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Attorney for the Commission Staff

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF )	
PACIFICORP DBA ROCKY MOUNTAIN )	CASE NO. PAC-E-06-9
POWER FOR APPROVAL OF AN ELECTRIC )	
SERVICE AGREEMENT WITH MONSANTO )	
COMPANY. )	COMMENTS OF THE
)	COMMISSION STAFF
)	

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**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Modified Procedure, Notice of Scheduling and Notice of Hearing issued on August 21, 2006 submits the following comments.

### BACKGROUND

Pursuant to Commission approved Stipulation in PacifiCorp's 2005 rate case (PAC-E-05-1, 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-06-4 (Rate increase – Schedules 10, 400,

401), 06-8 (Nu-West Stipulation) and 06-9 (Monsanto Service Agreement) are intended to satisfy its 2005 Stipulation filing commitment.

### **Application**

PacifiCorp in Case No. PAC-E-06-9 presents for Commission approval a May 18, 2006 Electric Service Agreement (Agreement) with Monsanto Company. The Company requests approval of the related Tariff Schedule 400 rate adjustment in Case No. PAC-E-06-4.

Monsanto operates an elemental phosphorous plant near the city of Soda Springs in Caribou County, Idaho. The existing contract governing electric service to Monsanto terminates December 31, 2006. The submitted Agreement is a three-year contract that will become effective January 1, 2007.

Rates for service under the Agreement will be adjusted to equal the Commission approved rates applicable to Monsanto resulting from any general rate case or other filing by PacifiCorp effective after January 1, 2008. 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.

### **STAFF ANALYSIS**

#### **Revenue Requirement Analysis**

Staff audited the Results of Operations (Larsen Testimony, Exhibit 1) for a test year ending September 30, 2005. During the course of the audit, Staff determined that there should be adjustments to the Results of Operations for reductions in the return on equity, reductions in capital projects that should not be included in rate base and for reductions in annual expenses. Staff believed it necessary to make these adjustments to the Results of Operations in order to evaluate the reasonableness of the Company's combined revenue requirement proposal made in the three filings. These adjustments and resulting revenue requirement will be considered preliminary for future rate cases where other adjustments may be made. Staff's adjustments reduce the revenue requirement for Idaho by approximately \$5.0 million. The Staff Audit Report is provided as Attachment A, Staff Audit Report, Staff Comments/Case No. PAC-E-06-4.

The Idaho revenue requirement including Staff's adjustments was compared to the revenues the Company is currently collecting plus the \$8.25 million in increases it is asking for in the three cases. The revenue that the Company would be able to collect with the increases requested in these

three cases is less than the adjusted revenue requirement Staff determined through its audit. Therefore, from a revenue requirement increase perspective, the requested increases in the Applications are reasonable.

### **Foundation of the Agreement**

Based on the results of the cost of service study submitted as Company Exhibit No. 2 in Case No. PAC-E-06-4, Monsanto revenue requirement under the Agreement is increased by \$6.5 million, or 16.5%. The proposed increase continues the principal 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-06-4.

At the same time, the new Agreement provides valuable products and services to the PacifiCorp system in the form of interruption for economic and reliability purposes. Revenue paid under the contract to Monsanto for these interruptible services help to offset the increased costs incurred by Monsanto to receive electrical service.

The Agreement represents the first contract between Monsanto and the Company that would be considered a Tariff Standard, rather than a Contract Standard. A tariff standard contract is subject to general rate changes approved by the Commission during the term of the Agreement.

It will therefore provide a closer link going forward between the contract rates and cost of service. As explained in Section 2.2 of the Agreement, adjustments may be made to, but not limited to, the customer charges, demand charges, energy charges, as well as the credit value. Staff supports the 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, but the price paid to Monsanto will reflect the value of the products it provides the Company. Both the Company and Monsanto have assured Staff that there are opportunities for either side to reevaluate the credits in the context of a general rate case. Staff believes it is important for Monsanto to have an opportunity to reevaluate the value of the credits at the same time rates are changed to reflect changes in cost of service. This ability will help keep rates affordable for Monsanto and reduce the need to argue cost of service in a general rate case. 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).

## **Contract Terms**

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. For each billing period, Monsanto will be assessed a Firm Demand Charge, a Firm Energy Charge and a Firm Customer Charge as shown in the table below (Agreement, Section 4.1.1). 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 generate the revenue requirement when anticipated annual billing determinates in the 2005 cost of service study for Monsanto are applied.

Interruptible Power and Energy is defined in the Agreement as the difference between the measured demand for the billing period and the Firm Demand outlined above, and the associated energy delivered during the billing period. It should be noted that this is not 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 value of the interruptible credit is reflected in the valuation of the products described below. The Interruptible Energy charge is the same as the Firm Energy charge, 19.40 mills per kilowatt-hour during the billing period. The following is a summary of the Revised Tariff Schedule 400 rates:

<b>EXISTING AND PROPOSED REVISIONS TO TARIFF SCHEDULE 400</b>		
<b>Monthly Charges</b>	<b>Existing</b>	<b>Proposed in Stipulation</b>
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 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 on January 1, 2007. Staff has evaluated the methodology used to derive values associated with the interruptible products and compared the methodology to that used in the current contract, which is set to expire at the end of 2006. 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 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.

The operating reserve product provides the Company with the ability to curtail a portion of service to Monsanto in order to maintain compliance with WECC standards ensuring reliable operation of the interconnected electrical system, and is therefore considered part of the Company's non-spinning reserves. The amount of operating reserve curtailment available to the Company is dependent upon the given operations at the time when the Company contacts Monsanto. The proposed Agreement states that interruption periods are for the duration of one hour, may not exceed four consecutive hours, and is limited to twenty-five 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 was 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 guidelines. 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.

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"). 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 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 finds that the methods used in this Agreement are less complicated, provide Monsanto with a fair and reasonable buy-through price, and more accurately reflects 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 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 debunking the results from the Company's Black-Scholes model.

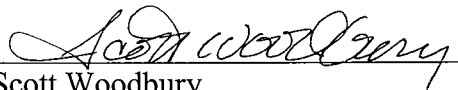
The final interruptible component of the Agreement is the system integrity product. System integrity interruptions can occur in order to maintain prudent reliability and voltage levels, or in the case of a double contingency event (when there is a forced outage of at least two Company generating units 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.

## **CONCLUSIONS AND RECOMMENDATIONS**

The Agreement supports Staff's position that Monsanto contract revenue paid to PacifiCorp should reasonably reflect cost of service. Staff also believes that the move 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. Furthermore, Staff recognizes the value to Monsanto, Idaho ratepayers and the PacifiCorp system of periodic reevaluation of interruptible services and values in conjunction with Idaho general rate cases. Finally, Staff believes that the rates and charges were reasonably negotiated to produce a cost based revenue requirement and equitably meet the needs of both parties. Therefore, Staff recommends that the Commission approve the proposed Agreement between PacifiCorp and Monsanto.

Respectfully submitted this 3<sup>rd</sup> day of November 2006.

  
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Scott Woodbury  
Deputy Attorney General

Technical Staff: Dave Schunke  
Bryan Lanspery  
Joe Leckie

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 3<sup>RD</sup> DAY OF NOVEMBER 2006, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. PAC-E-06-9, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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