State of Utah
Department of Commerce
Division of Public Utilities

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ACTION REQUEST RESPONSE

REDACTED

TO: Public Service Commission

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

DATE: January 14, 2015

RE: In the Matter of the Application of Rocky Mountain Power for Approval of the Power Purchase Agreement between PacifiCorp and Tesoro Refining and Marketing Company: Docket No. 14-035-145.

RECOMMENDATION (Approve)

The Division of Public Utilities (Division) recommends that the Commission approve the Non-Firm Power Purchase Agreement (Agreement) between PacifiCorp (Company) and Tesoro Refining and Marketing Company (Tesoro). In addition, the Division recommends that the Company continue to provide, at least quarterly, hourly power purchased so that the Division can continue to monitor this contract.

ISSUE

On November 18, 2014, PacifiCorp filed an Application for Approval of a Non-Firm Power Purchase Agreement with Tesoro. The effective date of the agreement is January 1, 2015 and replaces a current contract that is scheduled to expire on December 31, 2014. The Commission held a scheduling conference on November 25, 2014. At the scheduling conference the Division noted the lateness of the filing relative to the expected start date of the term of the contract. The Division also noted previous similar issues of late filings and requests for expedited year-end schedules, resulted in an order in Docket 11-035-181 requiring that a filing be made at least 75 days before the expected start of the contract.[1] The Division also noted at the November 25, 2014 scheduling conference that there already were a number of dockets requiring Division staff time before the end of the year and that there generally would be a lack of available Division staff through the end of December to investigate and comment on the application. Therefore the Division requested that the schedule in this docket be pushed into January. Following the scheduling conference, on November 25, 2014, the Commission issued a Scheduling Order requiring comments from the Division of Public Utilities, and any other interested parties, by January 14, 2015. This memorandum serves as the Division's comments and recommendations in this matter.

ANALYSIS

General

Included with the application is a copy of the Non-Firm Purchase Power Agreement between PacifiCorp and Tesoro that is dated November 14, 2014. Tesoro owns, operates and maintains a natural gas cogeneration facility for the generation of electric power located at its Salt Lake City refinery. The nameplate capacity rating of the plant is 25 megawatts (MW) with an expected annual delivery to PacifiCorp [redacted][2] Power sales to PacifiCorp are done on a "net" basis. That is, it is expected that Tesoro will first use its plants to supply its own power needs and then sell any excess generation to PacifiCorp.

The Tesoro facility is operated as a qualifying facility (QF) as defined by 18 C.F.R Part 292[3] and Tesoro has previously provided its FERC self-certification to PacifiCorp. All interconnection requirements have been met and the Tesoro facility is fully integrated with the PacifiCorp

[1] Docket 11-035-181 Kennecott ESA PSC Order pg. 6
[2] PPA, page 1.
[3] Ibid., page 5, section 3.2.6

system. Under the terms of the QF contract Tesoro has the option, but not the obligation, to deliver the net output to PacifiCorp at the point of delivery. Tesoro is not permitted to sell any portion of the net output to parties other than PacifiCorp; however, it is allowed to offset its own retail load before selling any excess power.

The average net output for the years 2011, 2012 and 2013 [redacted]

Although costs were rising, (at least before the oil price meltdown that occurred in the fourth quarter of 2014) it may be unlikely to see more sales to PacifiCorp under this new contract than in the recent past. This is due to Tesoro's position in the Schedule 38 pricing queue. As more QFs fill PacifiCorp's needs, given its annual contract renegotiation Tesoro finds itself further down the queue and receives pricing for avoiding PacifiCorp's less expensive resource options. This could result in a continuance of declining prices to Tesoro in future years.

<u>QF Pricing</u>

The Division has reviewed the GRID outputs and concludes that the pricing for this current contract reflects the correct facts of this particular facility. The Division also believes that the Company has correctly complied with Commission orders on the methodology used to determine pricing for a contract under Schedule 38.

<u>Daylight Savings Time</u>

There is an issue related to Daylight Savings Time that was brought up by the Division last year, the Company and Tesoro have added language to the new contract to satisfy the issue. In the contract is states, "Due to the expansions of Daylight Saving Time (DST) as adopted under Section 110 of the U.S. Energy Policy Act of 2005 the time periods shown above will begin and end one hour later for the period between the second Sunday in March and the first Sunday in April, and for the period between the last Sunday in October and the first Sunday in

November."[4] The Division is satisfied with the new language added to the contract.

Avoided Line Losses

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. In response to a Division data request, the Company supplied the detailed calculations determining the avoided line loss percentage. The calculations were based upon the method that the Division, Company, and Tesoro had accepted in prior years.[5] The calculated percentage was [redacted]

Other Comments

The proposed Agreement will remain in place through December 31, 2015. The general terms and conditions of the Agreement appear to be generic in nature and are similar to the previous contract. The primary differences appear to be the pricing terms including the adjustment factor for avoided line losses and Exhibits that detail the particular facts about the facility. 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 2010 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 2010 Protocol assigns those excess costs on a situs basis to the State of Utah. The rates, terms and conditions in this Agreement are

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[4] Tesoro PPA Contract Section 1.12

[5] The method agreed to is based upon the locations in the Company's transmission topology, i.e. the transmission "bubbles," of the avoided generation sources. The calculation is the ratio of the avoided generation "outside" the bubbles containing the primary load, i.e. the Wasatch Front, to the total generation avoided multiplied by the OATT percentage. The current OATT percentage is 4.26% for real power losses as set forth in Schedule 10 of PacifiCorp's Open Access Transmission Tariff (OATT) approved in FERC Docket No. ER11-3643-000. For a discussion of the history of the determination of this method, see the Division's memorandum to the Commission dated July 21, 2010 and filed July 26, 2010 in the (Miscellaneous) Docket No. 10-999-01.

in accordance with the rates, terms and conditions approved by the Commission in Docket No. 03-035-14 and Docket No. 12-035-100 for purchases from qualifying facilities.[6] 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 believes that the terms of the Tesoro (Refinery) Power Purchase Agreement comply with the Commission's guidelines and order in Docket No. 03-035-14. Additionally, 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.

cc: Michele Beck, Committee of Consumer Services
Cheryl Murray, Committee of Consumer Services
Bob Lively, PacifiCorp
Paul Clements, PacifiCorp
Daniel Solander, PacifiCorp
William Evans, Parsons Behle and Latimer, attorney for Tesoro

[6] Tesoro PPA Sec 2.1