Randall C. Budge, ISB No. 1949
RACINE, OLSON, NYE, BUDGE &
BAILEY, CHARTERED
P.O. Box 1391; 201 E. Center
Pocatello, Idaho 83204-1391
Telephone: (208) 232-6101
Fax: (208) 232-6109
rcb@racinelaw.net

Attorneys for Intervenor Monsanto Company

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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF PACIFICORP dba ROCKY MOUNTAIN POWER FOR APPROVAL OF AMENDMENTS TO REVISED PROTOCOL ALLOCATION METHODOLOGY	**Case No. PAC-E-10-09**

COMMENTS OF MONSANTO COMPANY

COMES NOW Monsanto Company ("Monsanto"), through counsel, and hereby submits the following comments to the Idaho Public Utilities Commission ("Commission") with respect to PacifiCorp's ("Company") Application to Amend the Revised Protocol Allocation Methodology and in response to the Commission's Notice of Modified Procedure dated January 12, 2011.

INTRODUCTION

The allocation of resource benefits and costs among the states within the PacifiCorp system is critical. The importance of interjursidictional allocation is significantly ratcheted up in today's environment, given PacifiCorp's forecasted growth in demand and their capital expenditure plans. The future costs PacifiCorp anticipates incurring are extraordinary, particularly in light of the $6 billion estimated investment to complete the Gateway Transmission project. Balancing these costs among the various jurisdictions the Company serves requires an examination of both the drivers for new resources and the spread of benefits derived from the Company's investments. This is particularly true in Idaho where approximately 60% of the load is attributable to two customers, Monsanto and the Irrigators, neither of which have experienced any load growth for thirty (30) plus years nor are expected to grow in the future.

THE IMPACT OF LOAD GROWTH

The Company's proposed changes to interjursidictional allocation contained in their filed testimony in this case fail to recognize or account for key drivers of increasing system cost. This is not surprising given the impetus to open up the question of interstate allocation. As discussed in Andrea Kelly's testimony (p. 8, lines 12-21), the initial question of whether the existing allocation procedure was producing fair and equitable results stemmed from questions posed by the Utah delegation to the Standing Committee. Indeed, the need to re-address interstate allocation became known as the 'Utah issue' – a desire on behalf of Utah to move its state allocation to reflect a "Rolled-In" interjursidictional allocation. Once this 'issue' defined the cause of the analysis, other issues that could also serve to question the existing interstate allocation became moot. Accordingly, PacifiCorp now designed their analysis primarily to address two 'end-states.' As stated by Ms. Kelly (p. 8, lines 19-21),

> "In general, it was recognized that any solution would need to strike a balance between making progress toward fully Rolled-In allocations while maintaining a hydro endowment for Oregon and Wyoming."

Monsanto acknowledges that the current filing demonstrates that Idaho is projected to benefit slightly from the proposed changes in interjursidictional allocation. According to PacifiCorp (McDougal, p. 7, lines 16-18), the move toward a 'Rolled-In' allocation procedure provides protection to states who are not growing as fast as others (in this case, Utah and Wyoming identified as states with the highest load growth). Despite this modeling result, Monsanto continues to have concern regarding an uneven load growth scenario over the long run.

Idaho's load growth is not growing relative to the other states and is not projected to grow relative to the other states in the foreseeable future. Mr. McDougal's assertion that load growth among the states with a Rolled-In methodology provides protection to the slow growing states

(McDougal, p. 7, lines 18-19) provides little comfort given the purpose of the entire exercise was not "intended to precisely predict annual revenue requirement through calendar year 2019 and does not serve to predict future rate setting procedures or price changes in any state." (McDougal, p. 3, lines 15-17) Considering the high level nature of the modeling that was undertaken, Monsanto believes that Idaho remains economically exposed to the load growth in the other states.

THE IMPACT OF EXPENSIVE RENEWABLE OBJECTIVES

The fact that certain states are experiencing high load growth relative to the other states is but one contributing factor to the problem of creating an equitable distribution of cost across jurisdictions. Other factors are also impacting how a fair distribution should be designed. These factors include the large capital investment the Company has undertaken in enhancing its renewable resource portfolio and the pending massive investment in the Gateway Transmission system. Capital expenditures are also dependent upon the type of capital investment to meet different state energy policies. PacifiCorp recent history of substantial investment in renewable energy apparently driven by renewal energy objectives of the Company or other states which do not exist in Idaho, coupled with its plans for the Gateway Transmission project are substantial cost drivers that have (or will) carry substantial economic costs to all states. The Company asserts that these 'system resources' are both necessary and beneficial to all customers of the Company. We remain unconvinced. The Company has yet to make a cogent argument as to why the Gateway System needs to be sized far beyond upgrades necessary for reliability and its own projected load growth.

