

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of Rocky Mountain Power for Approval of an Electric Service Agreement between Rocky Mountain Power and Magnum Holdings, LLC)
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DOCKET NO. 11-035-45

REPORT AND ORDER

ISSUED: May 5, 2011

By The Commission:

This matter is before the Commission on the petition of PacifiCorp, doing business in Utah as Rocky Mountain Power (Company), for approval of an Electric Service Agreement (Agreement) between the Company and Magnum Holdings, LLC (Magnum). The Company submitted its petition on March 14, 2011. The underlying Agreement was filed under seal in this docket, as the Company considers it a confidential document.

PROCEDURAL HISTORY

As the particulars of the underlying Agreement, and resultant recommendations from the Division of Public Utilities (Division) and the Office of Consumer Services (OCS) contain confidential information, and remain protected, many specifics of their recommendations are only generally repeated here. Other confidential matters treated in this Order are redacted.

Magnum and its affiliates intend to construct and operate an underground natural gas storage project and related facilities located in the Company's service territory in Millard County, Utah. Magnum requested the Company to provide retail electric services needed for the project, with an initial contract demand in excess of 1MW.

Upon the request for service, and in light of the relatively large load requested by Magnum along with the potential constraints it could place on the Company's existing 46 kV transmission system located near the project delivery point, the Company performed a system impact study on the ability of this system to serve the project's anticipated load. The study found provision of the requested electrical services using Company resources would require significant upgrades to the existing transmission system including improvements to system voltage capacity and construction of a new 230-69 kV substation. According to the Company, these improvements would cost approximately \$25.0 million.

The Company performed a second study to examine the cost and impact of providing Magnum's requested service through nearby Intermountain Power Project (IPP) facilities. Using IPP facilities, interconnection would require construction of less than a mile of line owned by IPP and approximately 1.5 miles of Company-owned line terminating at Magnum's facility. Due to the required facility improvements and the cost to serve from Company resources compared to the relative ease of acquiring the necessary wholesale service through IPP facilities, the study recommended the Magnum load be served with third party resources in the exact amount to meet Magnum's needs.

Based on these studies, the Company determined it would be prudent to allow an exception to the line extension tariff, Electric Service Regulation 12. The Company and Magnum jointly determined a wholesale power purchase arrangement with the Los Angeles Department of Water and Power (LADWP) would be the most cost-effective and prudent method for the Company to provide retail electric services to the Magnum project. In its petition, the Company indicated its intention to enter into a wholesale Power Purchase

Agreement (PPA) with LADWP, subject to regulatory approval, to supply to the Company the electric services required by Magnum.

Under the Agreement, the Company will provide Magnum with electric power and energy to the extent available under the PPA and Magnum will pay the Company monthly costs incurred by the Company under the PPA, including an administrative fee, and ongoing costs of operation and maintenance, repair, replacement and removal associated with the new Company facilities. The PPA will be used exclusively to supply services to Magnum, and will not be used by the Company to meet other customer needs.

Under the Agreement, Magnum will construct certain lines and facilities, including certain lines and facilities to be owned by the Company pursuant to an Applicant Built Line Extension Agreement entered into between the Company and Magnum, and other lines and facilities to be owned by Intermountain Power Agency (IPA) pursuant to a Facilities Construction, Operation and Maintenance Agreement entered into between Magnum and IPA. Magnum is responsible under both agreements to pay all costs for construction of the necessary lines and facilities. The Company will also enter into a Distribution Interconnection Agreement (Interconnection Agreement) with IPA to facilitate the interconnection of the new Company facilities with facilities to be owned by IPA. Magnum agrees to pay all costs incurred by the Company in connection with the Interconnection Agreement.

In its petition, the Company indicates the Agreement contains terms different from those generally applicable to similarly situated customers. The Company indicates the methods for calculating facilities charges, contract minimum billing, and termination charges differs from Company tariffs (e.g., Electric Service Schedule 9, which would otherwise apply to

Magnum). Magnum agrees to pay these rates for retail electric service in lieu of receiving retail electric service at the applicable standard tariff rates under standard tariff provisions. The parties agreed upon different provisions for early termination by the Company, for removal of facilities in the event the Agreement terminates, for payment of ongoing maintenance and capital repairs of the power line constructed to serve Magnum, for any modifications required by an increase in the IPP line voltage, for onsite generation, for a line extension allowance, for assignment of the Agreement, etc.

