ROCKY MOUNTAIN
POWER
A DIVISION OF PACIFICORP

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November 1, 2013

VIA ELECTRONIC FILING
AND HAND DELIVERY

Public Service Commission of Utah
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84114

Attention: Gary Widerburg
Commission Secretary

RE: In the Matter of the Application of Rocky Mountain Power for Approval of the Power Purchase Agreement Between PacifiCorp and Kennecott Utah Copper LLC (Refinery)– Docket No. 13-035-152

In the Matter of the Application of Rocky Mountain Power for Approval of the Power Purchase Agreement Between PacifiCorp and Kennecott Utah Copper LLC (Smelter) – Docket No. 13-035-153

In the Matter of the Application of Rocky Mountain Power for Approval of Power Purchase Agreement Between PacifiCorp and Tesoro Refining and Marketing Company – Docket No. 13-035-154

Dear Mr. Widerburg:

In accordance with the Scheduling Order issued by the Public Service Commission of Utah (Commission) in the above captioned dockets on September 24, 2013, Rocky Mountain Power submits the following reply comments.

The Company's reply comments are applicable to the issues raised by the Utah Division of Public Utilities (DPU) in Docket Nos. 13-035-152, 13-035-153 and 13-035-154. Therefore, the Company is filing a single set of reply comments applicable to all three dockets.

In Docket No. 13-035-152 (Kennecott Refinery) and Docket No. 13-035-153 (Kennecott Smelter), the DPU recommends the Commission not approve the qualifying facility (QF) power purchase agreements (PPAs) between the Company and Kennecott Utah Copper LLC. The DPU states it believes the prices were incorrectly calculated and recommends the Company resubmit the PPAs with corrected pricing.

In Docket No. 13-035-154 (Tesoro), the DPU recommends the Commission approve the QF PPA between the Company and Tesoro Refining and Marketing Company.

The Company does not agree with the DPU's assertion that the Kennecott Refinery and the Kennecott Smelter prices were incorrectly calculated. The prices were calculated in accordance with the avoided cost methodology established by the Commission in Docket No. 03-035-14. The DPU raised an issue concerning the Company's input assumptions and not the application of the methodology itself. For clarification, the "math" as performed by the Company was correct, but the DPU is recommending the Company apply different input assumptions to the model. For the Kennecott Refinery PPA the DPU agrees with the application of an 85 percent capacity factor, but recommends adjusting the capacity from the 7.54 megawatt nameplate capacity rating of the unit to 6.2 megawatts based on Kennecott's representation that the facility can only produce up to 6.2 megawatts in its current configuration. For the Kennecott Smelter PPA the DPU is recommending the Company use average historical output instead of nameplate capacity rating multiplied by an 85 percent capacity factor. The Company accepts the DPU's recommendations because they are not unreasonable in this instance; however, the Company provides the following summary of the issues.

The prices in each of the three PPAs were calculated by the Company assuming each of the facilities could operate at the full nameplate capacity rating of the units, with an average capacity factor of 85 percent. This is consistent with the inputs the Company uses in its calculation of prices for the hypothetical qualifying facility in the quarterly compliance filings (required under Docket No. 03-035-14). The 85 percent capacity factor represents an average level of production at an approximate unit availability rate after considering planned and unplanned outages. The Company applied this same input assumption to the Kennecott and Tesoro prices because the terms and conditions within the PPAs allow the QFs to deliver up to the full nameplate capacity rating of the respective units consistent with the customer's generation interconnection agreement capacity. For all three PPAs, the Company has acquired network transmission consistent with the generation interconnection agreement capacity based on the nameplate capacity rating.

The Company believes it is reasonable to base the avoided cost pricing calculation on the maximum amount that can contractually be delivered to the Company under the terms and conditions of the PPA, which is typically consistent with the maximum output that is allowed in the QF's generation interconnection agreement unless the PPA limits the amount the Company is required to purchase to something other than the full nameplate capacity rating. Under the avoided cost methodology approved in Docket No. 03-035-14, the calculation of the avoided cost price for an 18.5 MW facility will be different than the calculation of the avoided cost price for a 31.8 MW facility because the avoided costs are based on what specific resources the QF would otherwise be avoiding. Larger resources may receive lower avoided cost pricing because the larger resource displaces more resources in the stack than a smaller resource as the model moves down the stack of resources which can be avoided (from highest cost to lowest cost).

