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MEMORANDUM

TO: Public Service Commission

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

DATE: March 12, 2018

DOCKET: Docket No. 17-035-71, Application of Rocky Mountain Power for Approval of Electric Service Agreement between PacifiCorp and US Magnesium LLC

RECOMMENDATION (Approve)

The Division of Public Utilities (“Division”) recommends that the Commission approve the Electric Service Agreement (“Agreement”) between PacifiCorp (“Company”) and US Magnesium LLC (“US Mag”). As discussed below, the Agreement is just and reasonable and in the public interest.

ISSUE

On December 29, 2017, PacifiCorp filed an Application for Approval of an Electric Service Agreement with US Mag (“Application”). “The term of the Agreement begins May 1, 2018, and expires on December 31, 2019, with an automatic one-year extension through the end of 2020 unless either party gives 180 days’ notice to terminate.”¹ The Agreement is substantially the

¹ Application, Article II, pages 7-8.

same in its pricing terms as the expiring agreement. The current agreement was set to expire on December 31, 2017, but was given a four month extension by the Commission in Docket No. 17-035-56. On January 17, 2018, the Commission issued a Scheduling Order requiring comments from the Division by March 12, 2018, and reply comments by any other interested party by April 5, 2018, with a hearing scheduled for April 12, 2018. 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. 14-035-143. The proposed agreement makes no substantive changes to the pricing terms from the expiring agreement.

Under the Agreement, PacifiCorp will continue to provide interruptible electric service to US Mag's plant located in Tooele County, Utah. PacifiCorp promises to provide US Mag with up to [REDACTED] of power,² but under certain conditions it may provide additional power upon US Mag's request.³ The Division understands the primary reason for a special contract between the Company and US Mag is the Company may interrupt service to US Mag under the terms set forth in the Agreement.⁴ For this ability to interrupt or curtail service, PacifiCorp pays US Mag an Operating Reserve Credit.⁵ Except for the Operating Reserve Credit and the pricing terms, which will be discussed below, the remaining terms of the Agreement reflect the technical electrical services to be provided—tailored to US Mag—or otherwise appear to be mostly generic contractual terms.

Pricing Terms

² Agreement, Article I, section 1.25, page 2.

³ Agreement, Article VII, page 19.

⁴ Agreement, Article V, Item D, pages 7-8; and Exhibit B. See also separate, "Operating Reserve Interruption Agreement between PacifiCorp and US Magnesium, LLC."

⁵ Ibid.

The Agreement makes no significant changes to the existing pricing terms of the current expiring contract. The pricing components are dealt with primarily in Article III (pages 9-13) of the Agreement. After May 1, 2018, through the end of the Agreement, prices will be adjusted by [REDACTED]

The Agreement explicitly provides that US Mag will be subject to the EBA, STEP and RBA adjustments and that US Mag will be subject to [REDACTED]

[REDACTED]⁶ However, there is no explicit provision for the DSM programs. US Mag 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.⁷

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

The Division believed the expiring contract was an improvement over the preceding contracts in that it brought US Mag's pricing closer to being in-line with other large industrial customers, i.e. those customers on Schedule 9.

In the years since the last rate case was filed, data provided by PacifiCorp has suggested that cost of service of the various customer schedules, including special contracts, have changed their relative positions. Special contract customers' rates may now be further below their cost of service than they were previously. The Company's cost of service analyses have always been contested by various parties in past general rate cases, and there is no reason to believe that will

⁶ Agreement, Article III, par 3.12, pages 12-13.

⁷ Ibid, par 3.13.

change in the future. Since the underlying actual rates charged to customers have not changed, and there has been no recent general rate case, nor, apparently, is one being contemplated, there is little justification at this point to insist that the rates charged a contract customer be adjusted when other customer rates are being held constant. 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 US Mag and the Company.

Operating Reserve Credit Terms

As compensation for PacifiCorp's right to curtail and interrupt service to US Mag under the terms set forth in the Agreement, PacifiCorp provides US Mag a monthly Operating Reserve Credit. The pricing in the proposed Agreement is the same as it currently is in the expiring contract

CONCLUSION

Based on the forgoing analysis, the Division recommends the Commission approve the Agreement as just and reasonable and in the public interest.

cc: Michele Beck, Committee of Consumer Services
Cheryl Murray, Committee of Consumer Services
Jana Saba, PacifiCorp
Kyle Moore, PacifiCorp
Daniel Solander, PacifiCorp