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Division of Public Utilities

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ACTION REQUEST RESPONSE

PUBLIC

TO: Public Service Commission

FROM: Division of Public Utilities:
Chris Parker, Director
Artie Powell, Energy Manager
Charles Peterson, Technical Consultant
Justin Christensen, Utility Analyst

DATE: November 3, 2015

RE: Power Purchase Agreement between PacifiCorp, dba Rocky Mountain Power, and Kennecott Utah Copper LLC, (Refinery) Docket No. 15-035-75.

RECOMMENDATION (Approve)

The Division of Public Utilities (Division) recommends that the Commission approve the Non-Firm Power Purchase Agreement (Agreement) between PacifiCorp (Company) and Kennecott Utah Copper LLC (Kennecott).

In addition, the Division recommends that the Company continue to provide, at least quarterly, hourly power purchased so that the Division can continue to monitor this contract.

ISSUE

Since there are multiple contracts with Kennecott, this contract is informally referred to as the Kennecott "Refinery" QF. On September 25, 2015, PacifiCorp filed an Application for Approval of a Non-Firm Power Purchase Agreement with Kennecott. The effective date of the agreement is January 1, 2016 and replaces a current contract that is scheduled to expire on December 31, 2015. On September 29, 2015, the Commission issued a Scheduling Order requiring comments from the Division of Public Utilities and any other interested parties by November 4, 2015. This memorandum is intended to serve as the Division's comments and recommendations in this matter.

ANALYSIS

General

Included with the application is a copy of the Non-Firm Purchase Power Agreement between PacifiCorp and Kennecott that is dated September 16, 2015. Kennecott owns, operates and maintains a waste heat-fired steam cogeneration facility for the generation of electric power located at the Magna, Utah refinery.[1] The nameplate capacity rating of the plant is 7.54 megawatts (MW) with an expected average monthly output of approximately 5.4 MW.[2]

The Kennecott facility is operated as a qualifying facility (QF) as defined by 18 C.F.R Part 292[3] and Kennecott has previously provided its FERC self-certification to PacifiCorp. All interconnection requirements have been met and the Kennecott facility is fully integrated with the PacifiCorp system.

Under the terms of the QF contract Kennecott has the option, but not the obligation, to deliver the net output to PacifiCorp at the point of delivery. Kennecott is not permitted to sell any portion of the net output to parties other than PacifiCorp; however, it is allowed to offset its own retail load before selling any excess power. Kennecott estimates that the average net monthly output of the facility will be approximately [redacted] because of the scheduled maintenance.[4]

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[1] PPA, page 1.
[2] Ibid.
[3] Ibid., page 5, section 3.2.6
[4] Ibid., page 1

QF Pricing

In previous years, there have been pricing issues wherein the Company calculated avoided cost for the Refinery, based upon the nominal nameplate capacity of the facility instead of the 6.2 MW capacity as configured. This resulted in lower avoided cost prices to Kennecott. The Company subsequently corrected the pricing and re-submitted the contract. This year, the Company appears to have correctly included in its GRID models the practical capacity of this plant. The Division has reviewed the GRID outputs and concludes that the pricing for this current contract reflects the correct facts of this particular facility. The Division also believes that the Company has correctly complied with Commission orders on the method used to determine pricing for a contract under Schedule 38.

Included with the pricing is an adjustment for avoided line losses. The Division has reviewed and checked the avoided line loss calculations and believes that they comply with the method developed by the Company and agreed to by the Division.

Other Comments

The proposed Agreement will remain in place for a term of 12 months beginning January 1, 2016 and ending December 31, 2016. The general terms and conditions of the Agreement appear to be generic in nature and are similar to the previous contract. The primary differences appear to be the pricing terms including the adjustment factor for avoided line losses and Exhibits that detail the particular facts about the Refinery facility. The non-price related conditions within the Agreement appear to be reasonable and consistent with previous contracts.

This Agreement constitutes a “New QF Contract” under the PacifiCorp Inter-Jurisdictional Cost Allocation Protocol (2010 Protocol) and, as such, the costs of those QF provisions are allocated as a system resource unless any portion of those costs exceed the cost PacifiCorp would have otherwise incurred acquiring comparable resources. In that event, the 2010 Protocol assigns those excess costs on a situs basis to the State of Utah. PacifiCorp represents that the cost of this Agreement does not exceed the cost that would have been incurred from acquiring other market resources. The Division accepts this representation based upon its prior analysis of the Company's avoided cost reports.

CONCLUSION

The Division finds there are no issues with the Agreement and approval is recommended. The Division believes that the terms of the Kennecott (Refinery) Power Purchase Agreement comply with the Commission's guidelines and orders in Docket No. 03-035-14 and subsequent related dockets

cc: Michele Beck, Committee of Consumer Services
Cheryl Murray, Committee of Consumer Services
Bob Lively, PacifiCorp
Paul Clements, PacifiCorp
Daniel Solander, PacifiCorp
William Evans, Parsons Behle and Latimer, attorney for Kennecott