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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
Jeff Einfeldt, Utility Analyst

DATE: December 5, 2018

RE: Power Purchase Agreement between PacifiCorp, dba Rocky Mountain Power, and Kennecott Utah Copper LLC, (Refinery) Docket No. 18-35-41.

RECOMMENDATION (Approve)

The Division of Public Utilities (Division) recommends that the Commission approve the Non-Firm Power Purchase Agreement (Agreement, or PPA) between PacifiCorp (Utility) and Kennecott Utah Copper LLC (Kennecott). 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. The Utility complied with this request this year by providing the GRID outputs and supporting spreadsheets.

ISSUE

Since there are multiple contracts with Kennecott, this contract is informally referred to as the Kennecott "Refinery" QF. On October 26, 2018, PacifiCorp filed an Application for Approval of a Non-Firm Power Purchase Agreement with Kennecott. The effective date of the agreement is January 1, 2019. There was no contract in place between the Utility and Kennecott Refinery during the calendar year 2018.

This Application was filed at least a month later than the Division has requested in the past. However, for this year only, the Division agreed to work with the Utility to process this Application in a time frame such that the Commission could rule on it before the end of 2018. On November 8, 2018, the Commission issued a Scheduling Order requiring comments from the Division of Public Utilities and any other interested parties by December 5, 2018. 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 Kennecott that is dated October 4, 2018. Kennecott owns, operates, and maintains a waste heat-fired steam cogeneration facility for the generation of electric power located at the Magna, Utah refinery.[1] The nameplate capacity rating of the plant is 7.54 megawatts (MW) with an expected average monthly output of approximately 5.4 MW.[2] However, the Division understands that, as configured the actual capacity of the plant is about 6.20 MW.[3] The Division recommends that in future years the Utility make this distinction preferably, in the contract itself, or in the application to avoid potential confusion.

[1] PPA, page 1.
[2] Ibid.
[3] See PPA Exhibit A, page 17.

The Kennecott facility is operated as a qualifying facility (QF) as defined by 18 C.F.R Part 292[4] 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 output of the facility will be approximately 3,900 megawatt-hours (MWh), because of the scheduled maintenance.[5] New this year is the specification "that for accounting purposes, any energy sold under this Agreement shall follow the sale of energy under the Parties Non-Firm Qualifying Facility Power Purchase Agreement dated October 24, 2018 relating to Seller's Smelter ("Smelter QF PPA")."[6] The Division understands this to mean that any sales to the Utility will be construed to first come from the Smelter and then from the Refinery. This protects ratepayers since the pricing for the Smelter is slightly lower than for the Refinery.[7]

QF Pricing

The Division has reviewed the GRID outputs and concludes that the pricing for this current contract reflects the correct facts of this particular facility, i.e. that the practical capacity is 6.2 MW. 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.

[4] Ibid., page 5, Section 3.2.6
[5] Ibid., page 1
[6] Ibid., Section 4.2, page 6
[7] See Docket No. 18-035-42.

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, which has been in use since 2010.

Additionally, the pricing of this contract is tied to the Electric Service Agreement (ESA) between the Utility and Kennecott, which was approved by the Commission in Docket No. 16-035-33. The pricing is set forth in confidential Exhibit E. "The purchase prices set forth in the Agreement include a "lesser of" provision to account for Kennecot's (sic) ability to purchase market blocks of power under the Energy Services Agreement approved by the Commission in Docket No. 16-035-33, whereby the Company will pay the lesser of the price for such market blocks or prices that were calculated using the methodology approved by the Commission orders in Docket No. 03-035-14 and Docket No. 12-035-10."[8] This provision protects ratepayers from Kennecott being able to "game" the pricing between this PPA and the ESA.

Other Comments

The proposed Agreement will remain in place for a term of 12 months beginning January 1, 2019 and ending December 31, 2019. The general terms and conditions of the Agreement appear to be generic in nature and are similar to the previous contracts. The other non-price related conditions within the Agreement appear to be reasonable and consistent with previous contracts.

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.[9] 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.

[8] Application, paragraph 5, page 3.
[9] PPA Section 2.1, page 3.

CONCLUSION

The Division believes the terms of the Kennecott Refinery Power Purchase Agreement comply with the Commission's guidelines and order in Docket Nos. 03-035- 14 and 12-035- 100. The 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
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