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Division of Public Utilities

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ACTION REQUEST RESPONSE

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: November 3, 2016

RE: Power Purchase Agreement between PacifiCorp, dba Rocky Mountain Power, and
Kennecott Utah Copper LLC, (Smelter) Docket No. 16-035-38

RECOMMENDATION (Approve with Amendment)

The Division of Public Utilities (Division) recommends that the Commission approve the Non-Firm Power Purchase Agreement (Agreement) between PacifiCorp (Company) and Kennecott Utah Copper LLC (Kennecott), with the condition that the Company amend the contract to correctly refer to the 2017 Protocol. 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.

The Division also requests that the Commission order the Company at the time of future PPA filings, provide to the Division and Office of Consumer Services the GRID outputs and Excel spreadsheets supporting the price calculations along with the spreadsheets showing avoided line loss calculations. All spreadsheets are to be provided with formulas left intact.

ISSUE

Since there are multiple contracts with Kennecott, this contract is informally referred to as the Kennecott-Smelter QF. On September 21, 2016, PacifiCorp filed an Application for Approval of a Non-Firm Power Purchase Agreement with Kennecott. The effective date of the agreement is January 1, 2017 and replaces a current contract that is scheduled to expire on December 31, 2016. On September 28, 2016, the Commission issued a Scheduling Order requiring comments from the Division of Public Utilities and any other interested parties by November 3, 2016. This memorandum is intended to serve 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 Kennecott that is dated September 21, 2016. Kennecott owns, operates and maintains a waste heat-fired steam cogeneration facility for the generation of electric power located at the Magna, Utah smelter.¹ The nameplate capacity rating of the plant is 31.8 megawatts (MW) with an expected average monthly output of approximately 18.5 MW. The Kennecott facility is operated as a qualifying facility (QF) as defined by 18 C.F.R Part 292² and Kennecott has previously provided its FERC self-certification to PacifiCorp. All interconnection requirements have been met and the Kennecott facility is fully integrated with the PacifiCorp system.

Under the terms of the QF contract Kennecott has the option, but not the obligation, to deliver the net output to PacifiCorp at the point of delivery. Kennecott 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. Kennecott estimates that the average net monthly

¹ PPA, page 1.

² Op. Cit. page 5, section 3.2.6

output of the facility will be approximately 14,000 megawatt-hours (MWh) because of scheduled maintenance.³

QF Pricing

In previous years there have been pricing issues wherein the Company calculated avoided cost for the Smelter based upon a generation capacity factor of 85 percent of the nameplate capacity of the plant, or about 27 MW, which is much higher than the historical output of the plant. This resulted in lower avoided cost prices to Kennecott. The Agreement refers to the “expected average monthly output of about 18.5 MW....”⁴ The smelter facility is a bottoming plant that is tied directly to the operations of the smelter and does not operate independently of the smelter. 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 method used to determine pricing for a contract under Schedule 38.

Included with the pricing is an adjustment for avoided line losses. The Division has reviewed and checked the avoided line loss calculations and believes that they comply with the method developed by the Company and agreed to by the Division.

Other Comments

The proposed Agreement will remain in place for a term of 12 months beginning January 1, 2017 and ending December 31, 2017. The general terms and conditions of the Agreement appear to be generic in nature and are similar to previous contracts. The non-price related conditions within the Agreement appear to be reasonable and consistent with previous contracts.

³ Op. Cit. page 1

⁴ Agreement, page 1.

The Division noticed the contract in section 2.1 refers erroneously to the PacifiCorp Inter-Jurisdictional Cost Allocation 2010 Protocol instead of the 2017 Protocol. The Division also notes that in paragraph 3 of the Company's Application, it states that the QF contracts may have terms up to 20 years. The Commission in Docket No. 15-035-53 reduced the maximum term to 15 years.⁵

The Division believes that the rates, terms and conditions in this Agreement are 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. PacifiCorp represents 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 review of the Company's price calculations for this Agreement and prior analysis analyses of the Company's avoided cost reports.

CONCLUSION

The Division believes the terms of the Kennecott(Smelter) Power Purchase Agreement comply with the Commission's guidelines and order in Docket Nos. 03-035- 14 and 12-035- 100. However, the Division recommends that the language referencing the 2010 Protocol be updated to the 2017 Protocol. Otherwise, the remaining 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
Kyle Moore, PacifiCorp
Daniel Solander, PacifiCorp
William Evans, Parsons Behle and Latimer, attorney for Kennecott

⁵ See Commission Order in Docket No. 15-035-53 pg. 21