



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  
Justin Christensen, Utility Analyst  
Charles Peterson, Technical Consultant

DATE: December 7, 2015

DOCKET: Docket No. 15-035-81, 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 November 4, 2015, 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, 2016 through December 31, 2017. The Agreement is represented as an extension of the current contract that is scheduled to expire on December 31, 2015. On November 10, 2015,

the Commission issued a Scheduling Order requiring comments from the Division of Public Utilities (Division) and any other interested party by December 7, 2015. 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. 13-035-169. 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 Division understands that the primary reason for a special contract between the Company and Nucor is that the Company may interrupt service to Nucor under the terms set forth in the Agreement.<sup>4</sup> For this ability to interrupt or curtail service, PacifiCorp pays to Nucor a Curtailment Credit.<sup>5</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.

Continuing from the Division's recommendations in an earlier docket, Docket No. 06-035-147, in the Division's memorandum in Docket No. 13-035-169, the Division recommended some conditions for approval of the existing contract including the following three:<sup>6</sup>

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<sup>1</sup> Application, Item 6, pages 2-3, November 4, 2015.

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

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

<sup>4</sup> Agreement, Article V, Item D, page 8; and Appendix B.

<sup>5</sup> Ibid.

<sup>6</sup> Memorandum from the Division of Public Utilities to the Public Service Commission, Docket No. 13-035-169, pages 2-3.

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 Confirming Bench Order dated February 11, 2014, the Commission included these three recommendations. If not implicit in the Commission's 2014 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, 2016 through the end of the Agreement, prices will be adjusted by any changes in average rates ordered by the Commission (see Agreement, Article VI). If Rocky Mountain Power does not file a general rate case in 2016, then prices under the Agreement will increase by 1.0 percent on January 1, 2017.<sup>7</sup> Under the proposed Agreement, prices will change concurrent with the price changes to other ratepayers. The Agreement explicitly provides that Nucor will be subject to "Surcharge Rates which include Energy Balancing Account (EBA), REC Balancing Account (RBA), and the Solar Incentive Surcharge (SIS)."<sup>8</sup> However, there is no explicit provision for the DSM or low-income residential lifeline programs. The Agreement also has the following language: "Any new Surcharge Rate shall apply to the Customer [Nucor] if so ordered by the Commission."<sup>9</sup>

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<sup>7</sup> Agreement, Article VI (B), page 8.

<sup>8</sup> Agreement, Article V (C), page 7.

<sup>9</sup> Ibid.

Nucor does not contribute to the DSM account because, like other companies with electric service agreements, it has its own internal DSM programs and is not eligible to receive DSM funding. With respect to the low-income lifeline program, in response to the Office of Consumer Services (OCS) DR 1.2, the Company indicated that it “is not opposed to Nucor being made subject to Schedule 91”, i.e. the low-income lifeline surcharge. The Division believes that Nucor should be subject to the low-income lifeline surcharge.

The initial prices set forth in the proposed Agreement are approximately [REDACTED] than the initial pricing terms in the expiring contract.

Another pricing-related change that is made in this contract is the move to [REDACTED]  
[REDACTED]  
[REDACTED]

[REDACTED] In response to the Division’s DR 2.1, the Company explained that it and Nucor studied the effects of making this change during 2014. The Company indicated that as a result of this study it was “comfortable” that this change kept it revenue neutral with respect to Nucor. This change from a [REDACTED]  
[REDACTED]  
[REDACTED]

[REDACTED] However, based upon this the Company’s response to the data request, and the fact that this is a special contract, the Division does not oppose this change.

At the time of its approval, the Division believed that the expiring contract was an improvement over the preceding 2006 contract in that it brought Nucor’s pricing closer to being in-line with other large industrial customers, i.e. those customers on Schedule 9. Confidential DPU Exhibit 1 shows that this proposed contract makes additional improvement in that direction by about 2.0 percentage points over the expiring contract. Based upon this additional improvement the Division does not oppose this proposed agreement. This comparison is discussed further below.

However, the Division will be looking at the cost of service study in the next rate case to inform its decisions regarding any future electric service agreements between Nucor and the Company.

#### 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. Confidential DPU Exhibit 1 sets forth the Division's comparison of the proposed Agreement pricing with the current Schedule 9 and the previous contract in 2013. Confidential 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]. Confidential DPU Exhibit 1 also sets forth the comparable percentages from the previous Nucor contract approval Docket No. 13-035-169. As stated above the difference between 2015 and 2013 is an increase of about 2.0 percentage points.

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 [REDACTED] [REDACTED] each month.<sup>10</sup> The proposed Agreement is for [REDACTED] [REDACTED] each month,<sup>11</sup> an 18.47 percent increase. This relatively high rate of increase is due to three factors that were explained in the Company's confidential response to the OCS DR 1.4. The change in the demand charge included [REDACTED]  
[REDACTED]  
[REDACTED]

<sup>10</sup> The credit was initially [REDACTED], but has increased with PacifiCorp rates generally.

<sup>11</sup> Agreement, page 7.

[REDACTED]

The demand credit will be increased with change in average customer rates in Utah. The assumption that the value of curtailment credit continues to be reasonably correlated with changes in retail rates appears reasonable to the Division. 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.

#### **CONCLUSION**

Based upon the forgoing analysis, the Division recommends that the Commission approve the Agreement as just and reasonable and in the public interest. Included in the Division's recommendation is that the Commission confirm the continued application of the three conditions contained in its previous order in Docket No. 13-035-169 and that Nucor be made subject to the low-income residential surcharge.

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