

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF PACIFICORP DBA ROCKY MOUNTAIN)	CASE NO. PAC-E-06-09
POWER FOR APPROVAL OF AN)	
ELECTRIC SERVICE AGREEMENT WITH)	ORDER NO. 30197
<u>MONSANTO COMPANY</u>)	

Background

Pursuant to Commission approved Stipulation in PacifiCorp's 2005 rate case (PAC-E-05-01, Order No. 29833) PacifiCorp agreed to file a general rate case no later than April 29, 2006 to address cost of service issues not resolved in the 2005 Stipulation and to time the effective date of new rates to coincide with the expiration of the current Monsanto contract (December 31, 2006). The Company's 2006 filing was delayed to permit Company contract negotiations to proceed with Monsanto. The Company's filings in Case Nos. PAC-E-06-04, 06-08 and 06-09 are intended to satisfy its 2005 Stipulation filing commitment.

On June 21, 2006, PacifiCorp dba Rocky Mountain Power (PacifiCorp; Company) filed an Application with the Idaho Public Utilities Commission (Commission) in Case No. PAC-E-06-04 requesting authority to implement revised rates in electric tariff Schedules 10 (Irrigation), 400 (Monsanto Company) and 401 (Nu-West Industries). Simultaneous and related filings were made in Case Nos. PAC-E-06-08 (Nu-West Stipulation) and PAC-E-06-09 (Monsanto Service Agreement). The filing in Case No. PAC-E-06-09 can be summarized as follows:

Application – Case No. PAC-E-06-09 and Monsanto Electric Service Agreement

PacifiCorp in this case presents for Commission approval a May 18, 2006 Electric Service Agreement (Agreement) with Monsanto Company. The Company requests approval of related electric tariff Schedule No. 400 rate adjustment in Case No. PAC-E-06-04 (Rate Increase – Schedules 10 (Irrigators), 400 (Monsanto Company), and 401 (Nu-West Industries)).

Monsanto operates an elemental phosphorous plant near the city of Soda Springs in Caribou County, Idaho. The existing Agreement governing electric service to Monsanto terminates December 31, 2006. The submitted Agreement will become effective January 1, 2007 with an initial term through December 31, 2009. The Agreement will automatically renew for

successive one-year terms unless and until either party gives not less than 180 days written notice of termination.

Rates for service under the Agreement are fixed through year-end 2007. Commission authorized tariff rate changes after January 1, 2008, including surcharges or credits, as reflected in Schedule No. 400 or its successor, will apply to service under the Agreement on the effective date of the authorized adjustment.

On August 21, 2006, the Commission issued Notices of Modified Procedure, Scheduling and Hearing in Case No. PAC-E-06-09. The deadline for filing written comments was November 3, 2006; the deadline for filing reply comments was November 17, 2006. Also scheduled was a hearing date of November 28, 2006 for presentation of the Company's prefiled testimony in Case No. PAC-E-06-04 and to provide an opportunity for Commission inquiry regarding filings in Case Nos. PAC-E-06-04, PAC-E-06-08 (Nu-West Stipulation) and PAC-E-06-09 (Monsanto Service Agreement).

Timely comments in Case No. PAC-E-06-09 were filed by Commission Staff and Monsanto. In a letter filed with the Commission on November 14, 2006, PacifiCorp expresses its general support for the comments filed by all parties in Case Nos. PAC-E-06-04, PAC-E-06-08 and PAC-E-06-09. PacifiCorp stated that the current written record provides a sufficient basis for the Commission to make its decision on the merits of each Application and requested that the hearing set for November 28, 2006 be vacated.

On November 20, 2006, the Commission, finding that the written record formed a sufficient basis for decision, issued Order No. 30182 vacating the hearing scheduled for November 28, 2006.

The comments filed by Monsanto and Commission Staff can be summarized as follows:

Monsanto Company

Monsanto submits that the proposed 2007 Agreement between PacifiCorp and Monsanto and the revised tariff Schedule No. 400 are in the public interest and the terms and conditions produce rates that are fair, just and reasonable.

Monsanto notes that it is PacifiCorp's largest single point customer with an electric load of just under 200 MW. On average, Monsanto consumes in excess of 1.33 million MWh of electricity, roughly 43 percent of PacifiCorp's Idaho jurisdictional load. Electricity, Monsanto

contends, is the largest single cost of producing phosphorus at its Soda Springs plant and represents approximately one-third of its total production costs. Low electricity costs together with price certainty and stability, it states, are critically important to Monsanto.

