

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF PACIFICORP DBA UTAH POWER &) **CASE NO. PAC-E-01-16**
LIGHT COMPANY FOR APPROVAL OF)
INTERIM PROVISIONS FOR THE SUPPLY)
OF ELECTRIC SERVICE TO MONSANTO) **FINAL ORDER NO. 29157**
COMPANY)

On December 10, 2001, PacifiCorp dba Utah Power & Light Company (PacifiCorp; Company) filed an Application with the Idaho Public Utilities Commission (Commission) regarding supply of electric service to Monsanto Company (Monsanto). Monsanto's Soda Springs facility produces elemental phosphorous and is PacifiCorp's largest Idaho customer with an electric load of over 200 megawatts. The Company represented that the 1995 Power Supply Agreement (Agreement) between Monsanto and PacifiCorp was expiring December 31, 2001 and requested that an interim rate be established.

The Power Supply Agreement between Monsanto and PacifiCorp dated November 1, 1995 (the "Agreement") was approved by the Commission in Case No. UPL-E-95-4 by Order No. 26282. The language of the Agreement states that it would continue in "effect through December 31, 2001 and thereafter shall be renewed annually until either party gives at least one year's written notice of termination." *Agreement*, p. 5, § 2.1. PacifiCorp contends that it faxed a notice of termination to Monsanto on December 11, 2000, and that the Agreement terminated December 31, 2001. Monsanto maintains that this provision of the Agreement bars PacifiCorp from giving the one-year notice of termination until after December 31, 2001. Monsanto contends that the Agreement extends to December 31, 2002. Under the Agreement, Monsanto pays a charge of 18.5 mills per kWh for all energy delivered provided that in no month shall Monsanto pay PacifiCorp less than \$66,600 for all energy delivered. *See Agreement* at p. 11, § 4.1.3.

PacifiCorp and Monsanto are engaged in litigation in Federal District Court regarding the contract termination date. The Commission has been apprised that the Federal District Court has determined that the contract provision at issue is ambiguous because it is

“reasonably susceptible to conflicting interpretations.” Mediation has been proposed. Should the matter go to trial, a hearing date is not expected prior to the third quarter of 2003.

The Commission by Order No. 28918 issued December 21, 2001, denied the Company’s interim rate request. The Commission determined that the existing contract rate would remain in effect until the Commission rendered a decision on the Company’s Application or the United States District Court found in Monsanto’s favor, or the parties reached a new Agreement. At that point in time, a true up would occur. Reference *Idaho Code* §§ 61-622, 61-623.

As reflected in Commission Order No. 28918, the procedure and process adopted by the Commission in this case is to establish a permanent rate going forward for Monsanto. Reference *Idaho Code* §§ 61-502, -503, -622, -623. A true-up mechanism retroactive to the termination date of the existing Agreement will be used to adjust the difference between the existing rate and the new rate. The true-up amount will accrue interest calculated at the annual interest rate on utility deposits. Reference Commission Utility Customer Relations Rule 106, IDAPA 31.21.01.106.01. The interest rate for 2002 was determined to be 4%. Reference Order No. 28896. The interest rate for 2003 was determined to be 2%. Reference Order No. 29158.

Following a public hearing in Case No. PAC-E-01-16, the Commission on December 10, 2002 issued Proposed Order No. 29157 and established a comment deadline of December 30, 2002. Comments were filed by PacifiCorp, Monsanto and the Idaho Irrigation Pumpers Association. Under Commission Rules, the Commission may revise its Proposed Order in response to any written comments, and adopt it as a final Order. See IDAPA 31.01.01.312. Based on the comments received we revise our Proposed Order in the following respects:

1. We acknowledge the continued situs treatment of Monsanto’s 9 MW of firm non-furnace load.
2. We clarify that the Commission has not adopted PacifiCorp’s Black Scholes pricing model as the appropriate definitive method for pricing interruptibility; nor did we adopt Monsanto’s peaker method.
3. We reject PacifiCorp’s proposal to revise the method for calculation of monthly credits for interruptible/curtailment options to reflect the monthly availability of furnace load.

