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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
Jeffrey S. Einfeldt, Utility Analyst

DATE: November 3, 2016

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. 16-035-40.

RECOMMENDATION (Approve with Amendment)

The Division of Public Utilities (Division) recommends the Commission approve the Non-Firm Power Purchase Agreement (Agreement) between PacifiCorp (Company) and Tesoro Refining and Marketing Company (Tesoro) with a minor amendment to a reference to the multi-state protocol. In addition, the Division recommends the Company continue to provide, at least quarterly, hourly power purchased reports to allow the Division to continue to monitor this contract.

The Division also requests that the Commission order the Company at the time of future PPA filings to 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

On September 21, 2016, PacifiCorp filed an Application for Approval of a Non-Firm Power Purchase Agreement with Tesoro. The effective date of the agreement is January 1, 2017 and replaces a current contract that is scheduled to expire on December 31, 2016. The Commission held a scheduling conference on September 27, 2016. Following the scheduling conference, 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 serves as the Division's comments and recommendations in this matter.

ANALYSIS

<u>General</u>

Included with the application is a copy of the Non-Firm Purchase Power Agreement between PacifiCorp and Tesoro dated September 19, 2016. 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 of 5,000MWh[1] Power sales to PacifiCorp are done on a "net" basis. That is, it is expected Tesoro will first use the plant's output to supply its own power needs and 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[2] 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 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.

[1] PPA, page 1.

[2] Ibid., page 5, section 3.2.6

QF Pricing

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

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 the Division, Company, and Tesoro have accepted in prior years.[3] The calculated percentage was 2.59 percent. The total purchase price should be calculated as the contract price per MWh plus 2.59 percent as an adjustment for avoided line losses.

Other Comments

The proposed Agreement will remain in place through December 31, 2017. 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. The non-price related conditions within the Agreement appear to be reasonable and consistent with previous contracts.

[3] 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 4.45% 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.

The contract in Section 2.1 erroneously refers to the 2010 MSP Protocol instead of the 2017 Protocol. The Division recommends that the Commission order Rocky Mountain Power to amend the contract to correctly refer to the 2017 Protocol before approval of the contract is given.

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.[4] 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 analyses of the Company's avoided cost reports.

CONCLUSION

The Division believes the terms of the Tesoro 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 Tesoro

[4] Tesoro PPA Sec 2.1