Risk Management Policy, July 23, 2024, Appendix E, page 33.
[16] Semi-Annual Hedging Report, pages 34-37.
[17] Semi-Annual Hedging Report, page 46.

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[redacted]

[redacted]

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] the previous forecast for the most part.

[redacted]

[redacted]

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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 of natural gas consumed and the forecast for the prior year.

[redacted]

[redacted]

As demand and market conditions change, it is reasonable to expect that the actual usage will vary from the anticipated requirement within a reasonable range. The actual usage of natural

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gas for the period of January 2024 through December 2024, did not follow the forecasted requirement. The forecast was, once again, considerably higher for the bulk of the year. The Division will continue to monitor this and look for trends over time.

One area of concern is the [redacted] that were transacted during the last 6 months in the [redacted].[18] The natural gas hedging guidelines allow the Company to hedge up to [redacted] of the natural gas requirements. This limit was established to [redacted] and to allow the Company flexibility to adapt to changing market conditions. The [redacted] unhedged position would be satisfied with market purchases or could allow for reductions to the total natural gas requirement. The natural gas hedging guidelines were designed to accommodate changes in demand and system constraints; however, the current program does not appear to be working as intended.

The volume of natural gas [redacted] has increased and the [redacted]. In response to DPU DR 2.7 and 2.8, the Company indicated that it [redacted][19] This type of transaction adds to the total net power cost and will need to be reviewed in more detail.

The [redacted] is difficult to understand since MWh of generation from natural gas was higher in 2024 than in previous years and Confidential Figure: Gas Percent Hedge – 1, (page 33) shows that the Company was approximately [redacted] hedged from July – Dec 2024. If the Company had only secured [redacted] of the fuel necessary for generation, there should have been sufficient room for adjustments, and should have required near term or real-time market purchases to meet the generation demand. The Company has not explained how it could be hedged at approximately [redacted] of the total requirement and still need to sell [redacted]. The response to DPU 2.8 indicates that [redacted] Again, the opacity of the trading and hedging programs makes effective review

[18] Hedging Report, Confidential Figure: Day-Ahead and Intra-Day Volume – 1, page 59
[redacted]

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difficult. Thus, significant expenses flowing through the Energy Balancing Account prove nearly impossible to meaningfully evaluate for reasonableness. While the results seem unreasonable, constructing counterfactuals in the absence of meaningful information from the Company is impossible.

One possible problem could be due to the Company's use of outdated load forecasts and hedging to and incorrect requirement for natural gas generation. Confidential Figures 10, 15, 20, 25, 30, and 35 all indicate that there has been [redacted] compared to the June 2024 report. As mentioned above, [redacted] creates an increase in net power cost and will be reviewed in greater detail as part of the 2024 Energy Balancing Account in Docket No. 25-035-01.

Considering the cost of power hedges, it is surprising the Company [redacted]. On page 45 of the February 2025 report,[20] the average price of the sample provided of purchased electricity for PACW in Q3 of 2025 was [redacted] Generating power through natural gas plants is [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, 2024, the natural gas and electric hedging activities are within the established guidelines *created by the Company*. However, as noted above in this response, the Division is concerned that Company activities are resulting in imprudently incurred costs and there has been no analysis of the costs provided by the Company. The

[20] Semi-Annual Hedging Report, page 45.

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Division will continue to investigate the issues and advocate as it determines appropriate. The Commission should consider in what forums it will evaluate these matters and how it will ensure the Company's practices are reasonably calculated to result in just and reasonable rates.

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