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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF PACIFICORP DBA UTAH POWER & LIGHT COMPANY FOR APPROVAL OF INTERIM PROVISIONS FOR THE SUPPLY OF ELECTRIC SERVICE TO MONSANTO COMPANY	**Case No. PAC-E-01-16** **IDAHO IRRIGATION PUMPERS ASSOCIATION, INC.'S POST-HEARING BRIEF**

COMES NOW the Idaho Irrigation Pumpers Association, Inc. ("Irrigators"), by and through counsel of record, Eric L. Olsen, and hereby respectfully submits its Post-Hearing Brief.

INTRODUCTION

In PAC-E-02-01, the Commission recently approved a Stipulation among PacifiCorp, Commission Staff ("Staff"), Monsanto Company ("Monsanto"), and the Irrigators. (Commission Order No. 29034.) Similar to the shortsighted policy pursued toward Monsanto in this case, PacifiCorp sought in PAC-E-02-01 to terminate the longstanding firm and interruptible tariff for the irrigation class, impose a firm tariff schedule set solely on cost of service principals, and subordinate any interruptible provisions for the irrigation class to short term power purchases under separate agreements outside the firm tariff. (Case No. PAC-E-02-01; Taylor (Dir), p. 6-8.) The Irrigators were able to agree to the removal of the interruptible tariff in PAC-E-02-01 primarily because the extraordinary BPA exchange credit made the use of an interruptibility credit[1] to lower rates unnecessary. (Yankel (Dir), Tr. Vol. VI, p. 756, l. 1-11.) However, take away the BPA exchange credit and any *fixed credit* for interruptibility and the Irrigators could have been confronted with the *rate shock* and *price uncertainty* that Monsanto is faced with in this case. (*See Id.*)

Inevitably, the Irrigators felt compelled to intervene and participate in this case because PacifiCorp continues to implement its myopic internal policies that would (1) eliminate all interruptible rates, (2) price all customers at "firm" rates set solely on cost-of-services methods in contravention of Idaho law, and (3) give PacifiCorp the sole discretion of buying back interruptions pursuant to short-term agreements at market prices which are unknown and volatile. PacifiCorp's policy shift, if adopted by the Commission, will have a dramatic, adverse effect on PacifiCorp customers (i) by not appropriately pricing interruptible, Demand Side Management ("DSM") resources, (ii) foreclosing the use of interruptibility as an appropriate rate making tool and taking advantage of the system benefits it provides, and (iii) taking away price certainty that is needed for all PacifiCorp customers to make appropriate, long-term planning and investment decisions.

Although at the very end of this case PacifiCorp changed its position to some extent by agreeing to interruptible rates, the Commission's answers to the remaining questions presented for decision in this proceeding will still shape energy policy of consequence to all of Idaho's PacifiCorp customers, not just Monsanto, into the foreseeable future. As such, the Irrigators would like to

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[1]In response to the Irrigators' concerns over losing its interruptible tariff, the Stipulation provides that PacifiCorp would discuss individual load control contracts with large farmers for the 2002 irrigation season and PacifiCorp agreed to cooperate with the Irrigators to develop an optional load control program for the 2003 irrigation season and thereafter. (PAC -E-02-01; Stipulations, ¶ 9.) This program is too be filed with the Commission by January 31, 2003. (*Id.*)

address three general areas that the Commission must consider in its decision making process in this case.

INTERRUPTIBILITY IS A CRUCIAL DEMAND SIDE MANAGEMENT AND RATE MAKING TOOL

In its most recent integrated resource plan, PacifiCorp recommitted itself to the utilization of Demand Side Management ("DSM") programs/resources to meet its current and future resource needs. (RAMPP-6, Exec. Sum., p. ii.) Here, PacifiCorp acknowledges that Monsanto and other interruptible customers are appropriately viewed as a DSM resource, (Griswold (Dir.), Tr. Vol. II, p. 30, l. 10-22 & Ex. 4, p. 31, l. 1-3; Watters (Reb.), Tr. Vol. II, p. 142, l. 1-15 & Ex. 12), which provides various benefits to PacifiCorp's system, (Watters (X), Tr. II, p. 173-179; Taylor (Dir), Vol. III, p. 217, l. 9-11; Schunke (Dir), Vol. VI, p. 718, l. 4-20; Yankel (Dir), Vol. VI, p. 754, l. 2-7). Notwithstanding its public commitment to DSM planning and its acknowledgment of the benefits of the DSM resource provided by Monsanto's interruptible load, PacifiCorp has concurrently pursued an internal policy of systematically eliminating all long-term interruptible contracts on its system and replacing them with short-term purchases of interruptibility on an as-needed basis. (Griswold (X), Tr. II, p. 81-83 & Ex. 240.) This incongruity between PacifiCorp's DSM policy in theory and how its implements such policy in practice is a direct result of PacifiCorp's erroneous views of interruptibility as a DSM resource.

