

May 5, 2022

VIA ELECTRONIC FILING

Utah Public Service Commission
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84114

Attention: Gary Widerburg
Commission Administrator

RE: Docket No. 21-035-69
Application of Rocky Mountain Power for Approval of an Electric Service Agreement between PacifiCorp and Nucor Steel-Utah
Rocky Mountain Power Reply Comments

On February 17, 2022, Rocky Mountain Power (“Company”) filed its Application for approval of an Electric Service Agreement (“Application”) with the Public Service Commission of Utah (“Commission”). On March 3, 2022, The Public Service Commission of Utah (“Commission”) issued a Scheduling Order and Notice of Virtual Hearing establishing comment and reply comment deadlines. On April 6 and April 18, 2022, the Division of Public Utilities (“Division”) and the Office of Consumer Services (“Office” or “OCS”), respectively, filed initial comments on the proposed Electric Service Agreement (“ESA”) between the Company and Nucor Steel-Utah (“Nucor”). The Company hereby responds to the comments filed by the Division and Office in its reply comments below.

Response to the Division

The Division recommends the Commission approve the ESA as just, reasonable and in the public interest, inclusive of the nearly 10-year contract duration. As part of its recommendation, the Division also requests the Commission continue the following conditions of approval:

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 the Commission, in its Order, specify 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, including 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 Company agrees with the Division’s recommendation to continue these three requirements.

Response to the Office

In its initial comments, the Office states that the ESA should only be approved only if the term of the contract is reduced from approximately 10 years (March 1, 2022, through December 31, 2031) to two years. The Office asserts that the term is too lengthy based on four reasons:

1. The value of the curtailment credit is based on assumptions from the Company's 2021 Integrated Resource Plan ("IRP");
2. The curtailment is treated as a system resource and may be affected by changes to interjurisdictional allocations because the 2020 Interjurisdictional Allocation Protocol ("2020 Protocol") is set to expire at the end of 2023 and new protocol terms have not yet been decided;
3. The Company does not demonstrate that Nucor is covering its full cost of service; and,
4. The Office prefers a more broadly applicable interruptible tariff.

In its comments, OCS argues that a 10-year term for the ESA is too long and not in the public interest. The Company does not enter into agreements with relatively longer contract term lengths such as the approximately 10-year term requested here without receiving commensurate concessions from the counterparty. In this case, the nearly 10-year term, as contemplated in the ESA, was an integral part of the negotiation. Absent this provision, the Company would need to renegotiate major components of the proposed ESA, which would jeopardize previously negotiated protections and benefits to Company's customers. The collective nature of these commercial terms is highlighted by a provision within the proposed ESA that allows either party to [REDACTED]

[REDACTED]. An order shortening the term of the agreement is anticipated to represent a [REDACTED] condition to Nucor.

Absent the 10-year term, Nucor likely would not have agreed to various components, including the restructuring of retail rates that shifts Nucor's retail rate structure closer to Schedule 9 and providing better alignment of cost recovery. In addition, due to long-term certainties in retail rates, Nucor agreed to various terms and conditions that further protect PacifiCorp customers. For example, the ESA allows Company to i) adjust the proposed ESA's base rate by the average price change for all Utah retail customers in general and major plant addition rate cases, ii) reassess Nucor's retail rate design in the event [REDACTED], and iii) reduce curtailment credit if the expected curtailment product is not available due to Nucor's operating conditions. These provisions ensure that Nucor's retail rates continue to provide expected coverage of cost of service and controls the Company's costs during the unavailability of Nucor's curtailment product.

In addition, the extended term facilitated Nucor's agreement to other non-standard terms including commitments by Nucor. Specifically, Nucor agreed to remain a full-service customer, lowering the risk of Nucor reducing its service requirements on the Company's system, which could result in higher costs to other customers. The proposed ESA also includes special operational requirements, such as mitigation of voltage flicker, which further

ensures that other Company's customers are not negatively affected by the service Company provides to Nucor under the proposed ESA for the entire contract term.

For these reasons, the Company disagrees with the Office's assertion that the 10 year term is not in the public interest. The Company addresses each of the Office's arguments below.

Curtailment Credit Valuation

The Company calculated the value of the curtailment credit over the nearly 10-year contract term using the 2021 IRP preferred portfolio. As discussed by the Office, the curtailment credit calculation consists of three components: operating reserve value, capacity value and intra-hour value. The Office questions the accuracy of the calculation since the capacity and intra-hour values only provide values in outer years of the ESA term, 2028 to 2031 and 2025 to 2031, respectively. The Office expresses concern that avoiding a non-emitting peaker resource beginning in 2028 could be speculative and points out that the 2021 IRP has not been acknowledged.

