



GARY R. HERBERT
Governor

SPENCER J. COX
Lieutenant Governor

State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

MICHELE BECK
Director

To: Public Service Commission of Utah

From: Office of Consumer Services
Michele Beck, Director
Cheryl Murray, Utility Analyst

Copies to: Rocky Mountain Power
Daniel Solander
Dave Taylor, Manager Utah Regulatory Affairs
Division of Public Utilities
Chris Parker, Director
Artie Powell, Energy Section Manager

Date: November 22, 2013

Subject: Application of Rocky Mountain Power for Approval of Electric Service Agreement
Between PacifiCorp and Nucor Corporation – Docket 13-035-169

1. Background

On October 11, 2013, Rocky Mountain Power (Company) filed with the Public Service Commission of Utah an Application requesting approval of an Electric Service Agreement (ESA) between PacifiCorp and Nucor Corporation. The current ESA ends on December 31, 2013 and the new ESA is to be effective on January 1, 2014 with Commission approval. The Company requests approval of the Application prior to December 31, 2013 to avoid any lag in approved contract terms.

Although the Application was filed as a non-confidential document the Company considers the ESA to be confidential. Comments of the Office of Consumer Services (Office) contained herein will be limited to non-confidential information.

2. Discussion

Current ESA

The current ESA became effective on January 1, 2007 and ends on December 31, 2013. Nucor is subject to retail contract rates and receives an interruptible credit. On each January 1 from 2009 through 2013 Nucor's contract rates and the interruptible credit have increased by an annual rate adjustment index to reflect the percentage increase in Commission approved revenue requirement in the preceding twelve months.

Nucor is not directly subject to the energy balancing account (EBA), the renewable energy credit balancing account (RBA), or the solar incentive surcharge (SIS) (together Surcharge Rates). Another important limitation of the current ESA is that annual rate changes are limited by annual rate change caps and floors as specified in the ESA.

In its Application the Company explains that the proposed ESA is “materially a two-year extension of the existing agreement with certain modifications to how rate adjustments are made during the term of the Agreement”.¹ The Office asserts that the modifications included in the proposed two-year ESA, as discussed below, are notable improvements over the current ESA terms.

ESA Modified Terms

The proposed ESA includes the following terms:

- 1) Nucor’s base rate charges for power and energy, including the monthly fixed charge, customer charge, measured demand charges, and energy charges, will be uniformly adjusted by the average percent change for total Utah retail customers concurrently with general rate case changes and major plant addition cases for retail tariff customers.²
- 2) Nucor will be subject to the EBA, RBA and SIS and Nucor’s rates will be adjusted to reflect changes in Surcharge Rates concurrently with other retail customers. Nucor’s Surcharge Rates will be set to collect or credit the same percent of Nucor’s base revenue as corresponds to the average percentage collected or credited with respect to the total Utah retail base tariff revenues.
- 3) The curtailment credit will change concurrently with and by the same percentage as changes to the base rate and Surcharge Rates.
- 4) The proposed Agreement does not have any rate changes caps or floors.
- 5) The term of the ESA is two years.

Catch Up Rate Provision

As noted above the current ESA caps annual rate indexed increases for Nucor. The 2013 annual rate increase exceeded the allowed rate increase cap. Thus, Nucor’s 2013 rates were set 2.9% lower than they would have been without the cap. The proposed ESA contains provisions to capture the impact of the 2013 rate cap in two steps over the two years of the Agreement (approximately 1/3 in 2014 and 2/3 in 2015).

¹ Company Application pages 2 and 3.

² The current ESA allows only one annual change on January 1, 2007 through January 1, 2013.

Under the proposed ESA, effective January 1, 2014 Nucor's rates will include the make-up rate described above and increases that occurred since the last rate adjustment (January 1, 2013)³. The result is a net rate increase for Nucor of 4.48% compared to its 2013 rate.

Interruptibility

Confidential Attachment B describes the requirements associated with curtailment and interruption.⁴ Other than the price to be paid for curtailment and interruptibility the terms and conditions are the same as the current ESA.

The Office recognizes that having the ability to interrupt or curtail service to certain size customers can provide benefits for the Company, however we have some concern with paying for a potential benefit that is never utilized or paying a price that exceeds the benefits to be derived. In a meeting with the Office and Division of Public Utilities on October 23, 2013, Company representatives stated that the Company does in fact utilize this provision of the Nucor ESA.

As noted above the proposed price to be paid for curtailment and interruption has been modified from the current ESA. At this time the Office does not object to the price or conditions in the ESA but at some point it may be important for the Company to conduct a study to determine the value of curtailment and interruptibility in order to determine an appropriate pricing scheme.

3. Final Comments

As noted above, the Company views this ESA as "materially a two-year extension of the existing agreement with certain modifications to how rate adjustments are made during the term of the Agreement". The Office concurs with the Company's characterization but notes that the modifications are improvements over the existing ESA. Those improvements include:

- 1) Contemporaneous rate changes;
- 2) Two-step "catch-up" increase;
- 3) Inclusion of Surcharge Rates; and
- 4) Removal of the cap and floor for rate changes.

The Office asserts that the modified provisions of the proposed ESA as identified above, better maintain the tie between Nucor contract provisions and current rate provisions, and are necessary to improve rate equity for other customers.

The Office recommends that the Commission require the Company to continue to include Nucor in future cost of service studies. It is important to know how Nucor performs in relation to other customers in order to understand if ESA rates are functioning as expected, if modifications would be appropriate for future ESAs or if Nucor should be moved to an existing schedule.

³ Rate changes associated with Surcharge Rates.

⁴ The Office notes that no Appendix A was provided. It appears that the label "Appendix B" is a holdover from the current ESA.

4. Office Recommendations

The Office recommends that the Commission:

- 1) Approve the proposed ESA between PacifiCorp and Nucor with an effective date of January 1, 2014, and
- 2) Require the Company to continue to include Nucor in cost of service studies.