



State of Utah  
Department of Commerce  
Division of Public Utilities

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**REDACTED**

**ACTION REQUEST RESPONSE**

TO: Public Service Commission

FROM: Division of Public Utilities:  
Chris Parker, Director,  
Artie Powell, Energy Manager  
Abdinasir Abdulle, Technical Consultant  
Charles Peterson, Technical Consultant

DATE: November 21, 2013

DOCKET: Docket No. 13-035-169, Electric Service Agreement between PacifiCorp, dba Rocky Mountain Power, and Nucor Corporation.

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**RECOMMENDATION (Approve with continuation of previous conditions)**

The Division of Public Utilities (Division) recommends that the Commission approve the Electric Service Agreement (Agreement) between PacifiCorp (Company) and Nucor Corporation (Nucor). As discussed below, the Division believes that the Agreement is just and reasonable and in the public interest.

**ISSUE**

On October 11, 2013, PacifiCorp filed an Application for Approval of an Electric Service Agreement with Nucor (Application). The Agreement is to be in effect for two years beginning January 1, 2014 through December 31, 2015. The Agreement is represented as an extension of the current contract that is scheduled to expire on December 31, 2013. On October 30, 2013, the

Commission issued a Scheduling Order requiring comments from the Division of Public Utilities (Division) and any other interested party by November 22, 2013. This memorandum serves as the Division's comments and recommendations in this matter.

## **ANALYSIS**

### General

The current contract was approved by the Commission in Docket No. 06-035-147. In its current application, PacifiCorp represents the Agreement as a two-year extension of the existing contract;<sup>1</sup> however, as discussed below, there are significant pricing changes in the Agreement from the existing contract.

Under the Agreement, PacifiCorp will continue to provide interruptible electric service to Nucor's steel plant located near Plymouth in Box Elder County, Utah. PacifiCorp promises to provide Nucor with up to [REDACTED] of power,<sup>2</sup> but under certain conditions it may provide additional power upon Nucor's request.<sup>3</sup> The primary reason for a special contract between the Company and Nucor is that the Company may interrupt service<sup>4</sup> to Nucor under the terms set forth in the Agreement.<sup>5</sup> For this ability to interrupt or curtail service, PacifiCorp pays to Nucor a Curtailment Credit.<sup>6</sup> Except for the Curtailment Credit and the pricing terms, which will be discussed below, the remaining terms of the Agreement appear to be mostly generic.

In the Division's memorandum in Docket No. 06-035-147, the Division recommended some conditions for approval of the existing contract including the following three:<sup>7</sup>

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<sup>1</sup> Application, Item 6, pages 2-3, October 11, 2013.

<sup>2</sup> Agreement, page 2.

<sup>3</sup> Agreement, Article II, page 5.

<sup>4</sup> At an October 23, 2013 meeting with PacifiCorp, in which a representative of the Office of Consumer Services was also present, the Company represented that the Company interrupted or curtailed service to Nucor approximately [REDACTED] per year.

<sup>5</sup> Agreement, Article V, Item D, page 8; and Appendix B.

<sup>6</sup> Ibid.

<sup>7</sup> Memorandum from the Division of Public Utilities to the Public Service Commission, Docket No. 06-035-147, page 2.

1. Cost of service studies including Nucor will be provided by PacifiCorp as part of any general rate case or surcharge proceeding filed during the term of this Agreement.
2. The Division recommends that the Commission in its Order specify that the interruption and curtailment feature of the Agreement is a system resource and will be allocated as such.
3. PacifiCorp will file with the Commission, with copies to the Division and the Committee of Consumer Services, any future amendments to the Agreement, including but not limited to amendments to the exhibits and appendices.

In its Order dated December 14, 2006, the Commission included these three recommendations.<sup>8</sup> If not implicit in the Commission’s 2006 Order, the Division recommends that these conditions continue to be applied to this Agreement.

### Pricing Terms

The Agreement makes significant changes to the existing pricing terms of the current contract. The pricing components are dealt with primarily in Articles V and VI (pages 6-9) of the Agreement. After January 1, 2014 through the end of the Agreement, prices will be adjusted by any changes in average rates ordered by the Commission (see Agreement, Article VI). As explained in the Application, the Agreement will have no restrictions on how much the prices can change; in the current agreement there were “caps and floors” to the interim price changes. Under the current agreement prices would adjust only on January 1 of each year, under the proposed Agreement, prices will change concurrent with the price changes to other ratepayers. Further, there is a provision for a true-up over two years of rates that were capped under the existing contract to bring them into line with where prices would have been without the cap.<sup>9</sup> Finally, the Agreement explicitly provides that Nucor’s prices will adjust for changes due to PacifiCorp’s Energy Balancing Account (EBA), REC Balancing Account (RBA), and the Solar Incentive Surcharge (SIS). The current contract has no provision for these items. The Division believes these changes in pricing terms are an improvement over the expiring contract in that

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<sup>8</sup> Order Approving Electric Service Agreement,

<sup>9</sup> Application page 4 and Agreement, Article VI, part B, page 8.

they will bring Nucor’s pricing closer in-line with other large industrial customers (i.e. those customers on Schedule 9).