In its analysis of the Agreement, the Division expects there will be no cost impacts on other ratepayers either through additional operating costs or through additions to rate base. The Division contends there could be a slight benefit to other ratepayers through receipt of the administrative fee collected under the Agreement. The Division stated that it had some outstanding issues pending previous to the hearing, but that the Company resolved the issues to the Division's satisfaction prior to the hearing. The Division recommended the Commission approve the Agreement.

OCS indicates the Company's proposal to serve Magnum through third party resources appeared to be a reasonable alternative. OCS notes the circumstances regarding the provision of service to Magnum are similar to other electric service agreements which the Company has requested Commission approval, specifically, Milford Wind Corridor I and II.

According to OCS, the focus of its review was to determine whether by entering into the Agreement, the Company was putting its other customers at risk for higher prices or potential future costs associated with this contract. OCS contends approval of the Agreement will likely not impact the customers it represents if Magnum is able to continually meet its

payment obligations as per the Agreement. To help ensure other customers will not be impacted by this contract, OCS recommends that if approval is granted, then any subsequent changes made to the Agreement or the associated contract with LADWP or the Interconnection Agreement with IPA should be submitted to the Commission, the OCS and the Division for review.

OCS issued a follow-up data request which was still pending Company response at the time of the OCS review filing. Assuming the magnitude of costs and the likelihood of risks were not material, which is what it OCS anticipated, OCS did not object to approval of the Agreement. At the hearing, the OCS did not oppose approval of the Agreement.

On April 13, 2011, the Division filed a memorandum summarizing its analysis and recommendations on the matter. On April 14, 2011, the OCS filed a memorandum also summarizing its analysis and recommendations. On April 14, 2011, the Administrative Law Judge filed notice of hearing to be held on May 4, 2011. Commission staff issued a series of confidential technical questions related to the accounting and ratemaking treatment of the Agreement. Subsequently, the Commission held a confidential technical conference to review and discuss responses to the Commission staff's questions. The Company and Magnum responded to a number of questions regarding the accounting of contract revenues, expenditures, and the associated ratemaking treatment of costs associated with the Agreement. This included a discussion of potential impacts of the Agreement on Utah's allocation of system-wide Company costs. The Company also provided a comparative analysis showing the costs to serve projected loads under the current Schedule 9 tariff for high voltage customers. In addition, the Company and Magnum also responded to miscellaneous questions about the physical description and

ownership of the facilities used to serve Magnum under the Agreement, and also addressed questions about the other contracts associated with the Agreement.

The ALJ of the Commission held a duly-noticed hearing on May 4, 2011. Barbara Ishimatsu was counsel for the Company. Paul Clements and Dave Taylor testified on behalf of the Company. Gary Dodge was counsel for Magnum. Patricia Schmid, assistant attorney general, was counsel for the Division. Charles Peterson testified on behalf of the Division. Paul Proctor, assistant attorney general, represented the OCS. Cheryl Murray testified for the OCS.

Based on the specific and un rebutted confidential information presented to the Commission both in confidential filings, confidential discussions held at the technical conference, the recommendations of the Division and OCS, and confidential testimony given at the hearing, the Commission finds there is sufficient evidence to approve the Agreement, and find it is in the public interest.

ORDER

1. The Commission approves the Agreement. Its confidential terms, though not stated here, are incorporated by reference into this Order, as if set forth here;
2. The Company shall promptly file with the Commission any subsequent changes or cancellation involving the Agreement, the PPA with LADWP, or the Interconnection Agreement with IPA;
3. Pursuant to Sections 63G-4-301 and 54-7-15 of the Utah Code, an aggrieved party may request agency review or rehearing of this Order by filing a written request with the Commission within 30 days after the issuance of this Order. Responses to a request for agency review or rehearing must be filed within 15 days of the

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filing of the request for review or rehearing. If the Commission does not grant a request for review or rehearing within 20 days after the filing of the request, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a petition for review with the Utah Supreme Court within 30 days after final agency action. Any petition for review must comply with the requirements of Sections 63G-4-401 and 63G-4-403 of the Utah Code and Utah Rules of Appellate Procedure.

DATED at Salt Lake City, Utah, this 5th day of May, 2011.

/s/ Ruben H. Arredondo
Administrative Law Judge

Approved and confirmed this 5th day of May, 2011, as the Report and Order of the Public Service Commission of Utah.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
G#72481