Monsanto in its comments recounts that its present 2003 contract became effective January 1, 2003 and terminates December 31, 2006. Unique features of the 2003 contract included 800 hours of interruption options consisting of 288 hours of operating reserves, 12 hours of system integrity interruptions and 500 hours of economic interruptions. Monsanto was provided with the option of buying through interruptions at replacement energy costs at an adjusted index price. Under the 2003 contract, the firm and interruptible rates result in an overall average net rate to Monsanto of 22.97 mills per kWh.

The basic contract terms of the new Agreement, Monsanto states, are fundamentally the same as the terms of the 2003 contract, with the exception of price increases and a price adjustment mechanism based upon tariff rate changes after January 1, 2008. Monsanto's firm rates will increase by \$6,843,817, or 16.5% above existing firm rates. Additionally, pursuant to Section 2.2 of the Agreement (amended December 12, 2006), the prices specified in Section 4.1 of the Agreement and in Idaho Electric Service Schedule No. 400 or its successor shall be subject to tariff adjustment after January 1, 2008. Subjecting Monsanto's rates to tariff rate adjustments, Monsanto states, represents a substantial departure from all past contracts. Monsanto states that it made this concession in order to establish a new and improved business relationship with PacifiCorp, to align the timing of Monsanto rate changes with that of other customers and to overcome perceived problems with cost of service studies and the allocation of costs and revenues on an inter-jurisdictional basis.

Monsanto notes also that it reluctantly agreed to raise the hours of interruption for its Soda Springs facilities from 800 to 1000 hours, a 25% increase from the 2003 contract. After PacifiCorp's cost of service studies indicated a substantial increase in firm rates, Monsanto states it felt compelled to increase the interruption hours to increase the interruptible credit in an amount sufficient to establish a lower net rate in an effort to keep production costs at a competitive level. Both parties, it states, continue to place considerable value on Monsanto's interruptibility as to its quantity, timing and dependability. The agreed-upon interruptible credit, it contends, was a matter of compromise necessary to achieve the Agreement both parties strongly sought.

Commission Staff

Staff recommends that the Commission approve the proposed Agreement between PacifiCorp and Monsanto. The Agreement, Staff contends, supports Staff's position that Monsanto contract revenue paid to PacifiCorp should reasonably reflect cost of service. Staff also believes that the move of Monsanto to a tariff standard contract will provide a closer link between revenue and cost of service going forward and is appropriate.

Staff notes that the methods utilized to value the interruptibility credits reflect an improvement over the methods proposed in Case No. PAC-E-01-16 (Interim Provisions for Electric Service to Monsanto). Furthermore, Staff recognizes the value to Monsanto, Idaho ratepayers and the PacifiCorp system of periodic re-evaluation of interruptible services and values in conjunction with Idaho general rate cases. Finally, Staff believes that the rates and charges for Monsanto (tariff Schedule 400) were reasonably negotiated to produce a cost based revenue requirement and equitably meet the needs of both parties

To evaluate the reasonableness of the Monsanto Agreement, Staff audited the Company's results of operations for test year ending September 30, 2005. Staff's audit report is filed in Case No. PAC-E-06-04. The revenue that PacifiCorp would be able to collect with the increases requested in PacifiCorp Case Nos. PAC-E-06-04, PAC-E-06-08 and PAC-E-06-09, Staff concludes, is less than the adjusted revenue requirement Staff determined through its audit. Therefore, from a revenue requirement increase perspective, Staff concludes that the requested increases in the three Applications are reasonable.

Based on the results of the cost of service study submitted as Company Exhibit No. 2 in Case No. PAC-E-06-04, Monsanto's revenue requirement under the Agreement is increased by \$6.5 million, or 16.5%. The proposed increase, Staff states, continues the principle of cost-based service by moving Monsanto more than halfway toward full cost of service as specified in the study. Staff's analysis of the revenue requirement and cost of service study is detailed in Case No. PAC-E-06-04. Staff supports the contract language in the Agreement as being equitable to both parties. Not only will the Company be able to collect revenues from Monsanto based on its cost of service, it states, but the price paid to Monsanto will reflect the value of the products it provides the Company. The language in tariff Schedule 400 has been revised to accommodate the nature of the Monsanto Agreement, in that a specific dollar amount for the

Interruptible Demand Charge is replaced with "Firm Demand Charge minus Interruptible Credit." Exhibit Accompanying Direct Testimony of Jeffrey K. Larsen.

Under the Agreement, Monsanto will incur separate charges for firm power and energy with assured availability and delivery, and interruptible power and energy subject to delivery provisions specified in the Agreement. Firm power and energy is defined as the first 9,000 kW of demand and the associated energy provided to Monsanto during the monthly billing period. The 9,000 kW of firm power represents roughly 4% of Monsanto's total contract demand of 215,000 kW, an amount of energy the Company agrees to have available to serve Monsanto. The rates reflect a nominal increase of roughly 19%, 13.5%, and 253% for the firm energy charge, firm demand charge and customer charge, respectively. These tariff Schedule 400 changes, Staff states, generate the revenue requirement when anticipated annual billing determinates in the 2005 cost of service study for Monsanto are applied.

