State of Utah
Department of Commerce
Division of Public Utilities

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Memorandum

TO: Public Service Commission

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

DATE: October 20, 2011

RE: Purchase Power Agreement between PacifiCorp, dba Rocky Mountain Power, and Kennecott Utah Copper LLC, (Smelter) Docket No. 10-035-179.

RECOMMENDATION (Approval)

The Division recommends that the Commission approve the Non-Firm Purchase Power Agreement between PacifiCorp and Kennecott. In addition, the Division recommends that the Company continue to provide, at least quarterly, the hourly power purchased so that the Division can continue to monitor this contract.

ISSUE

Since there are multiple PPA contracts with Kennecott, this contract is informally referred to as the Kennecott-Smelter QF. On September 28, 2011, 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, 2012 and replaces a current contract that is scheduled to expire on December 31, 2011. The Public Service Commission (Commission) issued an action request to the Division of Public Utilities (Division) requesting a response by October 28, 2011. The following Recommendation and Analysis are intended to

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serve as the response to the aforementioned action request. A second Kennecott PPA agreement has been submitted under Docket No. 11-035-178 and is informally referred to as the Kennecott-Refinery QF. Information and analysis for that contract will be submitted under a separate memo.

ANALYSIS

Included with the application is a copy of the Non-Firm Purchase Power Agreement between PacifiCorp and Kennecott dated September 13, 2011. Kennecott owns, operates and maintains a waste heat-fired steam cogeneration facility for the generation of electric power located at the Magna, Utah smelter.[1] The nameplate capacity rating of the plant is 31.8 megawatts (MW) with an expected average monthly output of approximately 18.5 MW. The Kennecott facility is operated as a qualifying facility (QF) as defined by 18 C.F.R Part 292[2] and Kennecott has previously provided its FERC self-certification to PacifiCorp. All interconnection requirements have been met and the Kennecott facility is fully integrated with the PacifiCorp system.

Under the terms of the QF contract Kennecott has the option, but not the obligation, to deliver the net output to PacifiCorp at the point of delivery. Kennecott is not permitted to sell any portion of the net output to parties other than PacifiCorp; however, it is allowed to offset their own retail load before selling any excess power. Kennecott estimates that the average net monthly output of the facility will be approximately 14,000 megawatt-hours (MWh) to PacifiCorp, pursuant to the scheduled maintenance.[3]

Exhibit 1 is an hourly analysis of the delivered energy for 2009, 2010 and year to date 2011. This analysis shows fairly consistent energy delivered during 2009 and 2010 but no delivered energy for the first 6 months of 2011. Energy was delivered in the third quarter of 2011, however, the amount was lower than the two previous years. The primary reason for the reduction in delivered energy is the relationship between the QF contract price and the current

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

retail rate. For PacifiCorp, wholesale rates have come down primarily due to reduced demand and lower natural gas prices. In the current market environment it is less expensive to purchase power from the market than to purchase from the QF generation facilities. For the QF facility, it is to their advantage to offset their own load in the non peak months before selling to PacifiCorp. It is anticipated that this condition will continue through 2012 with energy deliveries from QF facilities only in the peak months.

The proposed contract is structured with variable pricing which changes by month and by the hour. Time-of-day pricing is new to the Kennecott contract this year. High Load Hours (HLH) are designated as Monday through Saturday, 7:00 am to 11:00 pm. Low Load Hours (LLH) are designated as all hours not identified as HLH. Specific pricing for each monthly period is identified in Exhibit E of the agreement. Higher monthly prices during the months of July through September provide an incentive for Kennecott to generate power during the months of high demand on the PacifiCorp system.

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. The total purchase price is calculated as the contract price per MWh plus 4.54% as an adjustment for avoided line losses. This adjustment factor is higher than the 3.66% in previous years and is based on a rate of 5.0% for real power losses as set forth in Schedule 10 of PacifiCorp's proposed Open Access Transmission Tariff (OATT) filed with FERC on May 26, 2011. The proposed OATT tariff rate has been used in this contract since the proposed rates are scheduled to become effective as of September 2011. In the event FERC approves a different line loss rate with an effective date during the term of this Agreement, PacifiCorp will recalculate the adjustment factor from the FERC effective date.[4]

The proposed Agreement will remain in place for a term of 12 months beginning January 1, 2012 and ending December 31, 2012. The general terms and conditions of the Agreement appear to be

[4] PPA, Section 5, p. 6.

generic in nature and are similar to previous contracts. The primary difference appears to be the time of day pricing and the adjustment factor for avoided line losses. The non-price related conditions within the Agreement appear to be reasonable and consistent with previous contracts.

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.

CONCLUSION

The Division concludes that the terms of the Kennecott (Smelter) Power Purchase Agreement 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
Cheryl Murray, Committee of Consumer Services
Dave Taylor, PacifiCorp
Paul Clements, PacifiCorp
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F. Robert Reeder, Parsons Behle and Latimer, attorney for Kennecott