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Division of Public Utilities

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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: February 26, 2018

DOCKET: Docket No. 17-035-72, Application of Rocky Mountain Power for Approval of Electric Service Agreement between PacifiCorp 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 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 Nucor (Application). “The term of the Agreement begins April 1, 2018, and expires on December 31, 2019, with two automatic one-year extensions through the end of 2020 and 2021, unless either party gives 180 days’ notice to terminate.”<sup>1</sup> The Agreement is substantially the same in its pricing terms as the expiring agreement. The current agreement was

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<sup>1</sup> Application, paragraph 4.

set to expire on December 31, 2017, but was given a three month extension by the Commission in docket no. 17-035-55. On January 17, 2018, the Commission issued a Scheduling Order requiring comments from the Division of Public Utilities (Division) and any other interested party by February 26, 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. 15-035-81. 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 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 reflect the technical electrical services to be provided--tailored to the Nucor plan--or otherwise appear to be mostly generic contractual terms.

Continuing from the Division's recommendations in an earlier docket, Docket No. 06-035-147, in the Division's memorandum in Docket No. 15-035-81, the Division recommended some conditions for approval of the existing contract, including the following three:<sup>6</sup>

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

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

<sup>4</sup> Agreement, Article V, Item D, pages 7-8; and Appendix B.

<sup>5</sup> Ibid.

<sup>6</sup> Memorandum from the Division of Public Utilities to the Public Service Commission, Docket No. 15-035-81, 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 Office of Consumer Services, any future amendments to the Agreement, including but not limited to amendments to the exhibits and appendices.

The Commission has approved these conditions in the previous Nucor ESA dockets.

#### Pricing Terms

The Agreement makes no significant changes to the existing pricing terms of the current expiring contract. The pricing components are dealt with primarily in Articles V and VI (pages 6-8) of the Agreement. After April 1, 2018 through the end of the Agreement, prices will be adjusted by [REDACTED] The expiring agreement has a provision that if Rocky Mountain Power did not file a general rate case prices under the Agreement would increase [REDACTED] This increase in fact occurred since no rate case has been filed by the Company since 2013. There is no similar price adjustment provision in the proposed Agreement.

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 the EBA, STEP and RBA adjustments and that Nucor will be subject to “the same Schedule 91 rate applied to Schedule 9 customers.”<sup>7</sup> However, there is no explicit provision for the DSM 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>8</sup>

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

<sup>8</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.

The expiring contract made the change to [REDACTED]  
[REDACTED]  
[REDACTED]

The proposed contract keeps this feature. 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. [REDACTED]  
[REDACTED]  
[REDACTED]

[REDACTED] However, based upon the Company’s responses to Division inquiries in the last docket, and the fact that this is a special contract, the Division does not oppose this change.

The Division believed that the expiring contract was an improvement over the preceding contracts in that it brought Nucor’s pricing closer to being in-line with other large industrial customers, i.e. those customers on Schedule 9. The DPU’s analysis in the expiring contract’s docket showed that this expiring contract made an additional improvement in that direction by about 2.0 percentage points over the preceding contract. The increase [REDACTED] [REDACTED] also made a slight improvement over Schedule 9 rates, which have not changed since the last general rate case filed in Docket No. 13-035-184.<sup>9</sup>

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

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<sup>9</sup> That docket provided for a two-step increase in rates, the last step occurred in September 2015.

service than they were previously. The Company’s cost of service analyses have always been controversial in past general rate cases, and there is no reason to believe that will 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 Nucor and the Company.

Curtailment Credit Terms

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. The curtailment credit in the proposed Agreement is the same as it currently is in the expiring contract, or [REDACTED] [REDACTED] each month. In conjunction with the expiring contract, [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [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 was supported by GRID model runs as well as an analysis using the Company’s system optimizer model that is used in integrated resource planning. The results appear 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. 15-035-81.

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