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201 South Main, Suite 2300
Salt Lake City, Utah 84111

January 28, 2011

IDAHO PUBLIC
UTILITIES COMMISSION

Via Hand Delivery

Jean D. Jewell
Commission Secretary
Idaho Public Utilities Commission
472 W. Washington
Boise, ID 83702

Re: Case No. PAC-E-10-07 – Rocky Mountain Power – Sur-surrebuttal Testimony of Steven R. McDougal

Dear Ms. Jewell:

Please find enclosed an original and seven (7) copies of the Sur-Surrebuttal Testimony of Steven R. McDougal filed on behalf of Rocky Mountain Power in the above captioned proceeding. Electronic copies are being served on the parties today

Please contact me directly at (801) 220-4014 if you have questions or if I can be of further assistance.

Very Truly,

Daniel E. Solander

cc: Service List

Enclosures

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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

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 previously filed testimony in this**
5 **proceeding?**

6 A. Yes. I submitted pre-filed direct testimony in May 2010, rebuttal testimony in
7 November 2010, and rebuttal testimony on the economic valuation of Monsanto
8 interruptible products on January 14, 2011.

9 **Purpose and Summary of Testimony**

10 **Q. What is the purpose of your Monsanto sur-surrebuttal testimony in this**
11 **proceeding?**

12 A. The purpose of my testimony is to discuss Ms. Kathryn E. Iverson's surrebuttal
13 testimony on the economic valuation of Monsanto interruptible products.

14 **Q. What is your response to Ms. Iverson's rebuttal and surrebuttal testimony?**

15 A. Ms. Iverson is continuing to do the same analysis and has not corrected any of her
16 fundamental flaws. In response to the Company's criticisms of her JAM study,
17 she states "To prove they are without merit, I am providing an Idaho class COS
18 study that separate out Monsanto's "Contract 1" line into four distinct
19 components."¹ She then continues to do an identical study based on the incorrect
20 assumption that Monsanto should only be allocated firm demand of 9MW. The
21 only difference between the two is whether the capacity associated with the
22 operating reserves and economic curtailment are removed through jurisdictional
23 allocations, or through a cost of service calculation. She then states "The

¹ Iverson direct, December 22, 2010, page 16, lines 16-18

1 resulting increase of \$0.8 million is very similar to the amount I previously found
2 (\$0.9 million) when I revised the JAM study to better reflect Monsanto's
3 interruptibility."² Ms. Iverson tries to make a conclusion that since two studies,
4 both of which erroneously assume Monsanto should only be allocated 9MW of
5 demand, come out with similar results that the results are validated. Although the
6 models are consistent in their application of allocation methodology and produce
7 similar results, it does not validate results because the underlying assumption that
8 Monsanto should only be allocated 9MW of demand related expenses is not
9 correct.

10 **Q. Why do you emphasize jurisdictional allocations in your rebuttal testimony ?**

11 A. As pointed out earlier, Ms. Iverson states that the purpose of her COS study was
12 to prove that the Company's criticisms of her JAM study was without merit. In
13 doing this, Ms. Iverson has done two studies, both with the same flaws. By
14 pointing out the flaws in the jurisdictional allocation approach, I am also pointing
15 out the flaws in her COS approach. Apparently, the purpose of the COS approach
16 was to see if Ms. Iverson could use the same erroneous assumptions in two
17 models and produce the same result.

18 Ms. Iverson is continually referring to jurisdictional allocations. She
19 discusses jurisdictional allocations at length in her November 1, 2010, testimony,
20 and states in her December testimony that she is performing a COS study to try
21 and validate her original premise. Ms. Iverson also discusses jurisdictional
22 allocations in her January 14, 2011, rebuttal testimony. Despite all of these

² Iverson direct, December 22, 2010, page 21, lines 5-7

1 references, she states on surrebuttal that this is not about jurisdictional allocations,
2 since she is now using the COS model to do the same study.

