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, Technical Consultant

Date: October 24, 2013

Subject: In the Matter of the Application of Rocky Mountain Power for Approval of a Power Purchase Agreement between PacifiCorp and Tesoro Refining and Marketing Company Docket No. 13-035-154.

RECOMMENDATION: (Approve)

The Division recommends that the Commission approve the Purchase Power Agreement between PacifiCorp (Company) and Tesoro Refining and Marketing Company (Tesoro).

BACKGROUND

On September 20, 2013, Rocky Mountain Power (RMP), a division of PacifiCorp, filed an application for approval of a Purchase Power Agreement (Agreement) with Tesoro Refining and

Marketing Company. The effective date of this agreement is January 1, 2014 and will replace an existing agreement that will expire December 31, 2013. The existing agreement was approved by the Commission December 4, 2012, under Docket No. 12-035-103.

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. According to the Company's application, the proposed Agreement is dated September 19, 2013; the Division's copy of the Agreement is unsigned and undated.

The agreement before the Commission is for a 12 month period beginning January 1, 2014 and ending December 31, 2014. 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 definition of on peak and off peak periods matches that of RMP's Schedule 9. However, the Agreement omits the Schedule 9 language regarding daylight savings time. This creates the potential for an arbitrage opportunity for Tesoro during roughly the first two weeks in April and the first two weeks in November when the Agreement and Schedule 9 hours are not synchronized. Based in part on discussions with Company representatives and given that this Agreement is for a term of just one year, the Division does not believe at this time that this is a material problem. The Division does recommend that the Company ensure that this potential for arbitrage is eliminated in future agreements.

The specific rate varies by month and is identified in Exhibit E of the agreement. According to Exhibit E, on-peak pricing ranges from $35.39 per megawatt-hours (MWh) to $46.07. For off-peak hours the pricing is fixed at 30.05 per MWh. These prices are roughly $5.00 per MWh higher than the 2013 prices.

With respect to avoided line losses, the Company settled its recent Federal Energy Regulatory Commission (FERC) matter, FERC Docket No. ER11-3643-000 which set its Open Access Transmission Tariff (OATT) for line losses to 4.26 percent. 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 4.26 percent OATT rate, the calculated line loss adjustment factor for Tesoro is set at 1.0399 (3.99 percent).

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 2007, 2010, 2011-2013. 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 its retail needs. If the QF price is lower than the tariff rate, it is in Tesoro's best interest to first meet its 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.

During the years when the previous agreements 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. For the first two quarters of 2013, Tesoro's net output typically ranged between about 2,000 and 7,000 kW, but at times the output was as low as essentially zero and as high as 16,000 kW. The Division presently does not have data after second quarter 2013.

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.

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

CONCLUSIONS AND RECOMMENDATIONS

Based upon the above outlined analysis, the Division recommends Commission approval of the proposed Agreement between Tesoro and Rocky Mountain Power.

cc: Paul Clements, PacifiCorp
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