CONFIDENTIAL
Docket No. 20000-642-EM-23
Witness: Douglas R. Staples

BEFORE THE WYOMING PUBLIC SERVICE COMMISSION

ROCKY MOUNTAIN POWER

CONFIDENTIAL
Rebuttal Testimony of Douglas R. Staples

October 2023

INTRODUCTION AND QUALIFICATIONS

Q. Please state your name, business address, and present position with PacifiCorp.

A. My name is Douglas R. Staples and my business address is 825 NE Multnomah Street, Suite 600, Portland, Oregon 97232. I am currently employed as a Net Power Cost Advisor in the Net Power Cost Group. I am testifying for PacifiCorp dba Rocky Mountain Power ("PacifiCorp" or "Company").

Q. Please describe your education and professional experience.

A. I received a Bachelor of Science degree with a focus on finance from the University of South Florida. I first gained employment with PacifiCorp in 2015, though I recently rejoined the Company after pursuing a role in Enterprise Risk Management with Portland General Electric from January 2022 through August 2023. During my tenure with PacifiCorp, I have worked as a senior risk management analyst and I currently work as a net power cost advisor, contributing to various regulatory projects including general rate cases and net power cost filings. Before my time with PacifiCorp, I spent seven years working as a senior risk analyst and a supervisor of the risk management group at NextEra Energy Power Marketing, where I designed reports, provided validation and troubleshooting of risk metrics, and oversaw the quarterly validation of valuation assumptions used in mark-to-market accounting for financial statements. Prior to that, I worked as a principal business analyst for San Diego Gas & Electric. In that role, I was a part of the acting arm of the risk management committee, providing oversight to both San Diego Gas & Electric and Southern California Gas Company.

Q. Did you offer direct testimony in this Docket?

A. No.

Q. Have you testified in previous regulatory proceedings?

A. Yes. I have previously filed testimony in Washington, California, and Oregon.

PURPOSE OF TESTIMONY

Q. What is the purpose of your rebuttal testimony in this case?

A. My rebuttal testimony has several sections, each with its own purpose. First, I explain what hedging is, what a hedging policy is, along with the limits and intentions of each. After that, I provide some historical context regarding PacifiCorp's hedging program and policy. Next, I discuss the nature of prudence reviews and the forms they usually take before moving on to responding to the specific disallowances proposed by Wyoming Industrial Energy Consumers ("WIEC") witness, Mr. Bradley G. Mullins. Finally, I discuss the Company's actual hedging practices.

WHAT IS PRICE HEDGING AND HOW DOES IT WORK?

Q. What is price hedging and what role does it play in utility operations?

A. Fundamentally, price hedging is an attempt by companies to stabilize costs and/or to manage market volatility. It is certainly used in that fashion in utility operations, but it is well understood that it is not possible to completely remove risk to overall costs or revenues for a variety of reasons that I will discuss below. It also is not possible to hedge perfectly (i.e., optimally), given the imperfect information and imperfect financial instruments available to market participants when they make hedging decisions. Please note that this is different from supply hedging, which is not necessarily intended to manage volatility risk, but access to adequate supply to ensure the physical operability of the system.

Q. What is the role of a hedging policy at a utility?

A. A hedging policy typically sets minimum and/or maximum limits for hedging activity. In most companies, the policy is written to offer flexibility to traders (i.e., front office personnel) because it is preferable to have subject matter experts managing risk dynamically. Documents can be changed but, due to the review and approval requirements of making changes to a hedging policy, they are not dynamic enough to keep pace with volatility that may occur in energy markets. Policies should define minimum acceptable limits and points beyond which the utility does not wish to go under most conditions. The remainder of the decisions around hedging are normally managed by front office personnel.

Q. What role can hedging have on net power costs?

A. While hedging can help reduce volatility in power costs, its impact on net power costs can vary depending on the fixed price of the hedge relative to market conditions. If the fixed price of the hedge is higher than prevailing market prices, hedging can lead to increased net power costs. Conversely, if the fixed price is lower than market prices, hedging can result in reduced net power costs.

Q. Is there any such thing as a perfect hedge?

A. Yes, but only in financial markets and physical markets for which there is no potential for volumetric variability and the financial products available can perfectly offset the risk. Banks and other market makers typically transact in standard contract sizes, so eliminating their open positions (long or short) is easily accomplished. For companies operating in a utility space, loads, resource availabilities, variable energy resource production, and other factors can only be forecasted imperfectly, so it is not possible to perfectly hedge risk to overall costs. Essentially, utilities do not know years or months ahead of time precisely what their load will be, what the hourly shape will be, what resources will be available to serve it, or how sensitive it might be to external factors (macroeconomic factors, ambient temperatures, etc.).