3 **Q. What did Ms. Iverson state was the purpose of her two studies?**

4 A. In her November 1, 2010, testimony Ms. Iverson states one of the purposes of her
5 testimony is to “discuss the proper allocation of a non-firm customer such as
6 Monsanto in the allocation of jurisdictional loads.”³ In her testimony filed
7 December 22, 2010, she rephrased this to “provide an analysis of the costs
8 allocated to Monsanto under RMP’s premise that Monsanto is served entirely as a
9 firm customer.”⁴ Both of the studies make the same incorrect assumption that
10 Monsanto should only be allocated 9MW of demand related expenses.

11 The same flaws that existed in Ms. Iverson’s original testimony continue
12 in her testimony of December 22, only disguised in a different cloak to try and
13 hide the similarities. Unfortunately, since both studies used the same faulty
14 assumptions, the results of both studies were also in error. In this surrebuttal
15 testimony I will try to clarify the issues, and describe why they are the same in
16 both the jurisdictional and COS studies.

17 **Q. Please describe the similarities in Ms. Iverson’s November 1, 2010, and
18 December 22, 2010, studies.**

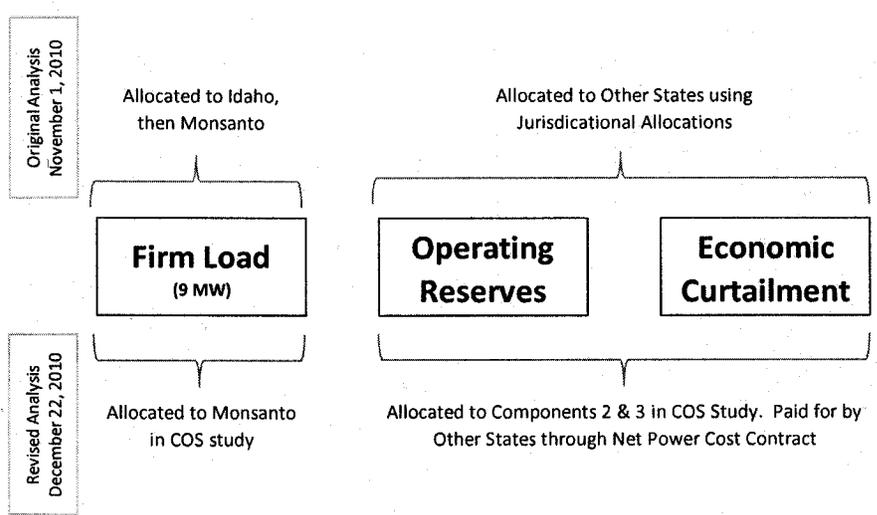
19 A. In both studies, Ms. Iverson’s underlying premise is that Monsanto is responsible
20 for only 9 MW of firm capacity, and all other capacity charges should be
21 allocated to other customers. As discussed in the testimony of Mr. Duvall, this is
22 inappropriate because the Company plans to serve the Monsanto load. In

³ Iverson direct, November 1, 2010, page 2, lines 9-10

⁴ Iverson direct, December 22, 2010, page 2, lines 11-12

1 addition, as clearly stated in her table 3, the operating reserves are only available
 2 for 188 hours per year, or approximately 2% of the hours. However, she is
 3 assigning the full peak capacity associated with this 95MW of capacity to these
 4 188 hours in each of the twelve months. This incorrectly assumes that these 16
 5 hours per month will occur at the time of PacifiCorp's monthly system peak.

6 In her original testimony Ms. Iverson reduced the allocation of cost to
 7 Monsanto by altering inter-jurisdictional allocations. As described in my earlier
 8 testimony, this is against the approved allocation method and is inappropriate. In
 9 her December 22, 2010, testimony, instead of allocating the load to other states,
 10 Ms. Iverson is trying to use a more circuitous route to get the same result. She is
 11 incorrectly breaking down Monsanto's load into four components, and assigning
 12 virtually all of the capacity to Components two and three. She then claims that
 13 customers in other states should pay for components two and three, through an
 14 overpriced power supply contract, leaving Monsanto only responsible for 9MW
 15 of capacity costs on the system. Below is a chart showing how this is done.



