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IDAHO PUBLIC  
UTILITIES COMMISSION

Attorneys for Monsanto Company

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE FILING BY )**  
**PACIFICORP DBA UTAH POWER & LIGHT )**  
**OF ITS 2003 ELECTRIC )**  
**Integrated resource plan (IRP). )**  

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*03-02*  
Case No. PAC-E-~~01-16~~

**COMMENTS OF  
MONSANTO COMPANY**

COMES NOW Monsanto Company ("Monsanto"), through counsel, and hereby submits the following Comments on PacifiCorp's Integrated Resource Plan ("IRP") in response to the Notice of Filing and Notice of Comment Deadline issued on February 13, 2003. Monsanto was granted an extension to April 9, 2003 to submit these Comments and appreciates the opportunity to participate.

Monsanto will provide general comments addressing certain areas of broad concern which are intended to be constructive in nature, rather than criticism. Monsanto commends PacifiCorp for its extensive analysis and for soliciting and considering significant input from the Idaho Public Utilities Commission ("Commission"), Staff and the public. Monsanto also commends the Staff for taking an active role in critiquing and providing comment on the IRP during the review process.

Monsanto submits that the Commission's Order should address and provide guidance to PacifiCorp on at least the following issues:

1. **ACKNOWLEDGMENT.** Monsanto suggests the Commission “acknowledge”, not “approve” or “disapprove” the filing of PacifiCorp’s IRP. As stated by the Commission in Case No. GNR-E-93-3, Order No. 25260:

“In order to encourage prudent planning . . . an electric utility’s plan must be on file with the Commission and available for public inspection, but the filing of the plan does not constitute approval or disapproval of the plan having the force and effect of law, and the deviation from the plan would not constitute violation of the Commission’s Orders or Rules. The prudence of a utility’s plan and the utility’s prudence in following or not following a plan are matters that may be considered in a general rate case proceeding or other proceeding in which those issues have been noticed.” (Emphasis added.)

Accordingly, the Commission should not follow PacifiCorp’s request for endorsement of the IRP conclusions and specific Action Plan. Specific courses of action undertaken by utilities must remain subject to prudence review in a general rate case when cost recovery is sought.

2. **FREQUENT REVIEW.** PacifiCorp is commended for its commitment to revisit and refresh the Action Plan no less frequently than annually and file new IRP Plans at two-year intervals. This recognizes the need to remain flexible to adjust for future changes, uncertainties and opportunities.

The Commission is urged to use a high level of scrutiny in reviewing IRP filings. This appears particularly important given the past lessons of the 2000-2001 energy crisis and in moving forward when the electric industry is expected to face regulatory change, industry restructuring and market volatility. An even greater need is warranted for PacifiCorp as it embarks in view of its Action Plan to add 4000 megawatts of new resources over the next ten years and resulting capital requirements projected to exceed \$2 billion, which will significantly impact rates.

3. **DEMAND SIDE MANAGEMENT (“DSM”).** This Commission recently stated in Order No. 29189, Case No. IPC-E-02-8, that it is “especially important” for an IRP planning

document to “give balance consideration to demand side and supply side resources when formulating resource plans and when procuring resources.” Reference Order No. 22299, Case No. U-1500-165. Although the IRP includes significant assumed DSM, it does not succeed in adequately placing DSM resources or customer generation resources on a consistent and comparable basis for purposes of evaluation or pricing. The Commission should direct PacifiCorp to develop procedures and pricing mechanisms that will better place DSM measures and customer co-generation projects on an even and comparable basis with supply side resources, and that will ensure that all efficient and effective alternatives to traditional utility-built resources will be pursued.

**4. CONSERVATIVE ASSUMPTIONS.** The IRP makes a number of conservative assumptions that dramatically increase the projection of required new resources. Among the most significant are a new 15 percent planning reserve margin, a 5 percent limit on expected short-term market exposure, modeling of firm transmission rights only, assumed carbon taxes, renewable assumptions and restrictions on market products and purchases. Collectively, these assumptions lead to extreme projections for necessary resource additions.

To meet a 15 percent planning margin, the IRP adds peaking resources, as necessary, to ensure a 15 percent margin at the peak hour by fiscal year 2006/2007. The planning margin assumption was apparently based on PacifiCorp’s reading of FERC’s Standard Market Design (“SMD”) proposal, and RTO West Order. The SMD proposal considered planning margins ranging from 12 percent to 18 percent. (IRP at 42.) Although it is not clear whether SMD will ever be adopted and, if so, in what form, the IRP includes a 15 percent planning margin, reflecting the midpoint in the SMD range, in developing portfolios. The IRP also imposes a cap on expected short-term market exposure of 5 percent of the hours in any fiscal year to develop the various resource

portfolios. These two assumptions have a significant impact on the need for and timing of new generation resources. The combined effect of these two assumptions allows PacifiCorp to almost totally insulate itself from volatility in the short-term electric markets. While such a strategy will increase rate stability and mitigate against upward market price risks, the risk insulating affects come with a significant price tag, driving approximately 1500 of 4000 megawatts of projected new capacity requirements.

PacifiCorp evaluated the impact of reducing the 15 percent planning margin to 10 percent on four of the resource portfolios. The results indicate that such reduction in planning margin would decrease needed capacity additions by 500 to 550 megawatts by 2013, with significant revenue requirement savings. Moreover, the IRP admits that the additional capacity required by a 15 percent planning margin is *not* offset by a commensurate reduction of risk (IRP at 141-142). The IRP nevertheless utilizes a 15 percent planning margin in the “base case” runs.