Q. Has WIEC taken a position on if the Company should hedge to "beat the market" like that of a bank or other financial entity?

A. Yes. During the creation of the ECAM, WIEC provided that any approval of an ECAM "should be conditional on no such speculation by the regulated entity."[1]

Q. What are the overall goals of PacifiCorp's hedging program?

A. Energy supply management manages the energy commodity position and utilizes PacifiCorp's assets and liabilities (loads, generating resources, contractual rights, and obligations) to a) ensure reliable sources of electric power are available to meet PacifiCorp's customers' needs, and b) reduce volatility of net power costs for PacifiCorp's customers.

Q. Are there any misconceptions in WIEC testimony that require clarification prior to further discussion on the matter?

A. There is only one, but it is an important distinction to be aware of before any detailed discussion of the hedging strategy begins. WIEC's testimony includes the following statement:

> *By securing a fixed price for the commodity in advance, a hedging utility reduces its exposure to market prices and market price changes during the consumption period, often referred to as the "Prompt Period" or "Prompt Month."*[2]

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[1] *In the Matter of the Application of PacifiCorp for Authority to Implement a Power Cost Adjustment Mechanism*, Docket No. 20000-ET-03-205 (Record No. 8581) Final Order at 13 (June 21, 2004).
[2] Direct Testimony of Bradley G. Mullins at 34:7-10 (WIEC Exhibit No. 200).

Consumption takes place in the spot month, not the prompt month. The prompt month is the contract closest to expiration in the forward market. For example, if we are in early January, that is the spot month, while February is the prompt month (at least until the February New York Mercantile Exchange (NYMEX) Henry Hub natural gas future contract expires near the end of January). This may seem like a minor detail, but it will be an important clarification as I discuss the way that hedges are layered in.

THE HISTORY OF PACIFICORP'S HEDGING PROGRAM

Q. How were the current gas hedging limits created?

A. The [redacted] were developed in hedging collaboratives with interested stakeholders during 2012. The general feedback during those sessions was that the Company should [redacted] As a result, the Company set [redacted]

Q. What events led to the 2012 hedging collaborative that eventually resulted in the natural gas hedge limits articulated in the Company's past and current hedging policy?

A. The Company had executed long-dated natural gas hedges in 2007 and 2008, to comply with the established minimum hedge levels [redacted]

[redacted]

The Company's hedging policy was at issue during power cost adjustment mechanism proceedings in the late 2000s and natural gas hedges were specifically contested by the Wyoming Office of Consumer Advocate within the Company's 2011 general rate case proceeding in Docket No. 20000-405-ER-11 ("2011 GRC"). As a result of a stipulation approved by the Wyoming Public Service Commission, the Company agreed to conduct a series of workshops to review PacifiCorp's hedging policy and to seek input from interested parties on how the policy is implemented and whether the policy should be revised to better reflect customer risk tolerances and preferences. PacifiCorp agreed to implement appropriate policy changes on a going-forward basis that resulted from agreement in the collaborative process. As a result of the hedging collaborative process, PacifiCorp agreed [redacted] hedging activities.

Q. Has the Company revised its hedging policy since the 2012 hedging collaborative process was completed?

A. Yes. The Company made revisions to its hedging policy in 2021 that consisted of [redacted]. Those changes were conveyed to the Wyoming Commission staff, the Wyoming Office of Consumer Advocate, and WIEC.

Q. Is WIEC kept aware of the company's hedging position and changes in policy outside of ECAM dockets?

A. Yes, WIEC and the Wyoming Office of Consumer Advocate are both provided a copy of the Company's semi-annual hedging reports when filed with the Commission. That report shows hedges versus requirements, and cover fundamental and technical market analysis, along with policy updates. These reports are filed with the Commission in February and August of each year.

Q. Were any changes made to the natural gas limits as a consequence of the hedging policy update made in 2021?

A. No. As noted above, there was a [redacted] are exactly the same. Those [redacted] have been in place and unchanged since May 22, 2012.

Q. Has WIEC expressed any concerns about the Company's natural gas hedging policy at any point since the 2012 hedging collaborative and the 2021 hedging policy update?

A. Not that I am aware of. However, WIEC is now questioning the Company's hedging practices for calendar year 2022, given perfect hindsight knowledge of the historic rise in natural gas prices that occurred during that year.

PRUDENCE REVIEWS – FUNCTIONS AND PRACTICE

Q. What is the reason for prudence reviews in the context of a power cost recovery mechanism?

A. It is my understanding that prudence reviews help to protect customers from utilities that operate assets imprudently, fail to maintain compliance with their written policies, and do not demonstrate internal controls sufficient to ensuring that individuals within the utility cannot place customers at risk.