The notion that the Gateway System (particularly Gateway South) will serve to enhance the wholesale market position of the Company in the desert southwest and Southern California is terribly flawed. Those markets will not accept any coal-fired generation out of the current coal fleet of PacifiCorp. Secondly, the market strategy to deliver Wyoming wind resources to the southwest markets is also troublesome. Most of the new resources now being sought in the desert southwest (Arizona in particular) are solar, and the California utilities (and municipals) have already been aggressive in their renewable acquisitions to date. Current market assessments of 'unmet' renewable needs among SCE, SDGE, and PGE show each utility portfolio in excess of 50% of the renewables required to meet California's RPS targets. Additionally, according to projections from both the California utilities and the California Public Utilities Commission, the remaining amount of renewables will be acquired over the next several years.

Finally, Nevada Energy's latest renewable acquisition program has centered on acquiring geothermal resources located in state. Ignoring these market signals, PacifiCorp continues to promote a roughly $6 billion capital investment designed, in large part, to strengthen its wholesale position in the western markets. Monsanto firmly believes that Idaho should not be saddled with this over-aggressive capital program whose benefits are highly questionable and are likely to never materialize.

Monsanto also takes issue with the Company's expansive renewable program and believes that the cost incurred for such resources should be tagged as 'state-specific resources' – an approach that would more align the cause and effect of such acquisitions. States within the PacifiCorp system who have implemented RPS standards should incur the cost of such policy decisions. Idaho has never implemented a policy that sets renewable targets or goals. Yet, given the current and proposed interjursidictional allocation procedure, Idaho remains subject to underwriting a portion of these capital expenditures. The benefits derived from these state policies remain nebulous, but the costs incurred are very substantial. An interjursidictional allocation which does not match the cause/effect of major capital expenditures remains likely to promote an inequitable distribution of cost among the states. Monsanto believes that it is imperative that we hold firmly to the ratemaking principle of "cost causation" versus the broad socialization of costs that we are seeing proposed today.

Lastly, while it is recognized that the modeling undertaken by PacifiCorp was not intended to provide in-depth analysis of different scenarios ("Like the structural separation study, the go-it-alone study is a highly assumption driven assessment of a state separation model." Duvall, p. 7, lines 13-14), the questions posed by these studies should not be summarily dismissed. Given PacifiCorp's planned capital expenditure programs for a greatly expanded transmission system and a substantial renewable portfolio, Monsanto believes a state specific (go-it-alone) jurisdictional arrangement would better serve Idaho and should be investigated in detail. This would entail undoing the current allocation process and having the state 'opt-in or opt-out' of certain resources. Such a view has been previously expressed by certain states in prior Standing Committee meetings but was not analyzed at that time. Given the enormous amount of capital expenditures now facing the states within the PacifiCorp system, such a analysis is very much needed and should be directed by the Commission

THE TREATMENT OF INTERRUPTIBLE LOADS IN THE INTERJURISDICATIONAL ALLOCATION

In addition to PacifiCorp's unprecedented capital expenditure program, Idaho also faces a unique challenge in the interjurisdictional allocation of costs. Unlike any other state, the lion's share of Idaho's loads result from Monsanto and the irrigators, both long-time interruptible customers. Monsanto has been an interruptible customer for over 60 years and has experienced no load growth since the No. 9 furnace was constructed in 1963. The load of the irrigators has experienced no growth since the late 1980's and is also interruptible pursuant to the Idaho Irrigation Load Control Program under Schedule 72A which has been expanded and provides dispatchable service interruptions of over 200 MW. The interruptible portion of these two schedules together comprise over 50 percent of Idaho's July peak load and over 57% of the annual load. Consequently, the ultimate treatment of interruptible loads will play a key role in the system costs allocated to Idaho. While Utah also has some interruptible load as well, the magnitude of their interruptible load is nowhere close to Idaho's amount as a percentage of total jurisdictional load. Consequently, the importance of how Idaho can best receive the benefits associated with its interruptible resources must be addressed in interjurisdictional allocation issues going forward.

PacifiCorp proposes to make no change to the substance of the two options currently available for treatment of interruptible loads outlined in Appendix D – Special Contracts. Other than labeling Appendix D as "2010 Protocol", the document remains unchanged. As explained by Mr. McDougal at page 13 of his testimony, the two options are:

> ***Option 1:*** The lower cost of the interruptible service is directly embedded in the customer's tariff price, resulting in the jurisdiction approving the contract absorbing the full cost of the program. In other words, the jurisdiction's revenues directly reflect the fact that an interruptible customer pays a lower rate for interruptible service. Since the costs are absorbed by the jurisdiction approving the contract, it also receives the benefits

associated with the program through reduced allocation factors. This option is currently used in Utah for an interruptible customer, but is not used for any Idaho jurisdictional customer.

