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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR APPROVAL OF CHANGES TO ITS ELECTRIC SERVICE SCHEDULES AND A PRICE INCREASE OF $27.7 MILLION, OR APPROXIMATELY 13.7 PERCENT	)	**CASE NO. PAC-E-10-07** **Rebuttal Testimony of Steven R. McDougal**

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-10-07

January 2011

1 **Q. Please state your name and business address.**

2 A. My name is Steven R. McDougal and my business address is 201 South Main,

3 Suite 2300, Salt Lake City, Utah, 84111.

4 **Q. Are you the same Steven R. McDougal who submitted pre-filed direct and**

5 **rebuttal testimony in this proceeding?**

6 A. Yes.

7 **Purpose and Summary of Testimony**

8 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

9 A. The purpose of my testimony is to discuss how Ms. Kathryn E. Iverson's

10 testimony inappropriately values Monsanto's curtailment by altering jurisdictional

11 allocation to reflect an inappropriate level of Monsanto demand in the monthly

12 coincident peaks.

13 **Q. Did Ms. Iverson raise some of these same issues previously in this case?**

14 A. Yes. Some of the same arguments regarding treating Monsanto as "non-firm"

15 were introduced previously in this rate case proceeding. However, they have been

16 re-introduced into the economic valuation of Monsanto interruptible products

17 phase of this case by Ms. Iverson. Therefore, the Company believes it is

18 important to again point out the flaws in her arguments.

19 **Q. Please summarize your testimony.**

20 A. Monsanto is treated in jurisdictional allocations as a firm customer, consistent

21 with the treatment in prior cases in Idaho and in all other PacifiCorp states. This

22 method is consistent with the currently approved Revised Protocol allocation

23 method. Ms. Iverson, however, is proposing to change the allocation of Monsanto

1 to a method inconsistent with the Idaho Commission approved method.

2 **Monsanto Special Contract Allocation**

3 **Q. Do you agree with Ms. Iverson's assertion that jurisdictional allocations**
4 **should reflect only 9 MW of Monsanto's firm demand for purposes of**
5 **allocating costs?**

6 A. No. Ms. Iverson bases her argument on the claim that the Company has not
7 planned for, or acquired resources, on the basis of Monsanto's interruptible
8 products. Company witness Mr. Gregory N. Duvall provides testimony
9 demonstrating that Monsanto's claim is incorrect and that the Company does, in
10 fact, plan for Monsanto's entire load and is required to provide service to
11 Monsanto for the vast majority of the time. The current contract with Monsanto
12 limits the number of hours in a year the Company can interrupt service to
13 Monsanto and has specific constraints regarding the amount of load that can be
14 curtailed at a given time. In order for Ms. Iverson's assertion to be true the
15 Company would need the ability to curtail service to Monsanto at any time with
16 no limitation over the course of a year. This type of unlimited curtailment of
17 Monsanto has never existed.

18 **Q. Is the allocation of costs and benefits related to special contracts with**
19 **industrial customers a significant issue addressed in the Revised Protocol?**

20 A. Yes. The issue of allocating costs and benefits related to special contracts is an
21 important issue addressed by the Revised Protocol allocation agreement.
22 PacifiCorp's comments supporting the Stipulation state:

23 "the Revised Protocol, if ratified by all of PacifiCorp's state
24 commissions, will establish uniform policies in respect to a number

> of critical issues. These include…how the costs and benefits of special contracts with industrial customers will be allocated among states."[1]

In addition, the joint motion for approval of the settlement signed by PacifiCorp and the Idaho Commission on February 28, 2005 in Order No. 29708 identifies that the Revised Protocol addresses the allocation of special contracts.

Q. Please provide the language from the Revised Protocol that specifically deals with the treatment of Monsanto's special contract.

