State of Utah
Department of Commerce
Division of Public Utilities

FRANCINE GIANI
Executive Director

THAD LEVAR
Deputy Director

PHILIP J. POWLICK
Director, Division of Public Utilities

GARY HERBERT.
Governor

GREGORY S. BELL
Lieutenant Governor

Memorandum

TO: Public Service Commission

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

DATE: November 15, 2010

RE: Purchase Power Agreement between PacifiCorp, dba Rocky Mountain Power, and Kennecott Utah Copper LLC, Docket No. 10-035-112.

RECOMMENDATION (Approval)

The Division recommends that the Commission approve the PPA between PacifiCorp and Kennecott.

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 October 7, 2010, PacifiCorp (the Company) filed an Application for Approval of a Power Purchase Agreement (PPA) with Kennecott Utah Copper LLC (Kennecott). The effective date of the agreement is January 1, 2010. This contract replaces a current contract that will expire on December 31, 2010 and is informally referred to as the Kennecott-Smelter QF. The Public Service Commission (Commission) issued an action request on October 12, 2010 to the Division of Public Utilities (Division) requesting a response by December 13, 2010. The following Recommendation and Analysis are intended to serve as the response to the aforementioned action request. A second Kennecott (PPA) agreement was submitted under Docket No. 10-035-113 and is informally referred to as the Kennecott-Refinery QF. Information and analysis of this contract will be submitted under a separate memo.

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.

ANALYSIS

The PPA between PacifiCorp and Kennecott is dated October 6, 2010. The agreement states that Kennecott "owns, operates and maintains a waste heat-fired steam cogeneration facility for the generation of electric power located in and about the town of Magna, Utah…."[1] The nameplate capacity rating of the plant is 31.8 megawatts (MW). The Kennecott facility is operated as a qualifying facility (QF) as defined by 18 C.F.R Part 292.[2] Kennecott has previously provided its FERC self-certification to PacifiCorp prior to the implementation of the previous contract, which expired on December 31, 2008. All interconnection requirements have been met and the Kennecott facility is fully integrated with the Company's system.

Kennecott estimates that the average net monthly output of the facility will be about 14,000 megawatt-hours (MWh) to PacifiCorp, or about 18.5 MW per hour on average.[3] Kennecott has the option, but not the obligation, to deliver approximately 31.8 MW per hour (the nameplate

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

capacity) to PacifiCorp.[4] As with the current contract, pricing for this contract varies by month. In past years Kennecott had "flat" pricing throughout the year. Other than monthly variations, there is no variation in price for time-of-day. Kennecott has indicated that it tentatively plans for maintenance downtime of approximately 10 hours every six weeks.[5] While somewhat messy, Exhibit 1 shows that output is scatter over a wide range. The large majority of the output ranges from 15,000 to 30,000 kW, but there are some concentrations below that range as well.

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. Like the existing contract, this contract contemplates that Kennecott will sell to PacifiCorp all of its electric generation.[6]

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. The average annual price is approximately $35.00 per MWh, which is about $5.00 per MWh lower than last year.[7] To this MWh price is added an adjustment for avoided line losses. The avoided line losses payment amounts to an additional 3.01 percent added to the price per MWh.[8] The relatively high prices during the months of July through September provide an incentive for Kennecott to provide as much power as possible during those months of relatively high demand on PacifiCorp's system.

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

[4] Op Cit. section 4.2.
[5] PPA, Exhibit D.
[6] PPA, Sections 4.3.
[7] PPA, Exhibit E. And Exhibit 1
[8] PPA, Section 5, p. 6.

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.[9]

CONCLUSION

The Division concludes that the terms of the Kennecott 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 Kennecott and PacifiCorp.

cc: Michele Beck, Committee of Consumer Services

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

Cheryl Murray, Committee of Consumer Services
Dave Taylor, PacifiCorp
Paul Clements, PacifiCorp
Daniel Solander, PacifiCorp
Robert Reeder, Parsons Behle and Latimer, attorney for Kennecott