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Division of Public Utilities

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MEMORANDUM

To: Utah Public Service Commission

From: Division of Public Utilities

Philip J. Powlick, Director
Artie Powell, Manager, Energy Section
Charles Peterson, Technical Consultant
Doug Wheelwright, Utility Analyst

Subject: In the Matter of Rocky Mountain Power for Approval of Power Purchase Agreement between PacifiCorp and Tesoro Refining and Marketing Company
Docket No. 09-035-102

Date: November 17, 2009

RECOMMENDATION: Approval

The Division recommends that the Commission approve the Purchase Power Agreement between PacifiCorp and Tesoro Refining

BACKGROUND

On November 3, 2009, Rocky Mountain Power (RMP, or Company), a division of PacifiCorp, filed an application for approval of a Purchase Power Agreement (PPA) with Tesoro Refining and Marketing Company (Tesoro). The effective date of this agreement is January 1, 2010 and will replace an existing contract that will expire December 31, 2009. The existing contract was approved by the Commission December 15, 2008, under Docket No. 08-035-82.

ANALYSIS

Tesoro owns, operates, and maintains a natural gas-fired cogeneration facility for the generation of electric power in Salt Lake City, Utah. This facility has a Nameplate Capacity Rating of 25.0 megawatts (MW) and is operated as a qualified facility (QF) as defined by 18 C.F.R. Part 292. Tesoro has previously provided its FERC self-certification to PacifiCorp prior to the implementation of the previous contract. All interconnection requirements have been met and the Tesoro facility is fully integrated with the Company's system. The proposed PPA agreement was signed by both parties October 27, 2009.

The agreement before the Commission is for a 12 month period beginning January 1, 2010 and ending December 31, 2010. Under this agreement, the Company pays Tesoro based on the pricing methodology approved by the Commission in Docket No. 03-035-14. The pricing calculation is identified in Section 5 of the agreement and includes rates for both on and off peak periods. The specific rate varies by month and is identified as Exhibit E of the agreement. According to the testimony of Paul Clements, Tesoro will be paid an average price of $39.00 per megawatt hour. Included in the monthly rate calculation is a line loss factor of 1.0346. This is a slight increase from the 1.0293 in the current agreement. The Division has tested the contract pricing for compliance with the approved methodology by performing it own GRID run. The Division completed four separate GRID runs to determine how avoided costs might change with variations in demand and included both high-load and low-load scenarios. The difference in the annual avoided cost was immaterial. Based on this analysis, we can conclude that variation in the generation output has little impact on avoided costs. The spreadsheets showing the results of the Division's GRID run are available to the Commission upon request.

Tesoro will use the output of the QF generation to first satisfy their retail load and all generation in excess of their needs will be sold to the Company. This is a change from the current agreement but is similar to the agreement that was approved for Tesoro in 2007. In the 2006, 2008 and 2009 agreements, the terms called for Tesoro to sell all of their generation to the Company and then purchase the amount needed for their own use at the approved tariff rate. The primary driver determining whether they sell all the generation and buy at tariff rates or whether to sell on a net basis is determined by the QF price in relation to the Schedule 9 price. If the QF price is greater than the tariff rate, it is in Tesoro's best interest to sell all the generator output under the QF contract and buy their retail needs. If the QF price is lower than the tariff rate, it is in Tesoro's best interest to first meet their own need and then sell the excess capacity to the Company.

Tesoro has the option, but not the obligation to provide and deliver all or a portion of the Net Output to PacifiCorp at the Point of Delivery. There is no minimum delivery obligation; however, Tesoro cannot sell Net Output to any entity other than PacifiCorp prior to the termination of this agreement. The Net Output is defined as all energy produced by the Facility, less station use and less transformation and transmission losses and other adjustments if any. Tesoro estimates that the average annual Delivered Energy from the facility to PacifiCorp will be approximately 49,000 megawatt-hours (MWh) subject to any limitations created pursuant to any maintenance schedules[1].

The historical generation output data available to the Division indicates that the Tesoro facility has operated in a similar fashion to a "firm" resource. Chart 1 provides a summary of the hourly kilowatt (kw) production from this facility for 2006, 2008 and the first nine months of 2009. Actual data for 2007 are not available for the period when Tesoro sold the output on a "net" basis.

This Agreement constitutes a "New QF Contract" under the PacifiCorp Inter-Jurisdictional Cost Allocation Protocol and, as such, the costs of those QF provisions are allocated as a system resource unless any portion of those costs exceed the cost PacifiCorp would have otherwise incurred acquiring comparable resources. In that event, the Revised Protocol assigns those excess costs on a situs basis to the State of Utah. PacifiCorp represents that the cost of this Agreement does not exceed the cost that would have been incurred from acquiring other market resources. The Division agrees with this assessment based on the completed GRID run.

The Company and Tesoro have argued that an avoided line loss adjustment should be provided under this agreement. They claim that the development of this adjustment is consistent with

[1] Tesoro Non-Firm Power Purchase Agreement, Page 1

Commission guidance provided under Docket No. 03-035-14 (QF docket). In proceedings under the QF docket, several parties raised the issue of avoided transmission line loss adjustments for non-firm QF contracts. The Division argued that avoided cost transmission line loss adjustments should not be given to QFs with non-firm or "must-take" contracts in applying the methods that were proposed. However, the Division indicated that it may consider giving QFs avoided transmission line loss adjustments if ratepayer neutrality could be assured.[2] The Division and Company proposals in the QF docket were similar in that they involved comparing distances from the QF and a proxy plant to the load center (i.e. the Wasatch Front). The adjustment was to be calculated against the Company's FERC approved Open Access Transmission Tariff (OATT) percentage.

In the end, the Commission was not satisfied with any of the proposed solutions and declined to adopt guidelines for non-wind QFs.[3] In a subsequent clarification order issued on May 26, 2006 under the QF docket, the Commission indicated that it would evaluate the reasonableness of avoided transmission loss payments to QFs on a case-by-case basis.

This agreement includes an avoided line loss adjustment of 3.46%. The avoided cost principle provides for the payment to a QF to equal the value or benefit that the QF brings to the system such that the ratepayer is indifferent as to whether the energy comes from the QF or from another source. A detailed explanation of the method used to calculate the avoided line loss has been included in Paul Clements' testimony. The line loss adjustment of 3.46% is an increase from 2.93% in the current agreement. In the current agreement, the allowed line loss was reduced by approximately 15% as a non-firm resource. This adjustment was rejected by Tesoro in the proposed agreement. Based on the Division's GRID run, it appears to be appropriate for this agreement.

The Company acknowledges that the methodology and analysis used to determine the recommended avoided line loss adjustment for this agreement does not set a precedent for future QF contracts and does not restrict either party from recommending a different methodology or

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[2] Direct Testimony on Rehearing of Andrea Coon, February 10, 2006, lines 99-101, Docket No. 03-035-14.
[3] See Order dated April 19, 2006, pp. 13-15, Docket No. 03-035-14.

position in future proceedings. The Division intends to investigate the line loss adjustment issue further, probably in the spring of 2010. The Division believes that the Company and other interested parties should evaluate this, and other related issues further for future contracts to determine if a more consistent policy and approach for developing line loss calculations can be achieved.

CONCLUSIONS AND RECOMMENDATIONS

Based upon the above outlined analysis, the Division recommends Commission approval of the proposed Power Purchase Agreement between Tesoro and Rocky Mountain Power.

CC: Paul Clements, PacifiCorp
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