Q. How is prudence for hedges evaluated in the context of cost recovery mechanism reviews?

A. Prudence evaluations, so far as I am aware, revolve around the idea that hedging decisions should demonstrate reasonable behavior, given what was known (or reasonably should have been known) at the time of hedge execution, and that the Company maintained compliance with all policies, procedures, and governance limits in effect at the time of hedge execution.

Q. Why is prudence evaluated using those standards?

A. A prudence review confirms the Company had, and adhered to, established risk policies, limits, internal controls, recordkeeping and reporting requirements, and made appropriate decisions throughout the period based on all available information at the time of each transaction. As the Company cannot predict the level of commodity prices months or years in advance, any introduction of this information in a regulatory review becomes a hindsight review, where knowledge of what happened after the hedging decision colors the evaluation of the hedging decision itself. With perfect hindsight, it is easy to "Monday morning quarterback" decisions and assert the Company should have hedged more or less, earlier or later, to achieve the best possible outcomes for customers.

This introduces the ability for intervenors to propose (after the fact) different hedging strategies for different periods without the accountability of having to propose those strategies in advance. It also introduces the ability for those same parties to find fault and assert the Company should have hedged more with the certain knowledge that spot prices were higher than forwards, but then find fault and assert the opposite argument in a different period, asserting that the Company should have hedged less with the certain knowledge that spot prices were lower than forwards. Essentially, the standard becomes prescience instead of prudence. For example, in this proceeding, if natural gas prices had significantly decreased in 2022 (rather than increased), WIEC could have conversely argued (with perfect hindsight) that the Company hedged too much, despite WIEC never proposing such a strategy in advance to the Company.

Q. How is prudence challenged in other jurisdictions?

A. In my experience, Staff or an intervenor will normally challenge the prudence of one of more transactions or operational decisions on the grounds that it was inconsistent with policy, not approved in a fashion that demonstrates respect for the governance limits in place at the time of the trade, or demonstrably imprudent based on factors known (or that should have been known) to the utility at the time though this final standard is, at least in my experience, somewhat more frequently applied when evaluating decisions related to generator operations.

Q. Has WIEC challenged the prudence of any specific transaction(s) executed by the Company?

A. No.

Q. Has WIEC challenged the prudence of any specific operational decision(s) made by the Company during 2022?

A.

Q. Did the Company remain in compliance with its natural gas hedging policy during the period when 2022 was a part of the active hedging window?

A. Yes [redacted]

WIEC'S PROPOSED DISALLOWANCES

Q. What specifically is being challenged by WIEC?

A. Instead of challenging specific hedging transactions, WIEC appears to be alleging that the hedge program itself is imprudent and should have been restructured. However, upon closer examination, their analysis is rife with errors, which I will explain below.

Q. What specific complaints does WIEC make about the Company's hedging policy?

A. Mr. Mullins indicates that he believes the hedge program [redacted]. He notes that the Company's current policy: [redacted] I discuss each of these below in my testimony

TEVaR Limit Structure

Q. Are there any logical problems with WIEC's testimony around the effectiveness of the TEVaR hedging policy?

A. Yes. The easiest to point to is their assertion that net power costs rose by 43 percent, meaning the TEVaR-based hedging program was ineffective.[3] The most obvious problem with that line of reasoning is that WIEC fails to consider that the TEVaR model (and all VaR models of which I am aware) have several limitations that preven their results from being applied in this way. The two most impactful facts related to this specific line of argument are that: a) [redacted]

Q. Please describe the problem of volumetric variability.

A. Consider for a moment a situation in which the Company was able to hedge every hourly interval perfectly and exactly to remove all price exposure, based on the

[3] Direct Testimony of Bradley G. Mullins at 33:11-16 (WIEC Exhibit No. 200).

forecasted position. This is impossible due to the mismatch of financial products and physical operations, but useful for the purpose of a thought experiment. In that situation customers would be 100 percent exposed to every incremental or decremental megawatt-hour ("MWh") of power or million metric British thermal unit ("MMBtu") of natural gas.

This is particularly problematic because periods of elevated aggregate demand tend to produce periods of high pricing, meaning that the Company becomes short energy in a high-price environment. Conversely, periods of low aggregate demand tend to produce periods of relatively low prices, meaning that the Company becomes long energy in a low-price environment. In actual practice, even a utility that is perfectly hedged (which, again, is not possible in reality) would carry a risk profile that most closely resembles being short a straddle, which is a position created when a company simultaneously sells both a call option[4] and a put option.[5] In short, there are large inherent risks that resist measurement by VaR models, which WIEC has failed to recognize.

