State of Utah
Department of Commerce
Division of Public Utilities

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Memorandum

TO: Public Service Commission

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

DATE: November 8, 2011

RE: Purchase Power Agreement between PacifiCorp, dba Rocky Mountain Power, and U.S. Magnesium, LLC, Docket No. 11-035-182.

RECOMMENDATION (Approval)

The Division recommends that the Commission approve the power purchase agreement between PacifiCorp and U.S. Magnesium, LLC. The Division recommends that the Company continue to provide, at least quarterly, the hourly power purchased under this contract so that the Division may continue to monitor this contract.

ISSUE

On October 25, 2011, Rocky Mountain Power (Company, or RMP), a division of PacifiCorp, filed an Application for Approval of a Power Purchase Agreement (PPA) with US Magnesium, LLC (US Mag). The effective date of the agreement is January 1, 2012 and will succeed the existing PPA that expires on December 31, 2011. The existing PPA was approved by the Commission in Docket No. 10-035-105. Subsequent to the filing, the Division met with representatives of the RMP, and had informal information exchanges.

ANALYSIS

The PPA agreement has been approved by both parties and is dated October 18, 2011. US Mag "owns, operates and maintains magnesium production and related facilities, including an existing gas-fired generation facility…"[1] located in Tooele County, Utah. The nameplate capacity rating of the generation facility is 45 megawatts (MW). The estimated normal maximum sustained output of the generating facility is about 36 MW. The US Mag facility is operated as a qualifying facility (QF) as defined by 18 C.F.R Part 292.[2] US Mag has previously provided its FERC self-certification to PacifiCorp prior to the implementation of the previous contract, which expires on December 31, 2011. All interconnection requirements have been met and the US Mag facility is fully integrated with the Company's system.

US Mag estimates that the average net monthly output of the facility to be delivered to RMP will be about 238,272 megawatt-hours (MWh) to PacifiCorp, or about 27.2 MW per hour.[3] US Mag has the option, but not the obligation, to deliver approximately 45 MW per hour (the nameplate capacity) to PacifiCorp.[4] The pricing in this contract varies monthly with "On-Peak" and "Off-Peak" hourly pricing for each month. "On-Peak" or high load hours are defined as Monday through Saturday from 7:00 a.m. through 11:00 p.m. "Off-Peak" or low load hours are defined as all hours that are not "On-Peak" hours. Tentatively plans for major maintenance on one of the generating units is scheduled for March 2012[5] and is consistent with the maintenance schedule in previous years.

The chart attached as Exhibit 1 shows the historical hourly output of the US Mag facility for 2009, 2010 and YTD 2011. The chart indicates three distinct bands which are fairly consistent for the periods under review. The top band is centered on about 30,000 kW for approximately the summer months and 35,000 kW in the other months. The middle band also shows a slight

[1] PPA, page 1.
[2] Op. Cit. page 5, section 3.2.6
[3] Op. Cit. page 1
[4] Op Cit. section 4.2.
[5] PPA, Exhibit D.

summer dip to about 20,000 kW, but otherwise is centered on about 23,000 kW. The bottom band is fairly flat at about 11,000 kW, but does drop a bit in the summer to below 9,000 kW.

The Agreement before the Commission is expected to run for a term of 12 months: beginning January 1, 2012 and ending December 31, 2012. 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. As set forth in Section 5 and Exhibit E of the contract, the price per megawatt hour (MWh) varies by month and by On-Peak and Off-Peak hours. Higher monthly On-Peak prices during the months of July through September provide an incentive for US Magnesium to generate power during the months of high demand on the PacifiCorp system. Similarly, the higher prices for on-peak hours act as an incentive for the QF to operate during the hours of the day when demand on PacifiCorp's system is highest.

The total payment is calculated as the price per MWh plus an additional 4.64 percent for avoided line losses. The "Line Loss Factor" is based on a rate of 5.0% for real power losses as set forth in Schedule 10 of PacifiCorp's proposed Open Access Transmission Tariff (OATT) filed with FERC on May 26, 2011. The proposed OATT tariff rate has been used in this contract since the proposed rates were scheduled to become effective as of September 2011. In the event FERC approves a different line loss rate with an effective date during the term of this Agreement, PacifiCorp will recalculate the adjustment factor from the FERC effective date.[6] The proposed rate is slightly different than the 4.44 percent approved in the current contract. This PPA with US Mag is represented to comply with the Commission's QF pricing methodology ordered in Docket No. 03-035-14.

The general terms and conditions of the Agreement appear to be generic in nature and closely mirror those in prior contracts. The main differences appear to be the price to be paid for delivered energy and the calculation of the line loss factor. The rates used in this contract are similar to the rates in other QF contracts. The non-price related conditions within the Agreement

[6] PPA, Section 5, p. 6.

appear to be generic and reasonable. 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.

CONCLUSION

The Division concludes that the terms of the US Mag Power Purchase Agreement generally are generic and comply with the Commission's guidelines and order in Docket No. 03-035-14. 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. The Division recommends that the Commission approve the Power Purchase Agreement between US Mag and PacifiCorp.

cc: Michele Beck, Committee of Consumer Services
Cheryl Murray, Committee of Consumer Services
Gary Dodge, Hatch, James & Dodge, attorneys for US Magnesium, LLC
Dave Taylor, PacifiCorp
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