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Division of Public Utilities

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REPLY MEMORANDUM

REDACTED

TO: Public Service Commission

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

DATE: November 7, 2013

RE: Purchase Power Agreements between PacifiCorp, dba Rocky Mountain Power,
and
Kennecott Utah Copper LLC, (Smelter) Docket No. 13-035-153;
Kennecott Utah Copper LLC, (Refinery) Docket No. 13-035-152;
Tesoro Refining and Marketing Company, Docket No. 13-035-154.

In a letter to the Commission dated November 1, 2013 (Letter), Rocky Mountain Power (Company) responded to the Division's comments and recommendations in the above dockets. The Division appreciates that the Company ultimately concluded that it will make the changes recommended by the Division. However, the Division believes that some of the comments the Company made in its Letter may be misleading. The Division also believes that additional information, clarifications, and comments pertaining to these dockets may be helpful to the Commission.

Methodology

The Company is correct that the Division does not dispute the methodology employed by the Company in arriving at the pricing in these purchase power agreements; nor does the Division dispute that the Company did the “math” correctly. However, the Division believes that it is most appropriate to use the best available information regarding the capabilities and operations of the actual facility when determining avoided cost pricing for that facility. Assumptions regarding inputs for a hypothetical facility in its quarterly avoided cost compliance filings should not be relied on when actual data for an actual facility is available.¹

85 Percent Capacity Factor

Specifically, the Company assumes in its quarterly avoided cost compliance filings that there exists a hypothetical 100 MW plant that operates at 85 percent of capacity (i.e. 85 MW of average hourly output throughout the year is the input in the GRID model runs). The Division agrees that it may be appropriate to assume an 85 percent capacity factor for similar plant types when there is little additional information (e.g. Kennecott Refinery) or where the 85 percent factor approximately represents the actual historical operations (e.g. Tesoro). Otherwise, the Division believes that information that applies to the actual plant in question should be used (e.g. Kennecott Smelter).

Inputs in GRID Model

The Company appears to make an issue about the use of the nameplate capacity of a facility. For example, the Letter seems to imply that the Division believes that the Kennecott Smelter plant is “an 18.5 MW facility,”² whereas the Division understands well that the nameplate capacity is 31.8 MW but that the expected average output is 18.5 MW. In fact, the Division understands that the nameplate capacity is not the critical factor, and has no direct effect, in the development of avoided cost pricing. Rather, it is the expected average output that is used by the Company in its GRID model to develop the avoided costs and prices for these facilities. The Letter’s focus on nameplate capacity is therefore misleading. In its original GRID runs, the Company’s inputs into

¹ Letter, page 2, third paragraph.

² Letter, page 2, fourth (bottom) paragraph.

its GRID model were 27.03 MW for Kennecott Smelter, 6.38 MW for Kennecott Refinery, and 21.25 MW for Tesoro. The purchase power agreements themselves specified the expected outputs as 5.4 MW for Kennecott Refinery and 18.5 MW for Kennecott Smelter. As documented in the Division's action request responses, the 6.38 MW for the refinery is simply wrong if the maximum output from that facility is 6.2 MW; the Division believes that 18.5 MW is the appropriate assumption for expected output for Kennecott Smelter; and the Division accepted the Tesoro input as being approximately the actual expected output from that plant.

Maximum Output of Nameplate Capacity

On page 4 of the Letter, the Company makes the following statement in support of its use of the 85 percent capacity factor for Kennecott Smelter: "Notwithstanding the stated expected output of 18.5 MW, the Kennecott Smelter facility is not contractually bound to limit deliveries to an average of 18.5 MW, and there are no adjustments to the avoided cost price or other repercussions if the Kennecott Smelter facility produces on average more or less than 18.5 MW." The Division notes that this statement is exactly applicable to the other purchase power agreements considered here.³

Inputs in the Most Recent General Rate Case

In its most recent general rate case, Docket No. 11-035-200, the Company in its original request for cost recovery for the Kennecott contracts from the Commission, used the same, or closely similar, inputs in its GRID model that the Division is recommending here. The Division believes that, as a general rule, the Company should be consistent in its qualifying facility contract calculations with its request for recovery of costs under those contracts.⁴ The Division recognizes that there may be complications related to, for example, the customer choosing to offset its own demand with its qualifying facility generation.

³ Of course, one would adjust the statement for the name of the facility and the expected output.



cc: Michele Beck, Committee of Consumer Services
Cheryl Murray, Committee of Consumer Services
Dave Taylor, PacifiCorp
Paul Clements, PacifiCorp
Daniel Solander, PacifiCorp
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