

**Kennecott Pricing Updates
October 26, 2012**

The Company filed the Kennecott Smelter and Kennecott Refinery qualifying facility (QF) contracts for approval with the Commission on September 10, 2012 in Docket Nos. 12-035-95 and 12-035-96 respectively. The Company filed the Kennecott Electric Service Agreement (ESA) for approval with the Commission on September 14, 2012 in Docket No. 12-035-94.

Under the filed QF and ESA contracts, Kennecott has the option in any given hour to sell its QF output to the Company or to self generate, offsetting its ESA cost of service. As a result, it is possible for Kennecott to sell to the Company in one hour when its QF contract pricing exceeds its ESA cost of service and to self generate in another hour when its ESA cost of service exceeds its QF contract pricing.

The prices in the Kennecott QF contracts were structured with separate energy charges for winter and summer with peak and off-peak price detail. The intent of this structure was to conform the time period definitions in Kennecott's QF contracts with the time period definitions used in Kennecott's electric service agreement (ESA), also consistent with Rate Schedule 9:

On-Peak:	October through April inclusive 7:00 a.m. to 11:00 p.m., Monday thru Friday, except holidays May through September inclusive 1:00 p.m. to 9:00 p.m., Monday thru Friday, except holidays
Off-peak:	All other times

The Company represents that it structured the prices in the Kennecott QF contracts using the ESA time period. If the time period definitions in the QF contracts and ESA do not align, there may be hours during the summer months when Kennecott has the opportunity to purchase power on an off-peak price under its ESA and sell to the Company at peak prices under its QF agreements.

In contrast to how the contract pricing was structured, the definitions of peak and off-peak included in Exhibit E of the Kennecott QF contracts do not agree with the ESA definitions used to calculate the pricing. Instead, Exhibit E contains the Western Electricity Coordinating Council (WECC) definition of peak and off-peak time frames:

“HLH” means Monday through Saturday, 7:00 AM MST to 11:00 PM MST, excluding NERC holidays
“LLH” means all hours that are not HLH

In addition, the workpapers supporting Exhibit E of the Kennecott QF contracts also contained an error. The workpapers incorrectly accounted for the number of hours attributable to the ESA peak and off-peak timeframe. Correcting this error would result in an approximate \$0.70/MWH increase to the peak and off-peak rates outlined in Exhibit E.

Corrected versions of Exhibit E including updated Schedule 9 time period definitions and the correction of the workpaper error are attached as Attachment 1 for the Kennecott Smelter and Attachment 2 for the Kennecott Refinery.