1 As shown in the above chart, under both approaches Ms. Iverson is
2 allocating the costs of Monsanto's operating reserves and the economic
3 curtailment to other customers. The only difference is whether it is done through
4 inter-jurisdictional allocations, where the costs are pushed to other jurisdictions,
5 or through the COS study and the amount Monsanto is paid for curtailment
6 products. The problem with both approaches is that she continues to incorrectly
7 allocate all of the capacity associated with the furnaces to the operating reserves
8 and economic curtailment, even though they are for a minimal part of the year.
9 She does this because of her argument that Monsanto somehow receives a 'lower
10 quality of service'.

11 **Q. What is your response to Ms. Iverson's other criticisms?**

12 A. With the understanding above about what Ms. Iverson is trying to accomplish, it
13 is easy to see why each of her points is invalid. She is assigning capacity costs to
14 the operating reserves and economic curtailment (although as noted above it was
15 done incorrectly), but she is maintaining that these costs should be borne by other
16 customers, with none of the capacity cost assigned to Monsanto. She maintains
17 that the complete capacity cost of these contracts should be refunded to Monsanto
18 through a credit, and included in net power costs at this lofty level. These costs
19 would then be allocated to all states using an SG allocation factor.

20 **Q. Do you have any specific comments on Ms. Iverson's cost of service approach**
21 **valuation?**

1 A. Ms. Iverson has suggested removing almost 95 percent of Monsanto's
2 contribution to system peak using either jurisdictional allocation or a class cost of
3 service study. I disagree with her study for three reasons:

4 First, I don't believe this reduction in Monsanto's share of capacity costs
5 is an even exchange for the option to interrupt a portion of their load less than 10
6 percent of the hours in a year and another portion of their load for about two
7 percent of the hours in the year. PacifiCorp's generation fleet consists of a variety
8 of resources, including coal fired resources, hydro resources, combined cycle gas
9 plants, and wind resources. The combination of these plants must be available 24
10 hours a day, seven days a week, 365 days a year to serve our customers needs,
11 including Monsanto. Monsanto proposes to remove its share of these costs for all
12 but 9MW of firm capacity because a portion of their load can be interrupted a
13 fraction of the hours each year.

14 Second, Ms. Iverson removes 100 percent of the entire load Monsanto
15 identifies as non-firm (all but 9 MW). However, Monsanto's contract only allows
16 the interruption of their entire "non-firm" load under very limited circumstances.
17 They propose to allow one furnace (67 MW) to be curtailed for economic reasons
18 for less than 10 percent of the hours of the year. In addition two furnaces (95
19 MW) can be interrupted for operating reserves for only two percent of the hours
20 of the year, but only one of these furnaces can be interrupted for reserves
21 concurrently with the economic curtailment. This means that at most 116 MW of
22 Monsanto's load can be curtailed for two percent of the hours of the year. That
23 hardly justifies removing Monsanto's entire furnace load from either Idaho's

1 jurisdictional allocation or Monsanto's class cost of service allocation of capacity
2 related costs.

3 Third, Monsanto's load adjustment also reduces its allocation of
4 transmission costs. Historically, while interruptible customers have reduced the
5 Company's generation capacity requirements, the Company has always planned
6 to have adequate transmission capacity to deliver their energy requirements. If
7 any load adjustment is made you should apply that load adjustment to generation
8 costs only, leaving the allocation of transmission costs unchanged.

9 **Q. Is your conclusion about Ms. Iverson's study still the same?**

10 A. Yes. As described above, Ms Iverson is performing the same analysis as her
11 original testimony, with the same erroneous assumptions. However, she is trying
12 to modify her study and dress it up differently in hopes that she can convince
13 people that it is a different analysis and should be used to support the Monsanto
14 valuation. However, she has not corrected any of the flaws in her original
15 proposal. Ms. Iverson continues to assume Monsanto receives a lower quality of
16 service and is not responsible for any capacity associated with the operation of
17 their furnaces.

18 **Q. Does this conclude your rebuttal testimony?**

19 A. Yes.