Option 2: The lower cost of the interruptible service is separately identified and allocated to all states as a power cost.[1] For example, the difference between what the customer would have paid for firm service is compared to what the customer pays for interruptible service, and that difference is treated as a "cost" allocated to all jurisdictions. Since the costs are allocated to all states (including the host jurisdiction), the monthly loads used to calculate allocation factors are calculated assuming no curtailment or interruption occurs. Thus, under *Option* 2 the host jurisdiction is allocated a higher share of system costs than under *Option 1*; however, revenues are higher than in *Option 1* due to including revenues before any discounts for interruptible service. This option is currently used in Idaho for handling Monsanto's loads and revenues. The Commission recently approved using *Option 2* for the Irrigation Load Control program as well.

Appendix D provides numerical examples of these two options in Tables 1 and 2.[2] In both *Option 1* and *Option 2*, the lower charge (or discount) for interruptible service is $4 million. On Table 1, this "cost" is inferred based on the difference between lines 11 and 16. On Table 2, this cost is shown directly on line 17.

In the last general rate case (Case No. PAC-E-10-07), Monsanto raised the issue of treatment of interruptible loads in the interjurisdictional allocation. Although two options exist under Revised Protocol, PacifiCorp strictly treats Monsanto under *Option 2*; i.e., Monsanto's revenues are imputed as though it is served 100% firm, and its loads are assumed firm for purposes of jurisdictional allocation. The problem with *Option 2* is that the "cost" of the interruptible resource must be separately valued – a valuation that is completely divorced now from any analysis of benefit to Idaho by way of lower allocation factors. While the examples provided in Appendix D (Exhibit No. 1, p. 51 and 52) might appear that the two options lead to similar results – both Tables indicate $4 million as the discount or "cost" of the interruptibility – in real life, our experience has been that no such similarities exist due to PacifiCorp's failure to

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[1] While we use the term "cost" here, it has also been referred to as a "value" or a "valuation". For Monsanto, there has been no distinction made between the "value" of the interruptible resource and its "cost".

[2] The example assumes an interruption of 75 MW in Jurisdiction 2 for a total of 500 hours. (75 MW x 500 hours = 37,500 MWH) Without interruptions considered, the hypothetical load's 12 CP is 900 MW (75 MW x 12 months), but with interruptions in four months, its 12 CP is 600 MW (75 MW x 8 months).

adequately value interruptible resources.

As explained in Case No. PAC-E-10-07, Monsanto signed the Stipulation supporting the use of the Revised Protocol in 2004 based on its expectation that any valuation of its interruptible "products" would be fair and reasonably reflect the avoidance or delay of utility generation. PacifiCorp, however, has historically claimed that Monsanto's curtailments do not avoid capacity and the Company insists on valuing Monsanto through "lost profits" and short-term expense reduction.

This last general rate case has been no different. It proved to be quite contentious with PacifiCorp arguing for exceedingly low values based on short-term market models, and Monsanto arguing for higher values based on "peaker" avoidance. Even worse, PacifiCorp failed to recognize Monsanto's interruptible service whatsoever in its application. During the course of the rate case, Monsanto provided an *Option 1*-type analysis to demonstrate the benefit to Idaho from Monsanto's interruptibility. We are not convinced that PacifiCorp seriously reviewed this analysis, however. The result was that no meaningful discussion on the advantages and disadvantages of *Option 1* for use in Idaho occurred during the general rate case, and the issue was not addressed by the Commission in its Order No. 32196.

This outcome is not that surprising given the number of revenue requirement issues in the last general rate case. The bifurcation of Monsanto's interruptible credit valuation from the revenue requirement phase may have also contributed to the lack of attention paid to anything other than *Option 2*. Another contributory factor is PacifiCorp's internal handling of Monsanto's contract where regulatory personnel have a reduced role in the evaluation of the contract. Instead, PacifiCorp relies on its wholesale power trading group to negotiate and "buy" Monsanto's interruptible products. Whether intentional or not, PacifiCorp focused exclusively on *Option 2* for Monsanto and insistence that Monsanto is a firm rather than an interruptible customer.

