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Action Request Response

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

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Doug Wheelwright, Utility Technical Consultant Supervisor
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Date: September 22, 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 submitted by PacifiCorp and its attachments, including the data request responses filed by Rocky Mountain Power ("RMP" or "Company"). The report's format and content, which include historical data and forecasts, are consistent with previous filings. The report has been filed for compliance with a prior stipulation, and the Division recommends no action from the Utah Public Service Commission ("Commission") at this time.

Issue

On August 15, 2025, RMP filed PacifiCorp's Semi-Annual Hedging Report with the Commission. That same day, the Commission issued an Action Request, directing the Division to review the filing for compliance and to make recommendations by September 15, 2025. Subsequently, on August 25, 2025, the Commission issued a Notice of Filing and Comment Period, establishing a comment deadline on or before September 24, 2025. This memorandum is the Division's response to the Commission's Action Request.

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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 June 30, 2025.

PacifiCorp's hedging program is undergoing revisions which are most likely necessitated by the filing of the 2026 Inter-Jurisdictional Cost Allocation Protocol and state specific requirements. The Company intends to convene a technical conference in October 2025 to address changes and forthcoming modifications to its risk management and hedging policies.

Discussion

The PacifiCorp hedging program involves [redacted] used for power generation. The specific strategy for when and how much to hedge is guided by the Company's Energy Risk Management Policy. It is also

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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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influenced [redacted] and the [redacted]

The Company contracts [redacted] to write high-level reports that describe market prices in the non-CAISO WECC region as well as market fundamentals.[5]

ELECTRIC HEDGING

The primary objective of the electric hedging program is to secure enough power to prevent [redacted] The program establishes its physical power capacity position by identifying the shortest system hour for each month. [redacted]

Based on this single hour, PacifiCorp calculates its net position for both peak and off-peak periods using the forecasted [redacted] While the hedging horizon is looking [redacted] into the future, the Company begins electricity hedging transactions approximately [redacted] in advance. The underlying calculations are informed by a physical dispatch model (PCI) that optimizes the energy solution for PacifiCorp's two balancing authorities PacifiCorp East (PACE) and PacifiCorp West (PACW). [redacted][7]

PacifiCorp has determined that the risk of a short power position outweighs the risk of a long power position, justifying purchases at almost any cost. In periods where forecasted power positions are short, the Company purchases extra power [redacted] Instead of procuring power for [redacted]

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[5] Semi-Annual Hedging Report, Attachments B and C.
[6] A short power position is when the load requirement is greater than the resources, which would require day-ahead or real-time purchases. Long is when the resources are greater than the requirement and would require sells.
[7] Semi-Annual Hedging Report, page 12.

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To mitigate potential [redacted][9] The power limits apply to the [redacted] and are applied separately to PACE and PACW as follows:

[redacted]

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

The Company's selected hedging method can be overly conservative and costly. Managing the system and hedging program to [redacted] While this hedging strategy reduces exposure to surges in real-time power prices, [redacted]. By hedging to the [redacted] the Company does not appear to be realizing the full benefits of participating in the EIM market. The cost-benefit of [redacted] is questionable when considering the infrequency of surges in real-time pricing, especially when many of the contracted prices are significantly higher than daily spot-market prices. While the Company can recover some of the cost incurred by taking long positions through selling excess power in the short-term markets, the full cost of the hedge can't be fully recovered if spot-market prices remain below contract pricing.

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While the hedging program isn't designed to achieve least cost results, it seems uniquely focused on securing resource adequacy. It is unclear whether this approach is prudent, because it results in purchasing significantly more power than needed. While acknowledging the inherent difficulty in predicting exact peak demand days, the strategy of over-hedging by purchasing many unneeded hours far in advance to cover a few short positions warrants scrutiny. While the hedging horizon looks [redacted] into the future, the Company begins power hedging transactions approximately [redacted] in advance. The underlying calculations are informed by a physical dispatch model (PCI) that optimizes the energy solution for PacifiCorp's two balancing authorities PACE and PACW. Because these calculations rely on forecasts, the specific [redacted] month can change as projections are updated between reports. Given that these forecasts can change within such a long timeframe, further analysis is needed to ensure that procuring power so far in advance is effective and a prudent way to protect the Company from exposure to spot-market pricing.

