State of Utah
Department of Commerce
Division of Public Utilities

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ACTION REQUEST RESPONSE

To: Utah Public Service Commission

From: Division of Public Utilities

Chris Parker, Director
Artie Powell, Manager, Energy Section
Charles Peterson, Technical Consultant
Doug Wheelwright, Utility Analyst

Date: November 8, 2011

Subject: In the Matter of Rocky Mountain Power for Approval of Power Purchase Agreement between PacifiCorp and Tesoro Refining and Marketing Company Docket No. 11-035-183.

RECOMMENDATION: (Approval)

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

BACKGROUND

On October 25, 2011, 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, 2012 and will replace an existing contract that will expire December 31, 2011. The existing contract was approved by the Commission December 22, 2010, under Docket No. 10-035-111.

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 is dated October 10, 2011.

The agreement before the Commission is for a 12 month period beginning January 1, 2012 and ending December 31, 2012. 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 $31.57 per megawatt-hours (MWh) to $51.88. For off-peak hours the pricing ranges from $17.87 to $33.33 per MWh. The average price will approximate $37.00 per MWh, which is about the same as for 2011 but remains two dollars less than the $39.00 per MWh for 2010.

With respect to avoided line losses, the Company is asking the Federal Energy Regulatory Commission (FERC) to increase its Open Access Transmission Tariff (OATT) for line losses to 5.00 percent compared to 4.48 percent in the current tariff. The increase in the OATT is requested to be retroactive to September 1, 2011. The Contract provides that the calculated line loss adjustment will be based upon what the FERC actually orders. As in years past, the OATT line loss amount forms the basis for the line loss adjustment in the QF contracts. The OATT percentage is adjusted based upon the amount of avoided power estimated to come from outside of the local transmission bubble. Based upon the 5.00 OATT percentage, the line loss adjustment factor for Tesoro is calculated to be 1.0462.

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 2007and 2010. 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 filed a partial electric service agreement that was approved by the Commission in 2009 that allows Tesoro to purchase power from the Company under Schedule 31. This agreement was approved by the Commission in Docket No. 09-035-104. The Division understands that this contract continues to be in effect. Included with this memorandum are graphs that show 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 2007 and 2010, where the measured power is in net output, there are also two bands at about 8,000 kW and close to zero; however, in 2011 the upper band has dropped to about 4,000 kW, possibly reflecting the continued low QF pricing. In any 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].

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.[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

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

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

Cheryl Murray, Office of Consumer Services