The Office seems to suggest that inclusion of these the capacity value and intra-hour benefits is the origin of, or at least a primary driver of, the nearly 10-year contract term; however, this is inaccurate. As stated above, the Company's acceptance of the nearly 10-year term is based rather upon inclusion of rate design changes and multiple non-standard protections for customers. Nucor's acceptance of these changes and protections was similarly predicated in no small part upon it receiving assurance of a stable curtailment credit value for an extended period of time.

Instead of representing the motivating force behind the contract term length, the analysis conducted utilizing the IRP preferred portfolio should be considered as support for the reasonably anticipated benefits that PacifiCorp and its customers will receive from Nucor's interruptible products over the contract term. With regards to the Office's concerns regarding the accuracy of the calculated capacity contribution and intra-hour benefits in the latter years of the ESA term (2028 through 2031 for capacity value and 2025 through 2031 for intra-hour value), this treatment is both accurate, appropriate, and consistent with other pricing evaluations. These modeling practices are consistent with the analyses conducted by the Company for other long-term resource procurement decisions, which the Nucor curtailment products represent. Importantly, the Company's analysis demonstrates that the anticipated benefits significantly exceed the anticipated costs of the products over the contract duration. The longer duration of the contract locks in these benefits for customers.

In further response to the OCA's specific concerns regarding the calculation of capacity value, as explained by Mr. Eller in direct testimony, interruptible load capability provides increased reliability by increasing the megawatt ("MW") available to meet PacifiCorp's combined load and operating reserve requirements. As the need for operating reserves declines in the latter years of the ESA term (2028-2031), the ability for the Nucor interruptible products to provide load support becomes more valuable. Importantly, to avoid any double counting of benefits, PacifiCorp's analysis only includes capacity value to the extent the capacity contribution exceeds the operating reserves value.

Incorporation of the capacity value benefits beginning in 2028 is appropriate as PacifiCorp's 2021 IRP preferred portfolio identifies several key resource changes in that year. In 2028, the preferred portfolio assumes the retirement of the Dave Johnston Power Plant which is

partially offset by the addition of the Natrium resource. The need for this replacement resource is over and above the assumed continuation of Nucor's curtailment product in the IRP. Since the Nucor products are assumed in the IRP plan, it is conceivable that there may be capacity needs prior to 2028 in the event that they later became unavailable; however, there is a high likelihood that capacity needs would begin no later than 2028, making 2028 a reasonable start date for inclusion of the capacity value in the Nucor pricing evaluation. Ensuring availability of the Nucor products through 2032 reduces capacity risks associated with these and other portfolio changes through the term of the ESA.

Additionally, the Company's recently filed 2021 IRP Update identified higher coincident peak loads relative to what was contemplated in the 2021 IRP.¹ As a result, the Company's capacity needs are greater than contemplated in the 2021 IRP, and several additional resources were added or accelerated in the 2021 IRP Update preferred portfolio to provide capacity during the ESA term. This includes additional battery resources in 2026 and the acceleration of two non-emitting peaking resources from 2033 in the 2021 IRP to 2031 in the 2021 IRP Update.² Because the capacity provided by the Nucor contract was assumed as part of the 2021 IRP Update preferred portfolio, additional resources would have been required in its absence.

Concerns about basing the capacity value on the costs of the non-emitting peaker are also misguided. The costs used for this evaluation are limited to the fixed costs of the assumed unit, eliminating any concerns about the future fuel pricing. Further, the capital cost assumptions for the non-emitting peaker are based upon those of a natural gas simple cycle turbine. As a result, the proposed capacity value of Nucor's curtailment credit is in essence based upon the natural gas simple cycle turbine cost, a proven technology with a known capital costs, while ignoring uncertainty around the future cost of fuels for either a natural gas or non-emitting peaker.

In the event that the operating reserve values decline in the future, another important functionality of the Nucor interruptible products is their flexibility to be used in the energy imbalance market (EIM). The intra-hour benefits primarily reflect periods when resource deficiency drives up prices in the EIM providing opportunities to curtail Nucor's load and achieve financial benefits from the imbalance market. To avoid double-counting those two types of deficiencies, the intra-hour benefit was only included to the extent that it was larger than the deficiency costs already included in the model results. By 2025, the addition of Gateway South and various RFP resources reduce the frequency of deficiency events within PacifiCorp's system making it appropriate to consider deficiency events from the broader EIM footprint.

Jurisdictional Allocations and Multi-State Process (MSP)

The Office also expresses concern over the treatment of the Nucor interruption project as a system resource in the context of the current MSP discussions. They state that since the current interjurisdictional allocation method is in place through the end of 2023 and the

¹ PacifiCorp 2021 IRP Update, filed March 31, 2022. Chapter 4: Load-and-Resource Balance Update. Figures 4.1 and 4.2. Available at: https://www.pacificorp.com/content/dam/pcorp/documents/en/pacificorp/energy/integrated-resource-plan/2021_IRP_Update.pdf

² Ibid. Chapter 6: Portfolio Development. Table 6.4.

outcome of the MSP discussions is uncertain, this is another reason to approve the ESA for only a 2-year term.