Q. Please describe the inputs to and confidence interval of the TEVaR model used by the Company prior to the 2021 Risk Policy update.

A. The TEVaR model was subject to [redacted]. What that means in practical terms is that actual net power cost increases are expected to exceed the measured level of risk in roughly one out of every 20 cases, even if the key model

[4] A call option gives the buyer of the option the right (but not the obligation) to buy an asset at a previously agreed upon strike price on or before a particular date. Call options are commonly exercised when market prices are above the strike price.

[5] A put option gives the buyer of the option the ability (but not the obligation) to sell an asset at previously agreed upon strike price on or before a particular date. Put options are commonly exercised when market prices are below the strike price.

inputs (positions, volatilities, and correlations) remain perfectly valid for the entire holding period (in this case, the holding period is until expiration). It is important to note that those parameters are subject to daily change and any assumption that they will remain valid for the entire holding period is inherently unreasonable.

Put another way, the types of limits the Company previously had in place are a dynamic way to create reasonable guardrails, not a guarantee that net power costs will never increase (or decrease) by more than the amounts implied by the limit structure.

Mid-Term Hedging Strategy

Q. What is a mid-term strategy?

A. Some companies, though not all, place proscriptive limits on near-term hedging requirements in the form of a mid-term strategy. Strategies of that sort often incorporate monthly limits, tighter requirement ranges, or some combination of the two.

Q. Is a mid-term strategy common in utility operations?

A. It is difficult to say, as hedging strategies and limits are generally of the highest confidentiality since the release of such information would provide an unfair advantage to their counterparties. However, based on my past experiences working for multiple electric utilities, I would not consider it an industry standard.

Q. Does this mean that PacifiCorp has no distinct strategy when it comes to managing near-term exposures?

A. No. WIEC opines that "RMP's policy seems to have missed the second step and gone straight from a long-term strategy to short-term daily system balancing activities",[6] but this is not an accurate characterization. On the contrary, it means only that the

[6] Direct Testimony of Bradley G. Mullins at 32:1-2 (WIEC Exhibit No. 200).

Company's strategy is permitted to remain dynamic, flexible, and capable of responding to changing market dynamics instead of being static and bound by a policy document. I discuss later in my testimony how the Company's hedge positions reflect this.

[redacted]

Q. Please explain why the Company does not have [redacted]

A. PacifiCorp does not [redacted] that WIEC suggests it should.

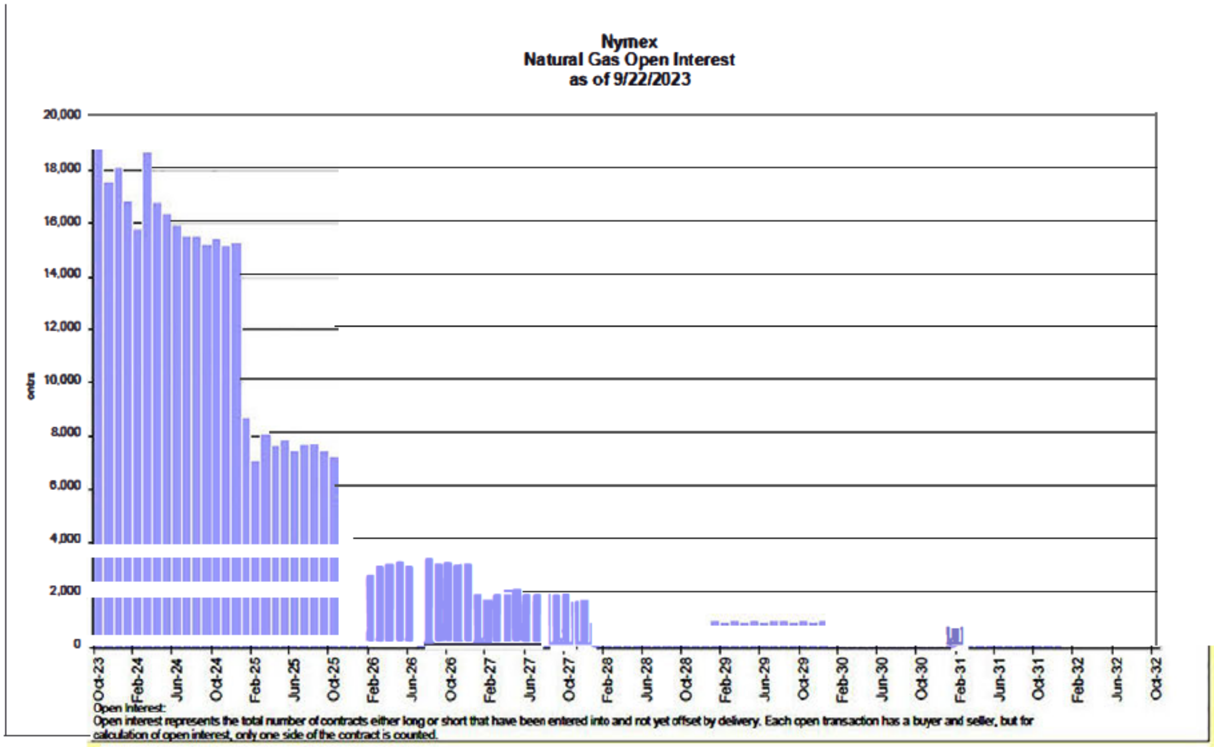
Q. What prevents the type of gas hedging program that WIEC endorses?