Interruptible power and energy are defined in the Agreement as the difference between the measured demand for the billing period and the firm demand, and the associated energy delivered during the billing period. This is not, Staff notes, the difference between the total contract demand and firm demand, but rather it is based on actual billed usage. In return for providing the Company with interruptible and curtailment options, Monsanto will receive a credit to its demand charge for interruptible power (Agreement, Section 4.1.2). The interruptible energy charge is the same as the firm energy charge, 19.40 mills per kWh during the billing period. The following is a summary of the revised tariff Schedule 400 rates:

EXISTING AND PROPOSED REVISIONS TO TARIFF SCHEDULE 400		
Monthly Charges	Existing	Proposed in Stipulation
Firm Energy	16.31 mills/kWh	19.40 mills/kWh
Firm Demand	\$8.81 per kW	\$10.00 per kW
Customer Charge	\$283 per Billing Period	\$1000 per Billing Period
Interruptible Energy	16.31 mills/kWh	19.40 mills/kWh
Interruptible Demand	\$4.09 per kW	CONFIDENTIAL

Valuation of Interruptible Credits

The Agreement sets the terms of electrical service provided by the Company and the interruptible products offered by Monsanto for a three-year period starting January 1, 2007. Staff evaluated the methodology used to derive values associated with the interruptible products and compared the methodology to that used in the current contract. The methods used to value the interruptible services are based on the cost the Company otherwise would have incurred to obtain the similar services in the absence of the Monsanto contract.

The determination of the interruptible credit, Staff notes, is predicated on three distinct interruptible products offered by Monsanto. Under the Agreement, the Company may curtail service to Monsanto (1) to meet operating reserve requirements, (2) during periods where it is economically beneficial to the Company and its ratepayers to do so, and (3) to maintain the Company's system integrity in case of a double contingency event. The Agreement stipulates the maximum amount of hours associated with each product that the Company has available during the calendar year as well as the required notification time and buy-through options for Monsanto.

Operating Reserve Product

The operating reserve product provides the Company with the ability to curtail a portion of service to Monsanto in order to maintain compliance with the Western Electricity Coordinating Council (WECC) standards ensuring reliable operation of the interconnected electrical system and is therefore considered part of the Company's non-spinning reserves. The proposed Agreement states that interruption periods are for the duration of one hour, may not exceed four consecutive hours, and are limited to 25 interruptions per month and no more than 188 hours per calendar year. Agreement, Exhibit A, Section 5.1. The current contract has an upper bound on operating reserve interruptions of 288 hours per calendar year. The proposed Agreement reflects the fact that the Company has not required such an amount of curtailment in the past, such as in 2005 when only 100 hours of operating reserve curtailment were called upon.

The Company values the operating reserve product based on the opportunity cost of holding an economically viable plant offline in order to meet operating reserve requirements. This methodology also takes into account the benefits of not having to set aside transmission from its hydro units in the west should the reserves be needed. Staff believes that the Company's valuation methodology for the operating reserves product is reasonable and the service provides

significant benefit to the PacifiCorp system. As with the system integrity product, Monsanto provides a level of insurance and flexibility for the Company to operate under WECC standards. The Company has clarified that the short-term portion of the price curve (less than six years) is based on actual market quotes that the Company faces that are updated daily and are not reliant on an internally derived price forecast.

Economic Curtailment Product

The economic curtailment product is designed to allow the Company to curtail the load on Monsanto's largest furnace with no less than two hours notice from the Company. This option reduces the Company's power supply costs by freeing up the energy associated with the furnace for sale on the market. The upper bound for economic curtailment is 800 hours per calendar year, an increase of 300 hours over the current contract. Agreement, Exhibit B, Section 2.1. Using its forward price curve, the Company values the economic curtailment product as the market value of the energy during the 800 most expensive hours of the year. Monsanto has the option to buy-through the economic curtailment for replacement energy at an appropriate index price adjusted by a mutually agreed upon hourly shaping factor, representing the Company's system demands over the course of a day. Exhibit B-1. Staff notes that both the valuation methodology and buy-through option for economic curtailment received much scrutiny during the last electric service agreement case between Monsanto and the Company (Case No. PAC-E-01-16). The Commission has rejected both the Company's use of the Black-Scholes model for options valuing and Monsanto's avoided peaking resource methodology for the credit (Order No. 29157). Staff concludes that the methods used in this Agreement are less complicated, provide Monsanto with a fair and reasonable buy-through price, and more accurately reflect the value of this service to the PacifiCorp system. The Agreement facilitates adjustment of the hourly shaping factors upon review and mutual agreement between the Parties and supports the conventional wisdom that there is value for hours beyond the maximum 500 hours of curtailment in the current 2003 contract. This last point directly relates to the use of the Black-Scholes model from Case No. PAC-E-01-16, where the Company derived minimal, if any, value for economic curtailment above 500 hours per year. Since that case, the Company has utilized the maximum amount of economic curtailment each of the past three years, seemingly contradicting, Staff contends, the results from the Company's Black-Scholes model.