4. Regarding the valuation of a Monsanto buy-through price for periods of economic interruption we clarify that “lowest possible actual cost” means the lowest price after PacifiCorp serves all its other retail and wholesale loads.
5. We adopt PacifiCorp’s position regarding the market index pricing of “buy-through” power.
6. We reject Monsanto’s proposal to eliminate separate pricing components in favor of an all energy rate.
7. We reject Monsanto’s proposal to phase in the Commission-established special contract rates for Monsanto.

PUBLIC HEARING

A technical hearing in this case to establish a new contract rate for Monsanto was held in Boise, Idaho on September 4 and 5, 2002. The following parties appeared by and through their respective counsel:

PacifiCorp	James F. Fell
Monsanto Company	Randall C. Budge
Idaho Irrigation Pumpers Association, Inc.	Eric L. Olsen
Commission Staff	Scott Woodbury

The Commission has reviewed the filings of record, including the transcript of testimony, filed exhibits, the pre- and post-hearing briefs and comments to our Proposed Order. As reflected in the transcript of proceedings, the contract parties, Monsanto and PacifiCorp, continued to negotiate with offers and counter-offers throughout the hearing. The resultant transcript reflects these changing assumptions and positions. We find the ultimate or final positions of the Company and Monsanto, however, to be fairly reflected in their post-hearing briefs and comments and find those positions to be supported by the record. The relevant contract and rate issues that the Commission finds reasonable to address in this docket, the respective party positions and the Commission’s related findings, are set forth below.

Based on a firm rate of 30.27 mills/kWh and an interruptible credit of 7.48 mills/kWh, we approve a total net price for interruptible service to Monsanto of 22.80 mills/kWh. We find no compelling need to phase in rates. Furthermore, because Monsanto is a special contract customer, not a tariff customer, phase in of Monsanto’s rates would mean a

continued subsidy by other customers. Our resolution of the issues, while determinative, is not to be in lieu of a new service agreement, which we expect the parties to negotiate, finalize and file with this Commission for approval.

Single Contract with Separate Pricing Components

PacifiCorp supports a single Electric Service Agreement between Monsanto and PacifiCorp with separate pricing components for firm, interruptible, and replacement power service. Reference Rev. Exh. 10. Monsanto recommends a single, integrated contract and proposes that the rate be reflected in the contract as a single net energy price only. Tr. p. 562. The Commission Staff and Irrigators recommend a single contract but did not address the issue of single energy price.

Commission Findings

The Commission notes that PacifiCorp in this proceeding originally opposed a single contract for Monsanto. The Company was requiring separate contracts for the sale of firm power to Monsanto and for the purchase from Monsanto of interruptibility and/or load curtailment rights. The Commission finds separate contracts to be unnecessary. The Commission does support separate pricing components. The Commission finds that the contract for Monsanto should specify separate rate components for firm service and for the interruptibility discount. The fixed costs of service to Monsanto should not be buried in an energy only rate, payable only if energy is used and possibly not recovered in full, but should be captured in a fixed customer charge and demand charge. Recovering fixed charges in this manner is consistent with rates formulated for other customer classes and recognizes the fact that PacifiCorp continues to incur charges and is required to be ready to serve even when Monsanto is idle.

Contract Term

PacifiCorp recommends that the termination date of the new contract be December 31, 2006. The Company prefers calendar year start and end dates. The Company notes by way of caution that the more the Commission exposes PacifiCorp to risk by increasing the hours or value of economic curtailment, the shorter the contract term should be.

Monsanto desires a contract term starting January 1, 2003 and terminating no sooner than December 31, 2007. Staff supports a five-year term. The Irrigators were not specific but support a long-term contract.