A. Mr. Mullins conducted an analysis simulating what would have happened had the Company executed hedges for individual months, multiple years into the future.[7] Being able to transact for individual months at any price point resembling the mid-market is a feature that simply is not available years from settlement. At various points in time, gas markets trade in calendar strips, seasonal strips (April to October for summer, November through March for winter), quarterly blocks, and individual months. Much of the open interest for individual months is concentrated in near-term contracts, with most market participants managing their immediate price exposure that way and relying on seasonal or calendar year contracts to manage longer-term exposures.

[7] Direct Testimony of Bradley G. Mullins at 39 (WIEC Exhibit No. 200).

For an example of how this works even in a liquid market, see Figure 1 below of open interest in NYMEX Henry Hub Futures. Please note that this is representative of the single most liquid natural gas market in America, but there is still a precipitous decline in open interest after the first 15 months.

Figure 1. NYMEX Henry Hub Natural Gas Open Interest



[redacted]

Q. Can you address why the Company does not [redacted]

A. Yes. First and foremost, policy dictates that the [redacted]. Second, WIEC points out several differences between Sumas and Rockies but fails to consider another difference that informs hedging activity levels – *liquidity*. In other words, a hedge requires a counterparty, and WIEC fails to take into consideration this constraint relative to the Sumas market. In addition to seeing substantially greater granularity in terms of the available tenors of near-term contracts, the number of counterparties willing to trade increases as time to expiration decreases. In other words, it is difficult (if not impossible) to execute cost-effective hedges for Sumas far ahead of time.

Further, a common feature of illiquid markets is that the bid-ask spread will be considerably wider than it is in more liquid markets. Market makers in illiquid markets demand large premiums given the dearth of participants and the relative uncertainty introduced by lower frequency of price discovery, meaning that the Company is likely to pay substantially more than mid-market prices for gas. PacifiCorp's alternative is to [redacted] That approach minimizes costs for customers, and the hedging policy is written with those dynamics in mind.

Q. Do the conditions necessitating this approach persist in the current environment?

A. Yes. In consulting with the Company's gas traders about the current market dynamics, they noted that [redacted] All of this points to a significant difference in the level of liquidity between the two locations.

Q. Do you agree with WIEC's argument that the Company should have [redacted]?

A. No. As just explained, it would make no sense for the Company to adopt WIEC's proposal and obligate itself to procure natural has hedges that would be either unattainable or cost prohibitive [redacted]

Q. Did the Company more closely manage its near-term exposures by [redacted] as time to contract expiration decreased?

A. Yes. This is an example of how the absence of a mid-term hedging *policy* is not the same thing as an absence of a mid-term hedging *strategy*. In fact, if you look at positions immediately before the front month positions moved into spot month, the Company's average natural gas hedge percentage was [redacted]. I expand upon this data point later in my testimony.

[redacted]

Q. Does WIEC take issue with any other particular of the hedging policy?

A. Yes. Mr. Mullins also notes that the hedge levels [redacted]

Q. Are the [redacted], as described by WIEC?

A. No. As previously mentioned, those [redacted] were deliberately developed in hedging collaboratives. In addition, the Risk Management Policy specifically states that

[8] *Id.*, at 32:6-8.

[redacted]

Q. WIEC notes that customers [redacted]. Were they so exposed?

A. No, which Mr. Mullins admits in his own testimony. [redacted] on average throughout 2022, based on the forecasted requirements, which is the only thing the Company can base their decisions on when hedging in the forward market.

Q. Are there parts of the WIEC testimony that demonstrate a lack of experience with hedging?

A. Yes. One paragraph in particular is deeply concerning since WIEC's witness refers to hedging activity as "speculating."

Specifically, the following passage is comprehensively incorrect:

[redacted]

[9] *Id.*, at 36:6-18.
[10] *Id.*, at 34:7-10.