System Integrity Product

The final interruptible component of the Agreement is the system integrity product. System integrity interruptions can occur in order to maintain prudent reliability and voltage levels, or in the case of a double contingency event (when there is a forced outage of at least two Company generating units totaling 500 MW of capacity or greater within 48 hours of each other that overlap for at least an hour). The Company may curtail 162 MW of Monsanto's load in the case of a voltage related incident, and 95 MW for double contingency events. Similar to the current contract, system integrity interruptions are capped at twelve hours per year, but may last longer than an hour in duration. The Company benefit for system integrity interruptions resides in avoiding having to expose its ratepayers to market prices to meet its load needs. The Company's methodology for the system integrity product uses the annual average high load hour (HLH) price as a basis for valuation. Staff finds this to be a reasonable method as the probability of a system outage event is relatively equal across all hours of the year.

Commission Findings

The Commission has reviewed and considered the filings of record in Case No. PAC-E-06-09 including the comments and recommendations of Commission Staff and Monsanto. The Commission has also reviewed and considered the filings of record in Case No. PAC-E-06-04 wherein the Company includes its proposed adjustment to electric tariff Schedule No. 400 and wherein Staff has filed its analysis of Monsanto revenue requirement and cost of service. The Commission continues to find it reasonable to process this case pursuant to Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.204.

The Commission commends the efforts of the Company and Monsanto in negotiating what we find to be a fair and reasonable Service Agreement. The 16.5% (\$6,843,817) increase in rates to Monsanto is a justified increase that moves Monsanto more than half way toward the approximate \$13 million required by the Company's study to attain full cost of service. Commercial and residential customers under the Company's cost of service study are presently at or near full cost of service. No change in rates for these customers is proposed in the Company's PAC-E-06-04 docket. The perceived shortfall in Monsanto's return is acceptable given the Company's present willingness to absorb the difference.

The transition of Monsanto from contract to tariff standard customer, we find, will facilitate future rate adjustments and should serve to keep Monsanto's rates better aligned with its cost of service. We appreciate that in moving to a tariff-based rate Monsanto has given up some of the certainty provided in a contract-based rate structure. In doing so, however, we note that Monsanto was the last of PacifiCorp's contract customers to make the transition. While tariff rates may present Monsanto with new challenges, we perceive the regulatory result to be positive and one of greater equity. Under the submitted Agreement Monsanto's future rates after January 1, 2008 will be adjusted using the same process as all other customers.

Included in the Agreement are three interruptible provisions that provide operational benefits to PacifiCorp. The products offered also provide Monsanto with a means of controlling its net energy price. We find the products to be priced at a level commensurate with the value they represent today. Monsanto contends that public disclosure of the interruptible demand credit will compromise its ability to compete in the world market for elemental phosphorus. We accept its certified representations as true and agree to maintain the confidentiality of that information.

The Commission also recognizes that the value of interruptible products furnished by Monsanto as well as Monsanto's cost of service will be important considerations in establishing the net rate to Monsanto in the future. Consequently, we expect the parties to address interruptible product valuation in the context of a general rate case when Monsanto's cost of service is determined.

Accordingly, the Commission finds it reasonable to approve the submitted Agreement governing electric service to Monsanto for an effective date of January 1, 2007.

CONCLUSIONS OF LAW


The Idaho Public Utilities Commission has jurisdiction over PacifiCorp dba Rocky Mountain Power, an electric utility, and the Application in Case No. PAC-E-06-09 pursuant to Title 61, Idaho Code, 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 the Commission does hereby approve the May 18, 2006 Electric Service Agreement between PacifiCorp and Monsanto Company submitted in Case No. PAC-E-06-09.

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.

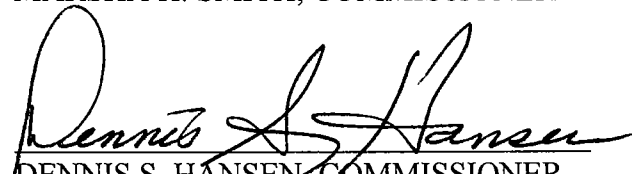
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 18th day of December 2006.



PAUL KJELLANDER, PRESIDENT

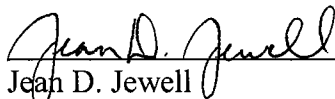


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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