Commission Findings

The start date for the new contract is dependent on the federal District Court determination of the end date of the existing Agreement. The Commission finds it reasonable that the termination date of the new contract be December 31, 2006 regardless of the outcome of the District Court case. We find such a contract length addresses both Monsanto's need for reasonable price certainty and stability and PacifiCorp's need to maintain resource flexibility and to acquire resources at least cost.

We note that the parties envision use of an "evergreen clause," whereby the contract, without notice of termination, would annually renew for an additional one year. It is the interpretation of such a clause that is the source of dispute in the federal District Court case. Monsanto is PacifiCorp's largest industrial customer. We believe that the parties and this Commission should revisit the contract terms of service to Monsanto periodically and that use of an "evergreen clause" frustrates regulatory review. We therefore find that the termination date should be firm and not subject to renewal.

Situs v. System

Under the existing Monsanto service contract 9MW of firm non-furnace load is allocated on a situs basis to the Idaho jurisdiction. The remaining firm load, and all credits for interruptibility under the 95 Agreement (and short-term subsequent agreements) have been allocated on a system-wide basis. In this case PacifiCorp proposes that the cost of service to Monsanto for all firm electric service (not just 9 MW) be allocated on a situs basis to the Idaho jurisdiction. The Company proposes only that the monthly interruptibility credits for system integrity, operating reserves and economic curtailment be allocated on a system-wide basis.

Monsanto contends that the proposed change in jurisdictional allocation from system to situs should not be addressed in this case. Monsanto reminds the Commission that PacifiCorp in the 1988 and 1999 merger cases acknowledged that it would face jurisdictional allocation problems and it agreed to assume the risk of those problems.

Both Staff and Irrigators recommend continued system treatment of Monsanto. They recommend letting the Multi-State Process case, PAC-E-02-3, being conducted to investigate interjurisdictional issues, run its course. Then this issue could be addressed in a general rate case. No matter how the Commission rules on the allocation issue, the interruptibility credit, they contend, should be based on resulting system benefits.

Commission Findings

The Commission finds it reasonable to continue with the situs allocation of PacifiCorp's 9 MW firm non-furnace load and to apply the Commission-approved firm rate to such load. This treatment comports with prior practice and continues to be reasonable. As to the remainder of Monsanto's firm and interruptible load, the Commission finds that it is reasonable to continue with jurisdictional treatment of Monsanto as a system customer pending conclusion and recommendations in the Multi-State Process case and our consideration of Company-related filings.

Firm (Base) Rate

PacifiCorp proposes that the overall price or rate for firm service to Monsanto be set at 31.39 mills/kWh (\$31.39/MWh). The Company's calculation is based on an embedded cost of service, a 1999 test year and a 12 CP - 75/25 demand/energy allocation methodology. For firm electric service, PacifiCorp proposes a rate design that charges Monsanto each month a **customer charge** of \$282.89, a **demand charge** of \$9.51 per kW-month and an **energy charge** of \$16.31 per MW hour, based on PacifiCorp's embedded cost of service study. Reference Rev. Exh. 10, p. 2. The Company proposes that the firm service rate for Monsanto be adjusted pursuant to the tariff standard. PacifiCorp rejects all Monsanto adjustments to the base rate (firm rate) listed below.

Monsanto favors an energy-only rate without demand charges based on the variable or incremental cost of service plus a reasonable contribution to fixed costs. Tr. p. 562. Such a methodology and rate, Monsanto contends, was used by the Commission to justify the 1995 Agreement. Based on the PacifiCorp COS study, Monsanto contends that at the current contract price of \$18.50/MWh, Monsanto's annual contribution to fixed costs is \$4.50/MWh or \$6.3 million. Tr. p. 541. This evidence alone, it contends, is sufficient to support Monsanto's proposed contract rate and terms.

Monsanto proposes the following adjustments to PacifiCorp's firm (base) rate:

- Rate of Return - Monsanto argues that if its annual rates are increased by \$18 million, as proposed by PacifiCorp, it would increase the Company's current overall rate of return in Idaho from 8.418% to 8.867%. Tr. p. 543. Monsanto calculates the reduction to be 2.1 mills.

