



GARY R. HERBERT
Governor

GREG BELL
Lieutenant Governor

State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

MICHELE BECK
Director

To: The Public Service Commission of Utah

From: The Office of Consumer Services
Michele Beck
Cheryl Murray

Copies To: Rocky Mountain Power
David Taylor, Regulation, Utah
Daniel Solander
Magnum Holdings, LLC
Gary Dodge
The Division of Public Utilities
Chris Parker, Director
Artie Powell, Energy Section Manager

Date: April 14, 2011

Subject: Office of Consumer Services' Comments on the Application of Rocky Mountain Power for Approval of Electric Service Agreement between Rocky Mountain Power and Magnum Holdings, LLC Docket No. 11-035-45

REDACTED – PUBLIC VERSION

Background

On approximately March 14, 2011, Rocky Mountain Power (Company) filed an Application with the Commission for Approval of a Master Electric Service Agreement (MESA) between Rocky Mountain Power (the Company) and Magnum Holdings, LLC (Magnum) dated March 9, 2011. The Company also provided a confidential copy of the MESA. Through the discovery process the Office obtained the following confidential documents:

- 1) Power Purchase Agreement between PacifiCorp and City of Los Angeles acting by and through the Los Angeles Department of Water and Power (LADWP) dated as of February 14, 2010;
- 2) Engineering Services Agreement between Rocky Mountain Power and Magnum Energy, LLC;
- 3) Applicant Built Line Extension Agreement between Rocky Mountain Power and Magnum Holdings, LLC dated March 9, 2011;

- 4) Distribution Interconnection Agreement between Intermountain Power Agency and Rocky Mountain Power December 9, 2010;
- 5) First Engineering, Materials and Procurement Agreement Amending Engineering Services Agreement Dated Aug 17, 2009 between Rocky Mountain Power and Magnum Energy, LLC dated January 27, 2011;
- 6) Engineering Services Agreement between Rocky Mountain Power and Magnum Energy, LLC dated August 17, 2009; and
- 7) Facilities Construction, Operation and Maintenance Agreement by and between Intermountain Power Agency and Magnum Holdings, LLC.

Discussion

The Office reviewed the Company's Application, the MESA, and other confidential documents as identified above. The circumstances regarding the provision of service to Magnum are similar to those that have precipitated the Company's request for approval of certain other MESAs, specifically, Milford Wind Corridor I and II. To serve this customer from Rocky Mountain Power resources would require construction of a new substation and other improvements at a projected cost of approximately \$25 million. The Company's proposal to serve Magnum through third party resources is a reasonable alternative.

Our focus in this docket was to ascertain whether by entering into this agreement with Magnum Holdings, LLC the Company was putting its other customers at risk such that they would be subject to higher prices or potential future costs associated with this contract.

The MESA between Rocky Mountain Power and Magnum requires that all necessary costs incurred by the Company to provide power to Magnum will be the responsibility of Magnum. LADWP will invoice Rocky Mountain Power which will in turn bill Magnum to recoup the entire costs of the power purchase. In addition Rocky Mountain Power will bill Magnum a monthly administrative fee and a monthly Facilities Charge, which includes an allocation for local property taxes, operation and maintenance, administrative and general expenses and other taxes.

The distribution line from IPA to Magnum will be paid for by Magnum. According to the agreement the portion of the line that is in the Company's service territory will be turned over to Rocky Mountain Power but Magnum will pay for O&M and other charges through the monthly Facilities Charge. A smaller portion of the line will be owned by Intermountain Power Agency.

The agreements that the Company has entered into allow for termination under a number of scenarios which should prevent the Company from being required to maintain either the PPA with LADWP or the Interconnection Agreement with IPA should the MESA with Magnum be discontinued for any reason.

Office Concern

Based on our review of documents the Office has determined that approval of the MESA will likely not have an impact on the customers we represent provided that Magnum is able to continually meet its payment obligations as per the agreement.

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In order to help ensure that other customers will not be impacted by this contract the Office recommends that if approval is granted then any subsequent changes to the MESA, the contract with LADWP or the Interconnection Agreement with IPA be submitted to the Commission, the Office and the Division.

Although the Company appears to have addressed potential risks to a great extent¹ we have identified one issue that could potentially present some risk. Under certain circumstances, such as the end of the term of the Agreement, Rocky Mountain Power may elect to require [Begin Confidential] REDACTED .

[End Confidential]² [Begin Confidential] The Company is also responsible for the [Begin Confidential] REDACTED³

[End Confidential]

At this time we are unable to determine either the likelihood that [Begin Confidential] REDACTED⁴ [End Confidential]

[Begin Confidential] However, based on the estimated [Begin Confidential] REDACTED [End Confidential] would be high.

Also, based on the options available and safeguards in place, we do not anticipate the likelihood of costs being borne by the Company is substantial. In order to get a better sense of the potential risk the Office has issued a follow-up data request but the deadline for response has not been reached. Assuming that the magnitude of costs and the likelihood of risks are not material, which is what we anticipate, the Office does not object to approval of the MESA.

Recommendation

If the information yet to be provided does not create any concerns the Office does not object to the approval of the Application. The Office will supplement its comments if any concerns arise. However, we recommend that if the Commission approves the Application it require that any subsequent changes or cancellation involving the MESA, the contract with LADWP or the Interconnection Agreement with IPA be filed with the Commission.

¹ REDACTED

² REDACTED

³ REDACTED

⁴ REDACTED

All Footnotes Are Confidential