First and foremost, PacifiCorp does not speculate in forward markets. PacifiCorp policy allows traders to [redacted][11]

Given that WIEC did not make a concrete adjustment regarding any transaction, position, or contract month, this appears to be an attempt by WIEC to simply introduce this sort of language into the record. WIEC's own testimony during the creation of the ECAM argued that "the Commission would not have the authority to forbid speculative trading but cautioned that any approval of a [ECAM] should be conditioned on no such speculation by the regulated entity."[12] In fact, when the Commission approved the ECAM, it explicitly stated that the Company's assurance *not* to engage in speculative activity helped ensure that the public was adequately protected:

> PacifiCorp has given the Commission assurances that it will not reenter the speculative wholesale energy market and that it would make an open book of its finances to show, in conjunction with a PCAM application, that it was not over earning. Couple these assurances with the ability of the Commission under W.S. §§ 37-2-117 and 37-2-119 to investigate PacifiCorp on its own motion and to inquire broadly in the public interest; and, we believe, the public will be adequately protected. . . .[13]

To be clear, having a long position and selling in the forward markets is hedging activity. Such sales secure the revenues associated with that excess power and those

[11] PacifiCorp Energy Risk Management Policy, Appendix F provided in Confidential WIEC Exhibit 200.4 of the Direct Testimony of Bradley G. Mullins.

[12] *In the Matter of the Application of PacifiCorp for Authority to Implement a Power Cost Adjustment Mechanism*, Docket No. 20000-ET-03-205 (Record No. 8581) Final Order at 13 (June 21, 2004).

[13] *Id.* at 23.

forecasted revenues are a part of the net power cost forecast, so the activity as described by WIEC would not be speculation.

WIEC's Counterfactual Analysis

Q. Does WIEC propose ways in which the Company might have been able to produce slightly lower actual NPC in 2022?

A. WIEC attempts to do so, but their proposed alternative has several unresolvable issues. Mr. Mullins observes that the Company was [redacted]. He proposes counterfactual analysis that assumes infinite liquidity in forward contracts where the Company can transact at the mid-market.[14] As discussed above, nearly every assumption underpinning that analysis is unsupported by the reality of the Company's business environment.

Q. Does WIEC propose specific adjustments based on his alternative hedging approach?

A. Yes, Mr. Mullins proposes disallowances of $[redacted] million for the [redacted] and [redacted] million (both Wyoming-allocated) for the fact that [redacted][15]

Q. Have you evaluated WIEC's analysis related to the [redacted]?

A. Yes.

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[14] Direct Testimony of Bradley G. Mullins at 36-41 (WIEC Exhibit No. 200).
[15] *Id.*, at 39.

Q. Are there any errors present in that analysis?

A. Yes, in addition to the faulty liquidity assumptions I allude to above, WIEC fails to account for the fact that the Company's hedging policy [redacted].[16] Hedging as indicated by WIEC's witness would require the removal of many hedges that stabilized gas prices for other thermal generators, meaning their proposal should not reduce the overall level of risk on the system, apart from the fact that it raises the overall hedge percentage generally. This analysis also completely overlooks the fact that [redacted] Finally, it relies entirely on what can only be referred to as a creative and opportunistic reinterpretation of Company policy, which is unsupported by the actual policy document itself. [redacted]

Q. Is this made clear in the Company's Risk Management Policy that WIEC references in testimony?

A. Yes. In Appendix E, [redacted]

[16] *See*, Confidential WIEC Exhibit 200.4 provided with the Direct Testimony Bradley G. Mullins.

Confidential Figure 2. Company Natural Gas Percent Volume Hedge Limits

[redacted]

Q. What is the scale of hedge removal required in order to hedge the [redacted] position to [redacted] as proposed by WIEC?

A. I looked at the position as of November 29, 2021, which is the day prior to January 2022 becoming the front month, meaning it is the day before all of 2022 becomes Year 1 in the Company's rolling hedge program.

At that time, the overall Year 1 (i.e., 2022) hedge ratio for the system was approximately [redacted] Layering on hedges that would get the [redacted] hedged to exactly [redacted] for each calendar month in Year 1 would have required [redacted] This requirement to remove other hedges would be even greater if applied to WIEC's analysis, for reasons I will explain below.

Recall that policy permits the Company to maintain hedge percentages above [redacted], but only if the overage was caused by a change in requirements. In other words, the Company would not be able to hedge this way in its actual operations without violating its own risk policy.

Were the Company to have operated this way, it is reasonable to say that hedges totaling approximately [redacted] would never have been executed elsewhere on the system, though it is quite impossible to identify which hedges would have been executed and which would not have been. In addition, the benefit of any and all subsequently executed hedges would also need to be removed (recall that my analysis uses the position as of November 29, 2021 for the sake of convenience, but [redacted]

Q. Would forgoing those hedges have harmed customers?

A. Certainly. Both sides of the system saw volatility. The relocation of hedges from one side of the system to the other would not have made an appreciable difference. WIEC disregards these facts in an attempt to inflate their disallowance recommendation and place an unprincipled blame on PacifiCorp for the historic rise in the market price of natural gas and other commodities that occurred in 2022.