Monsanto believes it is premature to assume a new RTO or SMD planning margin requirements, particularly in the development of base case resource portfolios. While it is interesting and useful to understand the impact that any proposed RTO or SMD planning reserve may have on revenue requirement, that analysis should be a separate scenario evaluation or stress test. Base case runs should more accurately utilize current reserve requirements to place the risk of new planning margin requirements in the proper context within the IRP.

Monsanto also disagrees with the 5 percent limitation on expected short-term market purchases used in the resource portfolio development. Monsanto is further concerned that the IRP lacks any adequate analysis or projection of future purchase power prices. At a minimum, an IRP should discuss and analyze the resource addition impacts and the associated revenue requirement

impacts of various short-term market exposure limits. Such analysis would allow parties to better understand the trade-offs between risk reduction and cost. The implicit evaluation contained within the Stochastic Risk Assessment sheds little light on the most reasonable level of reliance on the short-term market when determining resource additions in the portfolios. In addition, an explicit discussion of the issue would allow the parties to consider whether other short-term market risk mitigation strategies would be a more appropriate means to help insulate ratepayers from short-term market volatility.

PacifiCorp should be instructed in this and future IRPs to evaluate a wide range of short and long-term market opportunities and other available resources and hedging instruments, and at various prices and assumptions. Monsanto believes that numerous market opportunities currently exist and will arise in the future, and analysis and alternative plans to capitalize on the market opportunities will benefit Idaho ratepayers.

**5. BASE CASE.** An IRP “base case” should represent the utility’s best reasonable projections of future conditions, rather than assuming speculative changes or charges or incorporating risk mitigation measures (such as increased planning margin requirements, carbon taxes, unavailability of non-firm transmission, etc.). A meaningful base case that includes only reasonably known and measurable future changes, along with a wide range of alternative scenarios and stress tests, makes comparative analysis more meaningful and allows the parties and the Commission to better understand and evaluate the costs and implications of various resource options and risk factors.

PacifiCorp should be instructed in future IRPs to utilize a “base case” for analysis purposes that includes PacifiCorp’s best reasonable predictions as to reasonably known and measurable

conditions and expectations. The base case run should not assume speculative or unknown events, such as possible new taxes or reserve requirements.

**6. OPEN BIDDING.** A fair, open and competitive bidding process should be mandatory for any significant future resource acquisitions. The process should include independent analysis and oversight in the formulation and evaluation of RFPs and in awarding contracts. It should also include a process for Commission resolution of disputes that may arise in the RFP, bidding and contracting processes.

PacifiCorp's IRP states a general intention to evaluate available market opportunities through its procurement policies on a case-by-case basis (IRP at 2), including an "effective RFP process" (IRP at 395). However, it fails to provide sufficient details of its proposed RFP process to provide any comfort that the process will be open and independent and will produce optimal results. Monsanto believes that an indispensable prerequisite for any future plant construction, acquisition, or repowering by PacifiCorp is an effective RFP process that is independently designed, monitored and analyzed. The Commission should instruct PacifiCorp unequivocally that an open, competitive, independent RFP process is a critical component of future resource acquisition.

The IRP discusses the allocation of risk between shareholders and ratepayers, but it fails to discuss at least one very important risk dynamic. As a regulated utility, PacifiCorp is permitted to earn a return for its shareholders only on rate-based assets. The reality creates an inherent bias in favor of utility construction of resources over acquisition of resources from others. This bias is a significant part of the reason why the Commission should require an open, competitive RFP process, with independent, outside input and evaluation, to assure ratepayers that the resources selected will be the optimal resources for ratepayers, not just PacifiCorp.

7. **RATEPAYER IMPACT.** The IRP attempts to evaluate cost-effectiveness of various supply side resource options, to identify potential rate impacts, and to identify some social issues. However, the IRP does not attempt to identify impacts on different classes of ratepayers. The ratepayer impact section is confusing (IRP at 113-118). PacifiCorp should be directed in this and future IRPs to include a more comprehensive and understandable analysis of ratepayer impacts, both collectively and by class.

Additionally, this and future IRPs should consider elasticity of demand by various rate classes in response to projected rate increases resulting from anticipated resource acquisitions and rate design options. The IRP does not adequately address price elasticity of demand or how the projected price increases reflected in the IRP may affect consumption. It is likely that some customers will be unable to bear the significant projected price impacts, and others will curtail usage in response to price signals. This will particularly be likely if rate design is used to encourage conservation. Accordingly, PacifiCorp should be directed in future IRPs to more directly address price elasticity and forecast effects of projected price increases and changes in rate design on consumption by rate classes.

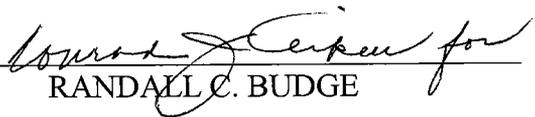
### **CONCLUSION**

Monsanto appreciates the efforts of PacifiCorp and others in developing the IRP and believes it complies with the Commission's requirements. While the Commission should acknowledge the filing of the IRP, the Commission's adoption or support of the proposed Action Plan is not necessary or warranted. Monsanto respectfully requests that the Commission take this opportunity to provide PacifiCorp with meaningful guidance on the need for new procedures and pricing mechanisms to place DSM measures and customer co-generation projects on an even and comparable basis with

supply side resources, the need to more carefully evaluate a variety of market opportunities, the need for a fair, open and competitive bidding process in connection with resource acquisitions and the need to identify potential rate impacts and address the elasticity of demand.

RESPECTFULLY SUBMITTED this 9<sup>th</sup> day of April, 2003.

RACINE, OLSON, NYE, BUDGE &  
BAILEY, CHARTERED

By  for  
RANDALL C. BUDGE

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 9<sup>th</sup> day of April, 2003, I mailed a true and complete copy of the foregoing document, postage prepaid, to each of the following:

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