In the recent general rate case Staff raised concerns over the inequity of the interjurisdictional treatment of the Irrigation Load Control Program. Staff noted that despite a system benefit of $20 million from the Irrigation Load Control Program, the Idaho jurisdiction was entirely paying for the cost of the program ($11.4 million), yet receiving benefits of only

$7.5 million through the reflection of lower demands in the jurisdictional allocation. Staff further noted that dispatchable service interruptions from this irrigation program allow PacifiCorp to reduce loads during peak periods and during outages at generation plants. PacifiCorp based the system benefit of the Irrigation Load Control Program not on short-run market prices as it had for Monsanto, but predominately on the value from avoidance or delay of generation. Consequently, while Monsanto was questioning the appropriateness of *Option 2* for its own resource, the Commission was supporting *Option 2* for the Irrigation Load Control Program based on that program's present costs and benefits.

Monsanto believes the time is overdue for a frank, open discussion of the benefits of demand-side response programs, such as the Irrigation Load Control Program and Monsanto's long-standing interruptible service. In particular, we recommend the Commission evaluate whether benefits are fairly attributed to host jurisdictions under *Option 1*. There is no provision today to pass on any benefit from a reduction in the host jurisdiction's allocation factor in *Option 1* unless an interruption has been actually called:

> "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 reduction in load will be reflected in the host jurisdiction's Load-Based Dynamic Allocation Factors." (Exhibit No. 1, page 50 of 57)

Thus, according to *Option 1*, a customer must actually be interrupted by the utility precisely at the time of system peak in order for any benefit to accrue to the host jurisdiction through lower allocation factors. This requirement is one-sided and open to manipulation by the utility. It places all the risk on the interruptible customer when, in fact, it is PacifiCorp that controls the timing of interruptions. Whether or not an interruptible customer is actually curtailed during the system peak in no way negates the benefits of interruptible load. It is the ability to be interrupted during peak times that underlies its value, not necessarily if the customer is actually called.

CONCLUSION

Every state is looking out for its own best interests when it comes to the 2010 Protocol allocation methodology. Idaho must do the same and should safeguard the interests of its ratepayers who are not causing capital expenditures driven by load grown and renewable resources imposed by other states. Monsanto believes that it is imperative for the Commission to hold firmly to the ratemaking principle of "cost causation" versus the broad socialization of costs that continue to be proposed. Given the enormous amount of capital expenditures now facing the states within the PacifiCorp system, an analysis is very much needed on a "go it alone" for states such as Idaho with lower load growth and with substantial and valuable interruptible resources. Monsanto further believes the time is overdue for a proper evaluation of the benefits of demand-side response programs, such as the Irrigation Load Control Program and Monsanto's long-standing interruptible service.

RESPECTFULLY SUBMITTED this 30th day of March, 2011.

RACINE, OLSON, NYE, BUDGE &
BAILEY, CHARTERED

By Randall C. Budge
RANDALL C. BUDGE

CERTIFICATE OF MAILING

I HEREBY CERTIFY that on this 30th day of March, 2011, I served a true, correct and complete copy of the foregoing document, to each of the following, via the method so indicated:

Jean D. Jewell, Secretary (original and 7) Idaho Public Utilities Commission P.O. Box 83720 Boise, ID 83720-0074 E-mail: jjewell@puc.state.id.us	Hand Delivery
Ted Weston Rocky Mountain Power 201 South Main, Suite 2300 Salt Lake City, Utah 84111 E-mail: ted.weston@pacificorp.com	E-Mail
Daniel Solander Mark Moench Rocky Mountain Power 201 South Main, Suite 2300 Salt Lake city, Utah 84111 E-mail: Daniel.solander@pacificorp.com	E-Mail
Data Request Response Center PacifiCorp 825 NE Multnomah, Ste 2000 Portland, OR 97232 E-mail: datarequest@pacificorp.com	Electronic Only
Scott Woodbury, Deputy AG Idaho Public Utilities Commission 472 W. Washington (83702) P.O. Box 83720 Boise, ID 83720-0074 E-mail: scott.woodbury@puc.idaho.gov	E-Mail
Gary Kajander, Energy Procurement Monsanto Company 800 N. Lindburg Blvd., Mailzone C2NF St. Louis, MO 63167 E-Mail: gary.r.kajander@monsanto.com	E-Mail

James R. Smith Monsanto Company P.O. Box 816 Soda Springs, ID 83276 E-Mail: jim.r.smith@monsanto.com	Electronic Only
Maurice Brubaker Brubaker & Associates P.O. Box 412000 St. Louis, MO 63141-2000 E-Mail: mbrubaker@consultbai.com	Electronic Only
Eric L. Olsen Racine, Olson, Nye, Budge & Bailey P.O. Box 1391 Pocatello, ID 83204-1391 elo@racinelaw.net	Hand Delivery
Anthony Yankel 29814 Lake Road Bay Village, Ohio 44140 E-Mail: tony@yankel.net	E-Mail

Randall C. Budge

RANDALL C. BUDGE