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Division of Public Utilities

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Memorandum

TO: Public Service Commission

FROM: Division of Public Utilities
Philip Powlick, Director,
Artie Powell, Energy Manager
Charles Peterson, Technical Consultant
Douglas Wheelwright, Utility Analyst

DATE: November 15, 2010

RE: Purchase Power Agreement between PacifiCorp, dba Rocky Mountain Power, and U.S. Magnesium, LLC, Docket No. 10-035-105.

RECOMMENDATION (Approval)

The Division recommends that the Commission approve the power purchase agreement between PacifiCorp and U.S. Magnesium, LLC.

The Division recommends that the Company continue to provide, at least quarterly, the hourly power purchased under this contract so that the Division may monitor the contract and be better prepared to make recommendations in the future.

ISSUE

On or about September 23, 2010, Rocky Mountain Power (Company, or RMP), a division of PacifiCorp, filed a proposed power purchase agreement (PPA) for Commission approval between it and US Magnesium, LLC (US Mag). This PPA will succeed the existing PPA that expires on December 31, 2010. The existing PPA was approved by the Commission in Docket No. 09-035-20. Subsequent to the filing, the Division met with representatives of the RMP, and had informal information exchanges.

The Commission held a scheduling conference on October 26, 2010 and subsequently issued a Scheduling Order requiring the Division and the Office of Consumer Services to respond to the Company's application by November 15, 2010. This memo, outlining the Division's investigation and conclusions, is in response to the aforementioned Commission Order.

The Division recommends that the Company provide, at least quarterly, data regarding the hourly power purchased under this contract so that the Division may monitor the contract and be better prepared to make recommendations in the future.

ANALYSIS

The PPA is dated September 21, 2010 between PacifiCorp and US Mag. The agreement states that US Mag "owns, operates and maintains magnesium production and related facilities, including an existing gas-fired generation facility…"[1] located in Tooele County, Utah. The nameplate capacity rating of the generation facility is 45 megawatts (MW). The estimated normal maximum sustained output of the generating facility is about 36 MW. The US Mag facility is operated as a qualifying facility (QF) as defined by 18 C.F.R Part 292.[2] US Mag has previously provided its FERC self-certification to PacifiCorp prior to the implementation of the previous contract, which expires on December 31, 2010. All interconnection requirements have been met and the US Mag facility is fully integrated with the Company's system.

US Mag estimates that the average net monthly output of the facility to be delivered to RMP will be about 238,272 megawatt-hours (MWh) to PacifiCorp, or about 27.2 MW per hour.[3] US Mag

[1] PPA, page 1.
[2] Op. Cit. page 5, section 3.2.6
[3] Op. Cit. page 1

has the option, but not the obligation, to deliver approximately 45 MW per hour (the nameplate capacity) to PacifiCorp.[4] The pricing in this contract varies monthly with high load and low load hour pricing for each month. US Mag has indicated that it tentatively plans for major scheduled maintenance on one of its units in March 2011.[5] Exhibit 1 shows the hourly output of US Mag. There are three bands that are apparent with seasonality for the upper two bands. The top band is centered on about 30,000 kW for approximately the summer months and 35,000 kW otherwise. The middle band also shows a slight summer dip to about 19,000 kW, but otherwise is centered on about 23,000 kW. The bottom band is fairly flat at about 12,000 kW, but does drop a bit in the summer to below 10,000 kW.

The Agreement before the Commission is expected to run for a term of 12 months: beginning January 1, 2011 and ending December 31, 2011. The current contract expires December 31, 2010.

Under the terms of the Commission order in Docket No. 03-035-14, non-firm QF resources are not entitled to a capacity payment. Therefore, this Agreement contains energy-only prices. As set forth in Section 5 and Exhibit E of the contract, the price per megawatt hour (MWh) varies by month and by high load and low load hours. The average annual price is approximately $37 per MWh, which is approximately $5.00 per MWh lower than last year's average price.[6] To this MWh price is added an adjustment for avoided line losses. The avoided line losses payment amounts to an additional 4.44 percent added to the price per MWh.[7] The relatively high prices during the months of July through September provide an incentive for US Mag to provide as much power as possible during those months of relatively high demand on PacifiCorp's system. Similarly, the higher prices for on-peak hours act as an incentive for the QF to operate during the hours of the day when demand on PacifiCorp's system is highest.

[4] Op Cit. section 4.2.
[5] PPA, Exhibit D.
[6] PPA, Exhibit E.
[7] PPA, Section 5, p. 6.

The prices for next year's contract are based upon PacifiCorp's June 2010 forecast price curves. In June 2010 energy prices were significantly down from last year's prices and much lower than historical highs.

This PPA with US Mag is represented to comply with the Commission's QF pricing methodology ordered in Docket No. 03-035-14. The prices for next year's contract are based upon PacifiCorp's June 2010 forecast price curves. In June 2010 energy prices were significantly down from the historical during the previous year. The general terms and conditions of the Agreement appear to be generic in nature and closely mirror those in prior, similar contracts. The main differences appear to be the price to be paid for delivered energy. The non-price related conditions within the Agreement appear to be generic and reasonable.

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 accepts this representation based upon its prior analysis of the Company's avoided cost reports.

In recent years the Division has questioned the avoided line loss adjustment that is included in the current contract. However, pursuant to the Division's research into this matter in early 2010, it accepts the applicability of and the methodology used to develop the avoided line loss adjustment factor.[8]

CONCLUSION

[8] Division of Public Utilities, "Research Memorandum", filed with the Utah Public Service Commission, dated July 21, 2010.

The Division concludes that the terms of the US Mag Power Purchase Agreement generally are generic and comply with the Commission's guidelines and order in Docket No. 03-035-14. The other contractual arrangements and facts in this matter, in particular the method for calculating the avoided energy costs, have been previously found to be just and reasonable and in the public interest. The Division recommends that the Commission approve the Power Purchase Agreement between US Mag and PacifiCorp.

cc: Michele Beck, Committee of Consumer Services
Cheryl Murray, Committee of Consumer Services
Gary Dodge, Hatch, James & Dodge, attorneys for US Magnesium, LLC
Dave Taylor, PacifiCorp
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