If the Commission accepts only this adjustment for rate of return, Monsanto contends that the resulting maximum firm rate is

\$29.30/MWh. The recommended rate results in a \$15.1 million increase and produces a rate of return for Monsanto of 6.88%. Tr. p. 544.

- Demand/Energy Allocation Methodology - Monsanto recommends changing the 75/25 demand/energy classification proposed by PacifiCorp for the allocation of production and transmission demand-related expenses to a 100% demand allocation. Monsanto calculates the related reduction to be 0.8 mills.
- Demand Allocator - Monsanto proposes changing the Company proposed 12 Coincident Peak (12 CP) demand allocator to 8 CP, or an average of the results of 8 CP and 12 CP cost-studies. Monsanto calculates the related reduction to be 2.0 mills.
- Administrative and General (A&G) Expenses - Monsanto calculates the reduction for A&G expenses allocated to Monsanto to be 0.32 mills.
- Fuel Shaping - Monsanto proposes incorporating fuel shaping in the overall allocation of fuel and purchase power costs. Monsanto calculates the related reduction to be 0.12 mills. Tr. pp. 552, 553.
- Monsanto also argued that assignment to the Idaho jurisdiction (and not the system) of the \$30 million payment for buy-out of the 1992 contract would further lower Idaho's revenue requirement. Monsanto's calculation results in an adjustment of 1.00 mill.

The results of these proposed adjustments, Monsanto contends, support a firm price in the range of \$26 to \$29.30 per MWh. Monsanto recommends a firm rate of \$28.30/MWh (28.3 mills/kWh) based on PacifiCorp's proposed firm rate of \$31.4/MWh reduced by the Rate of Return adjustment (ROR) and assignment to the Idaho jurisdiction of the \$30 million buy-out payment. Should the Commission determine that \$31.4/MWh is the "true" cost of service, Monsanto urges the Commission to recognize the principle of "gradualism" and use \$29.3/MWh, which would bring Monsanto over 80% of the way to full cost of service. Tr. p. 565.

Staff accepts the Company's starting point and rejects all of Monsanto's proposed adjustments. The Irrigators in prefiled testimony rejected Monsanto's cost-of-service adjustments but under cross-exam accepted Monsanto's proposed rate of return adjustment thereby agreeing to a firm rate of \$29.30/MWh. Tr. p. 772.

Commission Findings

The Commission is satisfied that the appropriate starting place for calculating the firm power price for Monsanto is the Company's proposed 31.39 mills/kWh, a number based on embedded cost-of-service. The Commission finds some merit in the 2.1 mill rate of return adjustment proposed by Monsanto. However, we recognize that providing Monsanto with a ROR below the state average will result in a rate subsidy to Monsanto from other customers. Tr. p. 235. Therefore, we find that an adjustment of 1 mill/kWh to reflect the effect of increased revenue on PacifiCorp's Idaho rate of return is appropriate. We further find it reasonable to adopt Monsanto's proposed fuel shaping adjustment for recognition of high load and low load hours and thereby approve an additional reduction of 0.12 mills.

We reject the remaining adjustments proposed by Monsanto to PacifiCorp's firm base rate as inappropriate. We specifically reject Monsanto's proposed adjustment for the \$30 million 1992-contract buy-out payment. This was a termination penalty paid by Monsanto in 1995 for early termination of the '92-service contract. It has no value or relevance to the future rates we set in this Order.

The adjusted all in energy firm rate that we approve is 30.27 mills/kWh. With respect to rate design, we find that separate rate components for customer demand and energy charges are appropriate. Such a rate design more accurately reflects the cost of service components associated with service to Monsanto than an all energy rate. That design also more closely matches Monsanto incentives with PacifiCorp costs. Accordingly, we establish an energy rate of 16.31 mills/kWh, a customer charge of \$283 per month and a demand charge of \$8.81/kW-month to reflect a firm all in price of 30.27 mills/kWh. These rates and charges reasonably reflect the Company's cost of service to Monsanto going forward. This rate is for firm service only and does not reflect an adjustment or credit for interruptibility.