A. Appendix D of the Revised Protocol describes the treatment of special contracts, including those with ancillary service contract attributes such as the Company's contract with Monsanto. Specifically, the Revised Protocol states:

> "For allocation purposes Special Contracts with Ancillary Service Contract attributes are viewed as two transactions. PacifiCorp sells the customer electricity at the retail service rate and then buys the electricity back during the interruption period at the Ancillary Service Contract rate. Loads of Special Contract customers will be included in all Load-Based Dynamic Allocation Factors. When interruptions of a Special Contract customer's service occur, the host jurisdiction's Load-Based Dynamic Allocation Factors and the retail service revenue are calculated as though the interruption did not occur. Revenues received from Special Contract customer, before any discounts for Customer Ancillary Service attributes of the Special Contract, will be assigned to the State where the Special Contract customer is located. Discounts from tariff prices provided for in Special Contracts that recognize the Customer Ancillary Service Contract attributes of the Contract, and payments to retail customers for Customer Ancillary Services will be allocated among States on the same basis as System Resources."

[1] Page 4, PacifiCorp Comments in Support of Joint Motion for Acceptance of Settlement, Case No. PAC-E-02-3.

1 **Q. Have you treated the Company's agreement with Monsanto as a special**
2 **contract with ancillary service contract attributes, as described in Appendix**
3 **D of the Revised Protocol?**
4 A. Yes. The Revised Protocol language clearly describes that the service to
5 customers similar to Monsanto should be viewed "as two transactions". The first
6 is for firm service. Monsanto's load is included in the load-based dynamic
7 allocation factors, and the retail revenue is calculated as if there is no interruption
8 and is direct assigned to Idaho. The second transaction identified above is for the
9 ancillary services and is allocated among all states on the same basis as other
10 system resources.
11 **Q. Do you agree with Mr. Paul H. Clements that the Company needs to follow a**
12 **"customer indifference" approach in valuing Monsanto interruptible**
13 **products.**
14 A. Yes. As described above, the transaction for ancillary services is allocated among
15 all states on the same basis as other resources. Because of this, it is important that
16 the cost allocated to other states is consistent with the savings they receive from
17 the contracts. If the Company were to pay Monsanto more than the same price
18 the Company would otherwise pay to acquire those same products from other
19 sources it would harm other Idaho customers along with customers in other states.
20 **Q. Has Ms. Iverson addressed any reason why Monsanto's allocation should**
21 **deviate from prior rate cases and from the Revised Protocol allocation**
22 **method?**
23 A. No. Ms. Iverson continues to value Monsanto by incorrectly changing Idaho

1 jurisdictional loads, which is contrary to Revised Protocol and prior cases. In
2 doing so, Ms. Iverson does not address why this departure from Revised Protocol
3 is appropriate.
4 **Q. Have you reviewed Ms. Iverson's calculation of the impact on revenue**
5 **requirement in this case using her suggested 'non-firm' allocation approach?**
6 A. Yes.
7 **Q. Do you agree with her calculations in Table 3 of her testimony?**
8 A. No. Ms. Iverson's calculation continues to have the same flaws pointed out in my
9 rebuttal testimony in Phase I of this proceeding. She incorrectly assumes in her
10 table 3 that the Company does not plan for her Components 2 and 3, and therefore
11 assigns no capacity value to them. As pointed out in the testimony of Mr. Duvall,
12 this is a flawed assumption. Because she claims the Company does not plan for
13 Monsanto's non-firm load, Ms. Iverson has removed the demand from all 12
14 monthly coincident peaks used to determine Idaho's contribution to the system
15 peak. In other words, Ms. Iverson proposes to include only 9 MW of Monsanto
16 demand in the Idaho jurisdictional coincident peak every month. As described in
17 my earlier testimony, if Monsanto's load were to be excluded from the Idaho
18 jurisdictional peak for a study of this nature, it should only be excluded from a
19 limited number of months, realistically representing the impact of the curtailment
20 on PacifiCorp's operations. Ms. Iverson's representation of Monsanto
21 curtailment by removing all but 9 MW from the Idaho jurisdictional peak every
22 month and avoiding demand charges for every month of the year is inappropriate.