The Company's hedging program appears to be adding significant costs to ratepayers, yet its prudence is difficult to evaluate without a clear cost-benefit analysis. While the utility must ensure it has enough resources to always meet demand, its resource planning does not seem designed for a least-cost, least-risk strategy. A key concern is the practice of [redacted]

Recent Integrated Resource Plans (IRP) have begun to limit the number of available front office transactions in outer years to reflect the increasing market scarcity it is observing. While this change may prove helpful to resolve the problem of resource adequacy, it is not clear whether the modeling incorporates sufficient specificity regarding season and price, and what impact those variables will have on the results. The Company should provide clear demonstration that its resource planning processes, and its hedging and trading practices harmonize with one another. They should inform one another, operate consistently with each other, and meet an underlying strategy of least-cost, least-risk planning for the benefit of ratepayers.

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NATURAL GAS HEDGING

PacifiCorp hedges natural gas to manage price risk due to its gas-fired power plants. The 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]MMBtu or [redacted].[8] The following chart compares the actual price PacifiCorp paid for natural gas over the last 12 months to the first-of-the-month market prices at the Opal (East) and Sumas (West) hubs. During this entire period, the actual price paid by PacifiCorp was higher than the first-of-the-month market prices for both the Opal and Sumas hubs. Years ago, comparisons had shown times of benefit from natural gas hedging and times of drawbacks, which is normal for hedging. Consistent overpayment 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.

Confidential Chart 1

[redacted]

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

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While some variance is normal for hedging, repeated years of losses indicate the Company's preference for price stability. This strategy insulates the Company from risk at the ratepayers' expense—an approach a competitive business could not afford to maintain.

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 limits are designed to [redacted]. Transactions extending [redacted] are not prohibited but must comply with Transaction Approval Limits.[9] The established ranges for hedging natural gas are as follows:

Confidential Chart 2

[redacted]

In February, the Company exceeded the upper limit of the Year 1 range before returning to compliance in March.[10] This excursion was not due to new trading activity but was a passive result of market volatility. This type of excursion is allowed within the policy. An increase in natural gas prices lowered the forecasted need for gas generation. Consequently, the Company's fixed volume of hedged gas represented a higher percentage of this reduced forecast, pushing it above the allowable limit. When market prices declined in March, the forecasted gas requirement rose, bringing the hedge percentage back into compliant range. In addition to the decline in gas prices, the monthly rollover from a highly hedged front month to a less hedged month decreased the rolling average percent hedged position. Outside of the excursion, the Company was approximately [redacted] hedged for gas in Year 1 on a rolling 12 month average.

[9] PacifiCorp Energy Risk Management Policy, July 23, 2024, Appendix E, page 33.
[10] Semi-Annual Hedging Report, page 33

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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]

As economic conditions and market prices change, the forecasted gas requirement will also change. Confidential Chart 4 shows how the forecasted gas requirement for the next [redacted] has changed in the current report compared to the forecast requirement in the previous hedging report. This is only a snapshot based on the date of the report while the gas requirement is updated on a daily basis. The current forecast is much larger for the summer as seen by the spikes for those months than the prior forecast.

Confidential Chart 4

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To help assess the Company's gas hedging program, it is critical to compare the forecasted gas requirement against the actual volume consumed. The hedging percentages outlined in the Energy Risk Management Policy are based entirely on this forecast. Consequently, if the forecast is significantly inaccurate, the resulting hedge position will be inaccurate as well. A forecast that substantially overestimates actual usage, for example, could lead to excessive and inappropriate hedging transactions. Confidential Chart 5 displays the comparison for the prior year, showing the forecasted volume versus the actual amount of natural gas consumed.

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 within a reasonable range. This is what occurred, as shown in Confidential Chart 5.

A major area of concern is the [redacted] that were transacted during the last 6 months in the [redacted].[11] 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

[11] Hedging Report, Confidential Figure: Day-Ahead and Intra-Day Volume – 1, page 60

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changing market conditions. The Division would expect the remaining [redacted] unhedged position to be satisfied with market purchases, and this makes the [redacted] difficult to understand.

If the Company had secured only [redacted] of the year 1 fuel necessary for generation as indicated in the hedging report,[12] there should have been sufficient room for adjustments to the requirement when there are price spikes. The lower hedging limit 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] Again, the opacity of the trading and hedging programs makes effective review 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. [redacted] creates an increase in net power cost and will be reviewed in greater detail as part of the Energy Balancing Account Docket.

Conclusion

Considering the cost of power hedges, it is surprising the Company [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]

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

[12] Semi-Annual Hedging Report, page 33

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hedging activities. As of June 30, 2025, 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 Division will continue to investigate the issues and advocate as it determines appropriate.

cc: Jana Saba, Rocky Mountain Power
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Michele Beck, Office of Consumer Services