State of Utah
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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. 10-035-111

Date: November 15, 2010

RECOMMENDATION: Approval

The Division recommends that the Commission approve the purchase power agreement between PacifiCorp and Tesoro Refining.

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.

BACKGROUND

On October 4, 2010 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, 2011, and will replace an existing contract that will expire December 31, 2010. The existing contract was approved by the Commission December 10, 2009, under Docket No. 09-035-102.

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 in Exhibit E of the agreement. According to Exhibit E, on-peak pricing ranges from $30.87 per megawatt-hours (MWh) to $54.30. For off-peak hours the pricing ranges from $16.64 to $30.63 per MWh. The average price will approximate $37.00 per MWh, which is two dollars less than the $39.00 per MWh for 2010. Included in the monthly rate calculation is a line loss factor of 1.0366. This is a slight increase from the 1.0346 in the current agreement.

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 identical to the current agreement and 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. The Company and Tesoro filled a partial electric service agreement that was approved by the Commission last year that allows Tesoro to purchase power from the Company under Schedule 31. The Division understands that this contract continues to be in effect. Exhibit 1 shows the delivered hours by Tesoro to the Company. During the years when the PPA measured total output of Tesoro's plants, (i.e. 2006, 2008, and 2009), the output was fairly steady at about 23,000 kW, with a secondary level at about 15,000 kW. For the years when the measured power is in net output (i.e. 2007 and 2010), there are also two bands at about 8,000 kW and close to zero. In either case, there appears to be fairly consistent operations of the Tesoro units.

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 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 2007 and the first nine months of 2010. This chart represents the Tesoro output on a "net basis." Chart 2 provides a summary of the hourly kilowatt (kW) production from this facility for 2006, 2008 and 2009 and represents the gross production.

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

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

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.[2]

CONCLUSIONS AND RECOMMENDATIONS

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

CC: Paul Clements, PacifiCorp
David Taylor, PacifiCorp
Robert Reeder, Parsons, Behle, Latimer
Michele Beck, Office of Consumer Services
Cheryl Murray, Office of Consumer Services

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