1 **Q. Has the Idaho Commission previously ruled on the appropriateness of**
2 **Monsanto paying a demand charge?**
3 A. Yes. In Order No. 29157 the Commission states "the contract for Monsanto
4 should specify separate rate components for firm service and for the
5 interruptibility discount. The fixed cost of service to Monsanto should not be
6 buried in an energy only rate, payable only if energy is used and possibly not
7 recovered in full, but should be captured in a fixed customer charge and demand
8 charge. ***Recovering fixed charges in this manner is consistent with rates***
9 ***formulated for other customer classes and recognizes the fact that PacifiCorp***
10 ***continues to incur and is required to be ready to serve even when Monsanto is***
11 ***idle***."[2] (Emphasis added)
12 This statement demonstrates two important facts that the Idaho
13 Commission has previously ruled on but Ms. Iverson is refusing to recognize.
14 First; an energy only rate as she proposes is not appropriate for of rate design, and
15 second; PacifiCorp continues to incur charges and has to be ready at all time to
16 serve Monsanto. This statement dispels Ms. Iverson and Mr. Brian C. Collins
17 argument that because Monsanto offers an interruptible product the Company
18 does not have to plan for or build facilities to serve Monsanto.
19 **Q. Why is it not realistic to remove 170.1 MW from each of the monthly**
20 **jurisdictional peaks?**
21 A. According to the terms of the Company's contract with Monsanto for 2010,
22 economic curtailment of 67 MW is available for 850 hours and operating reserves
23 curtailment of 95 MW is available for 188 hours. After accounting for line losses

[2] Final Order No. 29157 January 27, 2003, Case No. PAC-E-01-16 page 4.

1 the total curtailment is 170.1 MW. However, removing all 170.1 MW from each
2 month's coincident peaks is inappropriate for three reasons:

3 • Only 1,038 total hours are available for some type of curtailment, less than
4 12 percent of the hours in the year. For the remaining hours during which
5 Monsanto load is not curtailed the Company must stand ready to provide
6 electric service to Monsanto.

7 • Pursuant to the contract, the Company can never actually curtail all 170.1
8 MW at one time. Curtailment for operating reserves is assigned to two
9 smaller furnaces, with total load of 95 MW, and economic curtailment is
10 assigned to one larger furnace with a load of 67 MW. I f one of the
11 furnaces is already not operating either for maintenance or overhaul, the
12 Company can curtail both remaining furnaces, but the total curtailment
13 would be less than the 170.1 MW. If one of the furnaces is already not
14 operating for economic curtailment, the Company can only curtail one
15 additional furnace. This means the maximum actual curtailment is 116
16 MW out of the 170.1 proposed by Ms. Iverson.

17 • As shown on Tab 5 – Page 6 of Exhibit 49 sponsored by Company witness
18 Mr. C. Craig Paice, for eight out of twelve months during the test period
19 total Monsanto load at the coincident peak is actually less than 170.1 MW.
20 It would be entirely inappropriate to reduce Monsanto load below zero in a
21 given month.

22 **Q. Is there another major flaw in Ms. Iverson's analysis?**

23 A. Yes. When Ms. Iverson performed her allocation analysis she only reduced

Idaho's retail revenues for demand related costs by the net amount, (firm rate minus the interruptible credit). As noted earlier in my testimony Revised Protocol requires that the gross amount of revenues is assigned to the state with the interruptible credit treated as a system net power cost. Therefore Ms. Iverson's analysis overstated the value of the allocation changes by $8.1 million as a result of only removing the net demand revenues not the gross demand revenues.

Q. Have you reviewed the impact of Monsanto curtailment on the system peak?

A. Yes. I reviewed the Company's annual results of operations reports since 2005[3] to reveal the number of times in a year Monsanto load was actually curtailed at the time of the system peak. The table below shows that from April 2004 through December 2009 Monsanto curtailment events occurred at the time of the monthly system peak at most five times during a given year.

Curtailment Events at Hour of Monthly System Peak

	FY 2005	FY 2006	CY 2006	CY 2007	CY 2008	CY 2009
January						
February						
March						
April						
May						
June		x		x		
July	x		x	x		
August		x	x	x	x	
September			x	x		
October	x					
November		x	x	x		x
December	x		x			x
Count	**3**	**3**	**5**	**5**	**1**	**2**

All of the events in the table above are the result of economic curtailment; no operating reserve events occurred at the time of the system peak. Based on

[3] The IPUC approved the Revised Protocol Stipulation on February 28, 2005.

these historical records and the other reasons I have discussed in my testimony it is improper to remove Monsanto from all system peaks.

Q. Does this conclude your rebuttal testimony?

A. Yes.