Q. Are there any other issues present in WIEC's analysis?

A. Yes. In addition to failing to realize that his proposal would require [redacted], Mr. Mullins has also used the *actual* fuel purchases net of sales instead of the *forecasted* fuel burns to calculate his proposed additional hedges. This does several things wrong, but the primary problem is that it is inherently unreasonable to use actual numbers since the Company does not know precisely what fuel consumption will be ahead of time and must rely upon a forecast to determine the appropriate level of hedging. In this case, Mr. Mullins's approach has the effect of overstating the amount of the proposed disallowance.

Finally, Mr. Mullins fails to acknowledge that his proposed counterfactual does not simply layer in hedges to get each monthly position to a [redacted] (which, again, is not a requirement of PacifiCorp's risk policy), but well above that hedge level due to the presence of subsequently executed hedges that he makes no allowance for. Confidential Figure 3 below is an excerpt from WIEC's own Exhibit 200.9 and shows the terminal hedge percentages for each month in 2022 on the west side of the system. As you can see, most months are well above the [redacted] Mr. Mullins identified in his testimony, again inflating his proposed disallowance.

Confidential Figure 3. Excerpt from Confidential WIEC Exhibit 300.9

[redacted]

Leaving aside whether the strategy proposed by WIEC is feasible (it is not), these flaws make it impossible to take their proposed adjustment seriously.

Q. Is there a way to adjust WIEC's proposed disallowance to account for any of those flaws?

A. No. That type of analysis becomes a very detailed counterfactual scenario, where one is forced to assume a different set of hedge limits and try and figure out which hedges would still have been executed and which would have been foregone in order to make room for further hedging on the [redacted], while also guessing as to which of the subsequently executed hedges would or would not have been executed. As I stated earlier in my testimony, WIEC does not challenge any specific hedge transaction but rather presents misguided arguments about the Company's hedging policy itself. Even if we were to overlook the fact that WIEC's analysis is not based on the Company's actual hedging policy in any way, the complexity of this counterfactual analysis is too great to produce an objectively correct result.

Q. Is there a simpler, more principled approach possible?

A. No. Any such effort quickly descends into hindsight review. Arguing that we should have hedged up to our limit on a system-wide basis is the same as saying that we should have hedged more in general, given that both sides of the system saw extreme natural gas price volatility during 2022. That is an easy conclusion to reach on the other side of a period in which prices were extremely high, but the reason it is so difficult to demonstrate large savings without running afoul of Company limits is hat the Company recognized the risk to rates that accompanies periods of elevated volatility, and was hedged at or near [redacted] for much of 2021 and 2022 (the times during which 2022 would have made up some part of Year 1). These are the actions of a company actively managing its exposure.

In fact, on 44 days during 2021 and 2022 (the times during which some portion of 2022 would be part of Year 1) the Company [redacted]

Q. Has WIEC yet argued that the Company should be allowed to hedge gas over the [redacted] limit identified in policy?

A. No. WIEC has yet to advance an argument that the [redacted] themselves were mis-calibrated, only that they should have been [redacted] as specified in the policy document, where the limit ranges have been unchanged since 2012.

Q. Is there a case for allowing some Year 1 hedge ratio above the [redacted] identified in the risk policy?

A. Only if one restricts their consideration exclusively to periods of high pricing. In cases where prices decline, [redacted] have the effect of locking customers into high prices, without allowing them the ability to enjoy savings in the event of a price decline.

Q. If the Company had a policy in place that allowed the sort of activity that the WIEC counterfactual suggests, would customers have suffered in other periods?

A. Yes, in the current period. WIEC's witness asserts that gas prices have since retreated from the elevated levels experienced in 2022,[17] but fails to reach the logical conclusion that if the Company were to have been hedging in the manner he has implicitly endorsed (i.e., at some level above [redacted]) during 2022 for calendar year 2023, customers would now be harmed by paying costs above market rates in 2023. Alternatively, if Mr. Mullins' point is only that he believes the Company should hedge more before periods of high pricing, and less prior to periods of low pricing, I can only

[17] Direct Testimony of Bradley G. Mullins at 10:6-13 (WIEC Exhibit No. 200).

point out that the Company does not know ahead of time which direction prices will go.