Value of Interruptibility

Under PacifiCorp's proposal, Monsanto will receive monthly credits for three interruptible or curtailment options: 1) system integrity, 2) non-spinning contingency operating reserves, and 3) economic curtailment option (with a buy-through provision). Reference Rev. Exh. 10.

1. System Integrity. PacifiCorp will purchase from Monsanto the right to interrupt all three furnaces, for up to 12 hours per year (162 megawatts). PacifiCorp would have the right

to physically interrupt the entire Monsanto plant load on a first call basis with less than two (2) hours' notice for system contingency or emergency purposes for one hour per month. PacifiCorp has never needed to interrupt Monsanto this often for system contingency or emergency purposes. Tr. p. 811. The monthly credit for this right will be \$40,500. The system integrity benefits calculation is based on the current FERC wholesale price cap of \$250/MWh. As noted by the Company, FERC has suggested raising the price cap to \$1,000/MWh. Tr. p. 816.

2. Operating Reserves. PacifiCorp will purchase from Monsanto 95 megawatts of operating reserves with less than ten-minutes notice for system contingency purposes for 288 hours per year. PacifiCorp has assumed it may need as many as 24 non-continuous 60-minute physical interruptions per month to safely meet its Western Electric Coordinating Council (WECC) Operating Reserve requirements. This option allows PacifiCorp to more fully utilize its generation to meet load obligations and lower system costs. The monthly credit for this product will be \$326,849.41, based on a two-tiered firm rate structure and an energy charge of \$16.31, prorated for changes in furnace availability. The operating reserves component of the agreement, the Company proposes, will be subject to a reopener if WECC non-spinning operating reserve minimum operating reliability criteria change. The benefit is adjusted to account for revenues lost due to curtailment.

3. Economic Curtailment. PacifiCorp will purchase from Monsanto 67 megawatts of economic curtailment, available for 500 hours per year. This option can be exercised by PacifiCorp with two-hours' notice based on market economics and regardless of local requirements. The option as currently structured is not available in the wholesale market. Tr. p. 812. The option allows PacifiCorp to reduce net power costs. The monthly credit for this product will be \$335,455.75, based on a two-tiered rate structure and an energy charge (or "strike price") of \$16.31, prorated for changes in furnace availability. The "strike price" refers to the fixed price at which PacifiCorp would exercise its right to curtail load under the economic curtailment option. The valuation is modified to account for Monsanto's desire to be provided an option to buy-through and pay a proxy market price for replacement power. The benefit is adjusted to account for revenues lost due to curtailment.

PacifiCorp utilized a "Black-Scholes" pricing model to estimate the value of the economic curtailment option. Under the Black-Scholes model the value of the option is determined by the underlying price of the commodity, the option strike price, the expiration date

of the option, option exercise or settlement structure, the volatility of the price of the underlying commodity, and the risk-free rate of interest. The model purports to determine the price that market participants are willing to buy or sell electricity (in this case, electricity at Palo Verde) for certain forward delivery periods. The Company projects that Monsanto's net cost for electric service would be between \$25.62/MWh for 500 hours/year of economic curtailment (Exhibit 35) and \$25.16/MWh for 1,000 hours of economic curtailment (Exhibit 32) based on actual energy consumed in 2001.

Monsanto presented multiple cost-based rate proposals in direct testimony. Tr. pp. 615-630. On rebuttal Monsanto changed its proposal to a single offer of Economic Curtailment on all three furnaces (162 MW) of up to 1,000 hours per year. Tr. p. 427; Exh. 243. The benchmarks provide a range of net costs from 14.0 mills to 23.6 mills. Monsanto proposes to value interruptibility based upon the avoided cost of a combustion turbine (CT) or "peaker" plant. Monsanto places the value of its interruptibility in a range of \$8.23 to \$12.48/MWh for a net price of \$19.79 to \$15.82/MWh. Exhibit 246. Monsanto's preference is to continue the same level of service provided under the 1995 Agreement, which only allows interruption for system integrity purposes. It is not Monsanto's desire nor intent, to provide more interruptibility than is needed to pay a blended, all inclusive or "rolled-in" energy rate of \$18.50/MWh.