### Comparison with Schedule 9

In order to test the reasonableness of the negotiated pricing in the Agreement, the Division has compared the pricing terms in the Agreement with the current Schedule 9 tariff and with the relative cost of service reported by the Company in its most recent rate case in Docket No. 11-035-200. DPU Exhibit 1 sets forth the Division’s comparison of the Agreement pricing with the current Schedule 9. DPU Exhibit 1 shows that Nucor’s proposed customer charges are approximately [REDACTED] of comparable Schedule 9 figures. The Demand-related charges in the Agreement are about [REDACTED] of Schedule 9; Energy-related prices run about [REDACTED].

Whether or not these ratios are reasonable depends upon the relative cost of service to Nucor to the cost of service to the average customer in Schedule 9. In its most recent general rate case (Docket No. 11-035-200), Company witness C. Craig Paice presented the Company’s cost of service study (COS). In this study the per kWh cost for Schedule 9 customers and for Nucor were presented for several subcomponents of the Energy, Demand, and Customer categories. DPU Exhibit 2 sets forth the weighted average ratios of the Nucor COS components to Schedule 9. The Energy COS ratio is approximately [REDACTED] compared to the Energy price ratios set forth on DPU Exhibit 1 of about [REDACTED]. Demand and Customer COS ratios are [REDACTED] and [REDACTED] respectively, which are less than the related DPU Exhibit 1 figures. Based upon the assumption that the relative pricing between Nucor and Schedule 9 customers should approximate the relative cost of service between Nucor and Schedule 9,<sup>10</sup> it appears that the Nucor’s Demand and Customer charges are favorable to customers generally, but the Energy pricing is somewhat unfavorable.

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<sup>10</sup> An additional assumption is that the relative cost of service between Nucor and Schedule 9 customers has remained approximately constant since the 2011 rate case. The Division has no information to indicate that this assumption is significantly in error.

In addition to the apparently favorable Demand and Customer charges mitigating the unfavorable Energy charges, further mitigation is provided by the fact that during the summer months, May through September, Nucor pays the “Heavy Load Hour” rate between 7 a.m. and 11 p.m., Monday through Friday (excluding holidays),<sup>11</sup> but Schedule 9 customers only pay “On-Peak” pricing between 1:00 p.m. and 9:00 p.m., Monday through Friday (excluding holidays).

Based upon the above analysis the Division concludes that the pricing structure negotiated by PacifiCorp and Nucor and set forth in the Agreement is reasonable.

#### Curtailment Credit

As compensation for PacifiCorp’s right to curtail and interrupt service to Nucor under the terms set forth in the Agreement, PacifiCorp pays Nucor a monthly curtailment credit. In the current, expiring contract the curtailment credit paid to Nucor amounts to [REDACTED] [REDACTED] of demand each month. The proposed Agreement is for [REDACTED] [REDACTED] of demand each month,<sup>12</sup> a 4.42 percent increase. The 4.42 percent increase is similar to the increase in the proposed energy and demand charges set forth in the Agreement as of January 1, 2014 over the current rates that were set on January 1, 2013. This curtailment credit will increase (or decrease) by the same increase (or decrease) in average rates ordered by the Commission.<sup>13</sup> The methodology used to estimate the curtailment credit was previously accepted in Docket No. 06-035-147 as appropriate.<sup>14</sup> Since the Agreement is considered to be a two year extension of the expiring contract, the Division understands that the currently negotiated curtailment credit is a simple extension of the expiring curtailment credit based upon changes in rates since January 1, 2013. The assumption that the value of curtailment credit continues to be reasonably correlated with changes in retail rates appears reasonable to the Division. Therefore, the Division believes that the amount proposed for the curtailment credit in the Agreement continues to approximate the value to customers of PacifiCorp’s curtailment rights.

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<sup>11</sup> Agreement, page 3.

<sup>12</sup> Agreement, page 8.

<sup>13</sup> Agreement, pages 8-9.

<sup>14</sup> Order Approving Electric Service Agreement, Docket No. 06-035-147, December 14, 2006, page 2.

**CONCLUSION**

Based upon the forgoing analysis, the Division recommends that the Commission approve the Agreement as just and reasonable and in the public interest. The Division also recommends that the Commission confirm the continued application of the three conditions contained in its previous order in Docket No. 06-035-147.

cc: Michele Beck, Committee of Consumer Services  
Cheryl Murray, Committee of Consumer Services  
Dave Taylor, PacifiCorp  
Paul Clements, PacifiCorp  
Daniel Solander, PacifiCorp