PacifiCorp states that interruptible rates, such as Monsanto's, are only appropriate in times when it has sufficient excess capacity or when market prices are well below embedded costs. (Taylor (Dir), Vol. III, p. 217 - 218, l. 3-20 & 1-12.) This view may make sense when applied to economic incentive contracts or for contracts where customers have alternative energy supplies because the benefit of such contracts is to use up available capacity and thereby make a contribution to system fixed costs over and above the related variable costs. (Yankel (Dir), Vol. VI, p. 755, l. 1-10.) However, this logic fails when applied to Monsanto and other interruptible customers because interruptibility benefits PacifiCorp's system irregardless of system capacity or market prices in relation to embedded costs by lowering overall system costs and providing other benefits. (*Id*; Schunke (Dir), Vol. VI, p. 715, l. 1-19.) The record shows that Monsanto and other interruptible customers provide benefits to PacifiCorp's system by providing a valuable DSM resources that can (1) displace market purchases by PacifiCorp in times of volatile market prices and thereby flatten peak demand on the system, (2) reduce the need for peaking facilities on PacifiCorp's system, (3) provide a resource for system integrity purposes and, possibly, for operating reserve purposes, and (4) improve market efficiency and minimize PacifiCorp's exposure to energy market volatility. (Watters (X), Tr. II, p. 173-179; Taylor (Dir), Vol. III, p. 217, l. 7-11; Schunke (Dir), Vol. VI, p. 715 & 718, l. 8-19 & 4-20; Yankel (Dir), Vol. VI, p. 754-755, l. 1-21 & 1-18).

In addition to these system benefits, interruptible customers benefit from lower electricity prices associated with interruptible loads. (Yankel (Dir), Vol. VI, p. 754, l.2-3.) These lower prices, given in exchange for lower quality electrical service and the benefits provided to PacifiCorp's system, allow customers like Monsanto or the Irrigators to remain competitive in today's tough business environment. (Schettler (Com), Vol. V, p. 463-466.) As such, interruptibility provides the Commission with a valuable rate making tool to use in times of escalating electricity prices. (Taylor (X), Vol. III, p. 254, l. 5-25, p. 255, l. 1.) The Irrigators' recent stipulation in PAC-E-02-01 for the removal of its interruptible tariff for practical purposes does not diminish the advantages interruptibility provides as a rate making tool and as a DSM resource. (Yankel (Dir), Vol. VII, p.755, l.18-21, p. 756, l. 1-11). Upon the expiration of the extraordinary BPA exchange credit in

2007, the Commission will of necessity be asked by the Irrigators to address interruptibility in the context of the sound regulatory policy that Irrigators believe the Commission will adopt in this case.

<u>SYSTEM TREATMENT OF MONSANTO'S INTERRUPTIBLE LOAD SHOULD CONTINUE UNDER AN INTEGRATED LONG TERM CONTRACT</u>

PacifiCorp has sought in this proceeding to change Monsanto's treatment from a system customer to that of a firm situs/tariff customer that would in turn enter into a separate, short term agreements with PacifiCorp for the acquisition of various DSM interruptible resources. (Griswold, (Reb), Tr. Vol. II, p. 40-42; Taylor (Dir), Tr. Vol. III, p. 218, l. 13-20, p. 219, l. 1-12.) Although, Monsanto's and PacifiCorp's positions on these issues did converge at the end of the hearing, (Griswold, (Dir-Reb), Tr. Vol. VII, pp. 882-825), it still must be understood that PacifiCorp's reasoning behind its policy shift away from interruptible customers is either premature or unsound.

First, PacifiCorp opposes system treatment of Monsanto and other interruptible customers because of the disparate results these special contracts have received in recent rate cases in the various jurisdictions on its system. (Taylor (Dir), Tr. Vol. III, p. 218, l. 16-20, p. 219, l. 1-2.) However, this issue is not ripe for the Commission to decide at this time given the fact that this inter-jurisdictional issue is currently being addressed by the various states in PacifiCorp's Multi-State Process ("MSP"). (Schunke (Dir), Tr. Vol. VI, p. 720, l. 11-25, p. 720, l. 1; Yankel (Dir), Tr. Vol. VI, p. 759, l. 20-22, p. 760, l. 1-7.) Thus, as a matter of regulatory efficiency, the Commission should let the MSP run its course and then address the issue in a general rate case. (Schunke (Dir), Tr. Vol. VI, p. 720, l. 16-25, p. 721, l. 1.)