Monsanto recommends rejecting the Company's lost revenue adjustment, and further recommends rejection of the Company's "Black Scholes" pricing model which values economic curtailment based on projected market prices and places no value on interruptions over 500 hours. Under the Company's single point-in-time pricing model, for 67 megawatts priced at \$16.31 per megawatt hour, PacifiCorp is willing to pay on average \$3,383,759 for the first 500 hours. The value of an additional 500 hours of economic curtailment is only \$20,053. This result Monsanto contends is illogical. If additional interruptions provide no more value, Monsanto recommends a total of 800 hours of operating reserve and economic curtailment.

The existing 1995 Agreement permits interruption only for system integrity. Monsanto notes that as a result of payments received by Monsanto under separate short-term Operating Reserve Agreements in 2000, 2001, 2002, and an Outage Deferral Agreement (Exhibit 6), the actual annual energy rate Monsanto paid was considerably less than \$18.50, being \$17.57 in 2000, \$16.61 in 2001, and is expected to be in the same range in 2002.

The Irrigators contend that Monsanto's interruptible load should be treated as a demand side management (DSM) resource comparable in value to the avoided cost of PacifiCorp's supply side resource options. Based on 800 hours of interruption, the Irrigators calculated a rate of 22.78 mills/kWh. Using 1,000 hours the Irrigators calculate a rate of 25.45 mills/kWh. Tr. p. 730, Exh. 101.

Staff calculated the value of interruptibility using two avoided resources: 1) a peaking resource from the Company's RAMPP-6 integrated resource plan, and 2) market purchases from Case No. GNR-E-02-1. Using a peaking resource, Staff calculated a blended energy rate of 27.10 mills/kWh based on 500 hours of economic interruption and a firm rate of 31.4 mills/kWh. Tr. p. 730, Exh. 101. Using market purchases as the avoided resource Staff calculated for 500 hours of economic interruptibility a net price of 29.50 mills/kWh. Exh. 101. Staff stated that if Monsanto was able to provide interruptibility similar to that provided in the 1992 Monsanto contract (about 1200 hours), a net price of 23.00 mills/kWh could be justified. Staff's net price range is between a high of 27 and a low of 23 mills/kWh.

Commission Findings

The methodology for establishing a net interruptible energy rate appropriately starts with the Commission's approved all in firm energy rate of 30.27 mills/kWh. We must then value and subtract a reasonable interruptibility credit that is based on 1999 energy consumption because 1999 energy consumption was used to establish the firm rate. Thus, we achieve a consistent result and one that is supported by the evidence. The value derived by PacifiCorp of 300 hours of operating reserves and 500 hours of economic interruptibility results in a credit of 6.02 mills/kWh. We find it reasonable to eliminate the "lost revenue" adjustment proposed by PacifiCorp in its rebuttal. If the Company wishes to pursue the lost revenue issue, it is more appropriately considered in a general rate case. With the lost revenue adjustment, we find the PacifiCorp methodology results in a reasonable starting point for valuing the credit of 6.73 mills/kWh.