<u>Tesoro PPA</u>. In the case of the Tesoro PPA, the DPU agrees with the Company's use of a nameplate capacity rating and an 85 percent capacity factor, has not recommended any changes to the pricing, and recommends approval of the PPA.

<u>Kennecott Refinery PPA</u>. In the case of the Kennecott Refinery PPA, the DPU agrees with the Company's use of nameplate capacity rating and an 85 percent capacity factor because there is not a lengthy operating history for the refinery facility. However, the DPU recommends the Company recalculate the avoided cost pricing based on a "nameplate capacity" of 6.2 MW since that is what Kennecott has represented as the maximum amount the facility can produce under its current installation, even though the actual nameplate rating of the facility is 7.5 MW. The Company utilized 7.5 MW and an 85 percent capacity factor in its avoided cost pricing calculations, but does not dispute that it is reasonable to use 6.2 MW and an 85 percent capacity factor based on Kennecott's representation. Therefore, the Company agrees to modify the pricing in the Kennecott Refinery PPA consistent with the DPU's recommendation. This changes the average price in the Kennecott Refinery PPA from $32.98 per megawatt hour to $33.03 per megawatt hour

<u>Kennecott Smelter PPA.</u> For the Kennecott Smelter PPA, similar to what was done with Tesoro and the Kennecott Refinery, the Company utilized the nameplate capacity rating of 31.8 MW and an 85 percent capacity factor to calculate the avoided cost pricing. The DPU recommends the Company instead use the expected output of the facility, which it states is 18.5 MW. The DPU states this is reasonable because the Kennecott Smelter has a lengthy operating history and the 18.5 MW is consistent with the average of the actual output that has been reported to the DPU.

The Company does not dispute that the expected average monthly output of the Kennecott Smelter facility is approximately 18.5 MW. This fact is stated in the PPA. However, nothing in the PPA prohibits the Kennecott Smelter facility from delivering up to the full nameplate capacity rating of 31.8 MW. Kennecott's generation interconnection agreement allows for deliveries to the Company up to the full 31.8 MW in any hour. Furthermore, in recent years Kennecott has elected to use the majority of the generation from its qualifying facilities to offset its own load and, as a result, the Company lacks detailed information regarding current operation of the facilities. For these reasons, the Company calculated avoided cost pricing based on the maximum amount that could be delivered under the PPA, or 31.8 MW, adjusted for reasonable planned and unplanned outages. Notwithstanding the stated expected output of 18.5 MW, the Kennecott Smelter facility is not contractually bound to limit deliveries to an average of 18.5 MW, and there are no adjustments to the avoided cost price or other repercussions if the Kennecott Smelter facility produces on average more or less than 18.5 MW. For this reason, the Company believes it is reasonable to base the avoided cost pricing on the full nameplate capacity rating and an 85 percent capacity factor, as was done in the Tesoro and Kennecott Refinery PPAs.

However, the Company acknowledges that the DPU's position may also be reasonable in that the Kennecott Smelter has a history of operating at a certain average output level and Kennecott is representing in the PPA that it intends to operate the unit at that level for the term of the agreement. In addition, it is unlikely that Kennecott will sell power to the Company from either

QF during 2014 because it is expected that it will be more economic for Kennecott to offset its load rather than sell to the Company. Therefore, for this filing, the Company is willing to make the adjustments to the avoided cost pricing for the Kennecott Smelter PPA as recommended by the DPU. This changes the average price in the Kennecott Smelter PPA from $33.34 per megawatt hour to $34.31 per megawatt hour.

Sincerely,

Jeffrey K. Larsen
Vice President, Regulation & Government Affairs

CERTIFICATE OF SERVICE

I hereby certify that on this 1st day of November, 2013, I caused to be served via electronic mail, a true and correct copy of the foregoing reply comments of Rocky Mountain Power to the following:

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