As mentioned earlier, Mr. Mullins has never contested the Company's hedging practices in the past. However, he is now selectively questioning its hedging practices for calendar year 2022, given perfect hindsight knowledge of the historic rise in natural gas prices that occurred during that year. If the Company were to substantially increase hedging transactions as inferred by Mr. Mullins in subsequent years that do not experience such a dramatic rise in natural gas prices, it could potentially result in hedging activities that would substantially increase net power costs.

Q. WIEC also proposes a disallowance for the Company having [redacted] Is it unusual for the Company to be [redacted]?

A. No. Mr. Mullins notes that he thinks [redacted].[18] While technically correct, [redacted], when the Company is typically less reliant on thermal generators, and natural gas price volatility is ordinarily quite low, owing primarily to the lack of heating demand and the fact that plentiful hydroelectric generation keeps overall natural gas demand muted. [redacted]

[18] *Id.*, at 32:14-16.

[redacted]

THE COMPANY'S ACTUAL HEDGING PRACTICES

Q. How hedged or unhedged were the Company's actual positions, heading into spot month?

A. As I previously mentioned, on average over the course of 2022, PacifiCorp's gas position was hedged at approximately [redacted] before the front month positions moved into the spot month. Confidential Table 1 below shows the Company's forecasted requirements and hedges in place on the last day before the prompt month became the spot month. For example, the January 2022 position is the position as of December 30, 2021, while the February 2022 position is the position as of January 31, 2022, and so on.

Confidential Table 1. Company System Hedges

[redacted]

Q. How is this possible, given the [redacted] Company's risk policy?

A. This is another example of why overly proscriptive limits are bad for customers. The flexibility of the Company's hedge policy, as written, allows traders and front office personnel to manage the position in a manner that makes sense as the prompt month hedges approach maturity. [redacted] If PacifiCorp were to have behaved as WIEC suggests [redacted] customers would have been far more exposed to spot price volatility and the under-recovery would have been even greater.

Q. Did this result in exceptionally high hedge prices that might have been avoided had the Company executed hedges earlier?

A. Leaving aside whether that is even a feasible approach to hedging (my previous testimony should make clear that I do not believe it is), no. In fact, [redacted]

[redacted]. In actuality, the Company's hedge program did a great deal to protect customers from price volatility.

Confidential Table 2. Average Hedge Prices

[redacted]

Q. What do you recommend regarding WIEC's proposed disallowances?

A. The proposal submitted by WIEC is filled with errors, fails to reflect an understanding of the mechanics of trading, misrepresents the Company's hedging practices, disregards the Company's actual policy, incorporates perfect hindsight knowledge unavailable to the Company as it executed hedges, relies upon a counterfactual that would place the Company in violation of its own risk management policy, fails to identify or challenge any specific transaction, and provides no evidence of any kind that the Company's actions were imprudent based on what it knew or reasonably should have known at the time of hedge execution. WIEC's proposal fails to satisfy any of the standards that are ordinarily applied in prudence reviews, and I strongly recommend that the Commission reject it.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BEFORE THE WYOMING PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER TO INCREASE CURRENT RATES BY $50.3 MILLION (7.6 PERCENT) TO RECOVER DEFERRED NET POWER COSTS PURSUANT TO TARIFF SCHEDULE 95 ENERGY COST ADJUSTMENT MECHANISM AND TO DECREASE CURRENT RATES BY $1.5 MILLION (0.2 PERCENT) PURSUANT TO TARIFF SCHEDULE 93, REC AND SO2 REVENUE ADJUSTMENT MECHANISM	)	DOCKET NO. 20000-642-EM-23 (RECORD NO. 17279)

AFFIDAVIT, OATH AND VERIFICATION

Douglas Staples (Affiant) being of lawful age and being first duly sworn, hereby deposes and says that:

Affiant is the Net Power Cost Advisor for PacifiCorp, which is a party in this matter.

Affiant prepared and caused to be filed the testimony submitted on October 20, 2023. Affiant has, by all necessary action, been duly authorized to file the testimony and make this Oath and Verification.

Affiant hereby verifies that, based on Affiant's knowledge, all statements and information contained within the testimony and all of its associated attachments are true and complete and constitute the recommendations of the Affiant in their official capacity as Net Power Cost Advisor.

Further Affiant Sayeth Not.

Dated this 17th day of October, 2023

Douglas Staples
Net Power Cost Advisor
825 NE Multnomah St. Ste. 600, Portland, OR

STATE OF Florida)
) SS:
COUNTY OF Hillsborough)

The foregoing was acknowledged before me by Douglas R. Staples on this 17 day of October, 2023. Witness my hand and official seal.

Notary Public

My Commission Expires: 8/3/2025

Tamara Rivera Alvarado
Notary Public
State of Florida
Comm# HH160819
Expires 8/3/2025