In assessing the reasonableness of the values produced by the Company's Black Scholes model, we note, as pointed out by Monsanto, that the model purports to provide neither value to Monsanto nor the Company for the additional or second 500 hours of economic curtailment offered by Monsanto. Exh. 244. The Commission was disappointed that the Company appeared to be aware of this apparent anomaly yet failed to disclose it to the parties

and the Commission. Reference Testimony, Tr. pp. 848, 849. It also does not help in assessing the reasonableness of the model that the economic curtailment option offered by Monsanto is not available in the market and that there are no counter parties willing to sell this product. Tr. p. 815. The record, we find, cannot support use of the Black Scholes model as a definitive methodology for valuing the interruptibility credit. Rather, as in most economic forecasts, it serves only to establish a point in an estimated range of reasonableness. We also find no reason, based on the record and PacifiCorp's valuation of interruptibility, to require that Monsanto provide the additional 500 hours of economic curtailment offered. The additional hours of interruption will not produce the 18.5 mills/kWh net price that Monsanto desires. As indicated by Monsanto, interruptions reduce production and cause operational economies of scale to diminish. We therefore limit spinning reserve and system integrity interruptions to 300 hours per year at 95 MW and economic interruptions to 500 hours per year at 67 MW.

We now consider the interruptibility credit derived by Monsanto, a credit based on the cost of an avoided peaking resource. The peaking resource methodology used by Monsanto results in a wide range of credit values that are dependent upon the type of resource selected, the hours and magnitude of interruption assumed and the amount of energy consumed annually. While we find merit in the adjustments included by Monsanto for reserve margin and transmission losses, we are concerned that the resulting credit values are based on hours and magnitude of interruption that are beyond those deemed appropriate by the Commission in this Order. Moreover, the total peaker cost used by Monsanto (Exhibit No. 246) is considerably higher than the total peaker cost used by Staff for the same peaking resource (Exhibit No. 101).

Therefore, we cannot find the avoided peaker resource to be the definitive methodology for valuing the interruptibility credit. We find that the credit of 8.23 mills/kWh derived by Monsanto using the peaker methodology and adjusted for 1999 energy consumption represents no more than an upper limit in establishing an appropriate interruptibility credit.

As noted by Staff witness Schunke and acknowledged by Monsanto, the "cost of service for firm load customers is an imprecise science and establishing the cost of service for an interruptible load is even more difficult, requiring considerable judgment." Tr. p. 714; Monsanto Post-Hearing Brief, p. 13. As a result of inconsistencies in both methods used to derive the value of the interruptibility credit, we find that a credit value of 7.48 mills/kWh representing the mid-

point of a range established by the two methodologies is reasonable. In fact, the record does not support any finding that is more precise or exact.

Based on the firm rate of 30.27 mills/kWh and an interruptible credit of 7.48 mills/kWh, we approve a total net price for interruptible service to Monsanto of 22.80 mills/kWh. We find the resultant price for service to Monsanto to be fair, just and reasonable, cost justified and supported by the evidence.

With respect to interruptible rate design, we find that maintaining an energy component of \$16.31/MWh sustains the strike price on which the value of interruptibility and economic curtailment at least in part is based. It also results in a reduced demand charge that allows Monsanto to buy through more economically while maintaining some contribution to fixed costs. We therefore find a discounted demand charge of \$4.09/kW-month to be reasonable based on net annual revenue of \$22.80/MWh. When 9 MW of firm non-furnace load is included in annual revenues at the firm rate, the net annual revenue per MWh is increased to \$23.16.

We recognize that other factors such as annual credit billing for interruption and changes in annual energy consumption by Monsanto including economic interruptions will also affect the revenue per MWh on an annual basis. The net annual revenue after the effects of interruption are included using Monsanto's methodology is \$23.48/MWh. While quantification of this effect may be useful for Monsanto, we find calculations such as these are largely offsetting and have little relevance in developing the net rate established by this Order.

Buy-Through (Replacement Power)

Under PacifiCorp's proposal, Monsanto will have the option to decline or buy-through the economic curtailment by paying for the cost of replacement power. The Company proposes that the replacement power cost for Monsanto be calculated by multiplying the curtailed load by the duration of the curtailment multiplied by the hourly-shaped daily Dow Jones Palo Verde Firm On-Peak Price. Reference Rev. Exh. 10. Monsanto contends that the replacement power price should be at the lowest cost available.