The Nucor contract has been structured so that the curtailment product provides a net benefit to PacifiCorp's customers. By providing a standalone net benefit to customers, the OCS' allocation concerns are not relevant to the Commission's consideration in approving the contract. Further, the OCS' recommendation would appear to suggest that the Company should make no resource decisions that extend beyond the existing sunset of the MSP allocation methodology. Such a position is fundamentally untenable as many resources require long term planning and long-term commitments to maintain stable operations. If a resource (such as the Nucor curtailment products) can be secured with both reasonable expectations to be cost effective (as the Nucor curtailment products are) and with ample protections to ensure that the expected value is delivered during the contract term (which the proposed ESA provides) then it is reasonable for the Company to secure said resource for the longer contract term.

Cost of Service

The OCS recommends that the Nucor contract be reviewed every two years, so that cost of service (COS) results can be monitored, and Nucor's rates can be potentially adjusted to better reflect those results. The OCS contends that Nucor's rates do not cover its full COS and that RMP provides no evidence that the new rates move Nucor closer to COS.

As discussed in the direct testimony of Company witness Mr. Craig Eller, the rate structure for Nucor is a significant improvement, since the alignment of demand and energy charges better matches COS, and time of use periods and seasons are modified to match those employed for other large industrial customers on Electric Service Schedule No. 8 – Large General Service – 1,000 kW and Over-Distribution Voltage (Schedules 8) and Electric Service Schedule No. 9 – General Service – High Voltage (Schedule 9). By aligning pricing more closely to COS, the risk that Nucor would pay substantially less than COS in a future period is substantially lessened. Further, the proposed ESA results in an approximately [REDACTED] percent price increase before surcharges and the curtailment credit. This compares to the annual informational COS filing made on June 15, 2021 for calendar year 2020, which showed that Nucor required a 0.55 percent increase to be at COS. In light of this result, the modernization of Nucor's rate structure, and the provision for Nucor's pricing to be uniformly adjusted by any average base price change for all of the Company Utah retail customers, the term of the contract is reasonable and appropriate. A more frequent updating of Nucor's rates to cost of service every two years would undermine the agreement negotiated between the Company and Nucor. The longer term of the contract was a key provision that was balanced with other factors that are part of the overall settlement package. Any risk that Nucor underperforms relative to cost of service is mitigated by re-alignment of Nucor's pricing structure and adjustments that will track average base price increases.

Further, based on its conversations with Nucor, the Company believes the requirement to reprice the contract every other year would be untenable for Nucor in light of the significant non-standard protection provisions included in the ESA and described previously. This is especially true when the COS valuation of a single customer could result in significant volatility in rates based on unique characteristics of a particular test year as opposed to other rate classes which could benefit from natural moderation of single-year influences by averaging the loads of multiple similar customers.

Interruptible Tariff

Finally the Office argues that the shorter term would align with their recommendation that the Company explore an interruptible tariff.

Due to the inherent uniqueness of Nucor's load and curtailment product characteristics that are integral to the development of its curtailment products and value to the Company's system, the Company does not see a benefit of developing an interruptible tariff. The Company is aware of no other similarly situated customers which would be able to provide the precise load and curtailment characteristics offered by Nucor. Alternatively, if an interruptible tariff were developed that could be used to incorporate and evaluate an array of load profiles and curtailment products, it is likely that the tariff would need to be made more general, forgoing certain flexibilities which one customer may provide that that another does not, reducing benefits to all customers, and rate reductions available to participating customers, by failing to maximize the full set of characteristics of each individual large interruptible customer. While such an approach may be appropriate for multiple smaller interruptible loads which are impractical to manage individually, the substantial size of Nucor's load makes it reasonable to justify continued administration through a tailored special contract.

Conclusion and Recommendation

The Company recommends the Commission approve the ESA as presented in its Application in this matter. The remainder of these comments address the Office's concerns with the contract term and explains why the longer term is reasonable and in the best interests of Utah customers.

Sincerely,



Joelle Steward

Senior Vice President, Regulation and Customer & Community Solutions

CC: Service List - Docket No. 21-035-69

CERTIFICATE OF SERVICE

Docket No. 21-035-69

I hereby certify that on May 5, 2022, a true and correct copy of the foregoing was served by electronic mail to the following:

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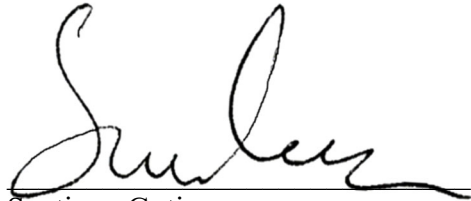
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