Second, PacifiCorp favors situs treatment and the application of cost-of-service principals to Monsanto because it views the "contribution to fixed cost" pricing standard as no longer applicable in pricing interruptibility. (Taylor (Dir), Tr. Vol. III, p. 219, l. 5.) However, cost-of-service principals also fall short when trying to model Monsanto's interruptible contract load on a situs basis because of the possible detrimental affects on Monsanto or the other customer classes. (Schunke (Dir), Tr. Vol. VII, p. 713, l. 25-25, p. 714, l. 1-4, p. 716, l. 17-25, p. 717, l. 1-6; Yankel (Dir), Tr. Vol. VII, p. 758, l. 18-23, p. 759, l. 1-18.) If Monsanto's credit for interruptibility is determined only on the basis of the benefits provided to Idaho, then Monsanto's rates will be too high because the remainder of the Idaho jurisdiction is too small to fully utilize the benefits Monsanto's interruptibility provides. (Yankel (Dir), Tr. Vol. VI, p. 758, l. 18-23, p. 759, l. 1-18.) In contrast, if Monsanto's credit for interruptibility is based on the resulting system benefits, then the other Idaho customer classes may be required to make up an Idaho jurisdictional revenue shortfall that would not exist under system treatment because Monsanto would be viewed as below cost-of-service. (Schunke (Dir), Tr. Vol. VII, p. 716, l. 17-25, p. 717, l. 1-6; Yankel (Dir), Tr. Vol. VII, p. 758, l. 18-23, p. 759, l. 1-18.) Given the difficulty in modeling Monsanto's interruptible load with cost-of-service principals and the fact that Monsanto's interruptibility primarily provides system wide benefits, continued system treatment of Monsanto by the Commission is the most prudent course of action.

Finally, PacifiCorp has rejected the use of long term contracts to set the value of interruptibility, and further contends that the value of interruptible DSM resources are more appropriately determined under separate, short term agreements in light of the recent volatility in the wholesale power markets. (Taylor (Dir), Tr. Vol. III, p. 219, l. 5-12.) However, this policy destroys price certainty that business customers such as Monsanto and the Irrigators need to plan their operations. (Yankel (Dir), Tr. Vol. VI, p. 761, l. 2-17.) The use of long term contracts and the rate making procedure before the Commission give customers price certainty and aids in their efficient use of electricity. (*Id.*) Further, with this policy, PacifiCorp appears to be seeking to shift the risks or uncertainty they face in the wholesale power markets to the interruptible customers. However, as the Staff appropriately points out, a long term, interruptible contract would tend reduce PacifiCorp's exposure to volatile wholesale power markets by avoiding some power purchases. (Schunke (Dir), Tr. Vol. VI, p. 715, l. 1-19.) For these enumerated reasons, PacifiCorp's change to pricing interruptibility only under short-term contracts should be soundly rejected by the Commission.

PRICING METHODOLOGY FOR INTERRUPTIBILITY

As a matter of sound rate making policy, the approach adopted by the Commission must appropriately value Monsanto's interruptible DSM resource so as to (1) properly account for the benefits it brings to PacifiCorp's system and (2) not provide a disincentive to Monsanto and other interruptible customers to ever offer or provide interruptible DSM resources. As has been pointed out, this is a formidable task that will require a considerable amount of judgment on the Commission's part. (Schunke (Dir), Tr. VI, p. 713, l. 24-25, p. 714, l. 1-4.) PacifiCorp's approach has primarily focused on valuing Monsanto's interruptible DSM resource based on what it thinks it could acquire a similar energy product for in the wholesale market at a certain point in time. On the other hand, the Irrigators independently developed a pricing methodology very similar to that of the Staff which values the interruptible DSM resource based on the cost of the avoided resource. (Yankel (Dir), Tr. Vol. VI, pp. 744-747, pp. 764-768.) Because the pricing method developed by the Irrigators and Staff appropriately treats Monsanto's interruptible load as a DSM resource, comparable in value to the avoided cost of PacifiCorp's other supply side resource options, the Irrigators believe that this pricing methodology is the most appropriate starting point for the

Commission in terms of prudent rate making policy. Following PacifiCorp's model, on the other hand, would lead to an undervaluation of the interruptible DSM resource Monsanto provides and would effectively stymie the use of interruptibility as a DSM resource because of its narrow focus on market power purchases.

CONCLUSION

Interruptibility is a valuable DSM resource to PacifiCorp's system, it provides the benefit of lower prices to interruptible customers such as Monsanto and the Irrigators, and it is an important rate making tool the Commission has to shape Idaho's energy policy in a way that is beneficial to all PacifiCorp customers. Although, PacifiCorp incorporates DSM into its integrated resource plan, its action of seeking to eliminate interruptibility speaks louder than its hollow words found in RAMPP-6. PacifiCorp's policy of seeking to eliminate interruptible contracts and tariffs is premature and is based on bad policy. Monsanto should be provided electric service under a long term, integrated contract that will provide the price certainty needed by all PacifiCorp's customers. The pricing methodology developed by Staff and the Irrigators most appropriately values the interruptible DSM resource that Monsanto provides.

When the BPA exchange credit terminates, the Irrigators will be looking for appropriate methods to help keep the irrigation class rates down so that the farmers can stay in business and continue to contribute to Idaho's economy. The sound energy policies that the Irrigators anticipate the Commission will adopt toward interruptibility in this case will then be utilized to reach a fair, just, and reasonable result with the irrigation class and all other Idaho customer classes in the future.

Respectfully submitted this 15th day of October, 2002.

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