Commission Findings

While the Commission agrees with PacifiCorp that replacement power will most likely come from Palo Verde due to the system transmission configuration and the location of Monsanto within the system, we believe that to the extent possible, replacement power costs passed on to Monsanto should reflect the lowest possible actual cost at the time the transaction is

made. Lowest possible actual cost means the lowest price after PacifiCorp serves all its other retail and wholesale loads. During those hours when PacifiCorp's ability to utilize transmission on Path C is not constrained, Monsanto will pay PacifiCorp the lower of the appropriate (on peak or off peak) Dow Jones Mid-C or Palo Verde index price for firm power, shaped hourly in accordance with the shaping factors proposed by PacifiCorp (Exh. 16, Atch. A). For all other hours, Monsanto will pay for replacement power at the Palo Verde index prices, shaped hourly as proposed by PacifiCorp.

Miscellaneous Contract Terms (Termination/Reopeners)

PacifiCorp proposes that the Monsanto firm cost of service rate be subject to tariff standards. Such a standard would allow changes to contract rates, terms and conditions in a general rate case. The Company also proposes a Direct Access reopener which would provide either party the right to terminate the agreement within 90 days should Idaho statutes be amended to provide customers with the ability to choose an electric supplier. PacifiCorp recommends a reopener if the WECC amends its minimum operating reserve requirements. If a change in the requirement is made, PacifiCorp contends that it could potentially meet its Contingency Reserves-Non-Spinning as a zero-cost option on the Company's own resources without purchasing additional resources from Monsanto or others. Tr. p. 147. The Company proposes that the Evergreen Clause set forth in the termination provisions of the existing Agreement be modified to do away with the current ambiguity about when the contract terminates and what notice is required. The Company also opposes continuation of the existing "Most Favored Nations" clause, which provides that after three years, if PacifiCorp enters into an agreement or establishes a tariff with an interruptible customer upon more favorable terms the same offer would be made to Monsanto. The Company contends that the Most Favored Nations clause is one-sided and unfair.

Monsanto objects to the reopeners requested by PacifiCorp. Reopeners, Monsanto contends, eliminate the price certainty and stability it requires and shift to Monsanto the planning and operational risks that should be borne by the utility. Monsanto does however support inclusion of a "Most Favored Nations" clause. Monsanto also agrees to eliminate the current ambiguity about when the contract terminates by modifying the Evergreen Clause set forth in the existing agreement.

Commission Findings

The Commission finds the tariff standard proposed by the Company to be unreasonable. The Commission finds that the contract, apart from authorized reopeners, should be subject to the public interest contract standard as set forth in the *Agricultural Products* case, *Agricultural Products v. Utah Power Light Co.*, 98 Idaho 23, 557 P.2d 617 (1976). Under this doctrine, approved contract rates cannot be changed during the contract term unless we find that a change in rates is necessary to prevent an adverse effect on the public interest. The Commission finds the Company's proposal to reopen in the event of direct access implementation to be reasonable. The Commission also finds reasonable the Company's proposal to reopen the contract in the event the WECC amends the quantity and requirements of both contingency reserves and frequency response reserves. Tr. p. 145. WECC Operating Reserve requirements are outside the Company's control and are critical to the valuation of Non-spinning Operating Reserves. While we understand Monsanto's desire for price certainty, price stability and reduced risk, we find that these reopeners are necessary to avoid unfairness and an inequitable subsidy to Monsanto by other customers. For similar reasons, the Commission rejects Monsanto's proposed inclusion of a Most Favored Nations clause.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over PacifiCorp dba Utah Power & Light, an electric utility, and the issues presented in this case pursuant to Idaho Code, Title 61 and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED AND YOU ARE HEREBY NOTIFIED that the Commission provides Monsanto and PacifiCorp with the foregoing guidance with respect to the continued negotiation and crafting of a new service agreement.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 27th
day of January 2003.


PAUL KJELLANDER, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


DENNIS S. HANSEN, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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