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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF PACIFICORP, DBA UTAH POWER & LIGHT COMPANY, FOR APPROVAL OF AN ELECTRIC SERVICE CONTRACT WITH MONSANTO COMPANY. | )  )  )  )  )  ) | CASE NO. UPL-E-95-4  COMMENTS OF THE COMMISSION STAFF |

COMES  NOW  the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and hereby submits these comments as provided for in the Notice of Application issued in this case on November 21, 1995.

On November 8, 1995, PacifiCorp dba Utah Power and Light Company filed an application with the Commission requesting approval of a new Power Supply Agreement with Monsanto Company.  The new agreement would be effective November 1, 1995, and would decrease the unit cost of power while increasing the amount of interruptible power available to Monsanto.

The old agreement was effective July 1, 1992 and was to remain in effect through June 30, 1997.  It provided for 9 MW of firm demand, 154 MW of interruptible demand, excess interruptible demand above 163 MW, and all associated energy.  The average cost of energy under the existing agreement is approximately 25 mills/kWh which increases to approximately 26 mills/kWh for the final year of the contract beginning July 1, 1996.

The new agreement is designed to be effective November 1, 1995, through December 31, 2001.  It then continues from year to year thereafter subject to a one year notice of termination.  It provides for 9 MW of firm power and up to 206 MW of interruptible power.  The new agreement contains rates and charges of 18.5 mills/kWh for all energy, a $66,600 per month minimum and a one-time payment by Monsanto of $30 million to buy out the old contract.  It contains no demand charge and there is no built-in rate escalation over time.

The impetus behind renegotiation of the contract is clearly identified in the Company's application.  Monsanto can by-pass PacifiCorp by arranging to purchase power through the City of Soda Springs or Monsanto can produce most of its phosphorus elsewhere using a chemical process.  Monsanto has made it clear that if it is to remain a PacifiCorp customer after the expiration of its existing contract, more competitive rates are required now.

The PacifiCorp - Monsanto power supply agreement is written to meet the contract standard.  That is, rates are fixed by the contract for the life of the contract.  Such rates would not normally be adjusted in a general rate case.  In fact, to change contract standard rates from those specified in the contract requires a showing that the rates are detrimental to the public interest.  PacifiCorp's current agreement with Monsanto also contains contract standard rates.

The contract also places limits on interruptibility.  PacifiCorp may interrupt the Monsanto Interruptible load only "to maintain PacifiCorp's system integrity". (Section 3.3)  This precludes interruption of Monsanto's interruptible load for economic reasons.  PacifiCorp's FERC Form 1 for 1993 contains information that shows two Company resources with fuel costs above 18.5 mills/kWh.  When either of these two resources are run to meet the Monsanto interruptible load, that is not interruptible for economic reasons, the Company looses money.  However, in 1993 PacifiCorp's average fuel cost was 9.7 mills/kWh which, on average, leaves a margin to go toward covering fixed costs even after variable operation and maintenance expenses on production plant, transmission costs and Administrative and General costs are added in.

In its planning process the Company plans for resources to meet Monsanto's interruptible energy load but not the interruptible capacity load.  PacifiCorp plans for a 12% reserve margin which is down from 15% in its previous IRP filing.  This can be contrasted with Idaho Power Company who plans to meet all capacity and energy requirements of the FMC interruptible load, but plans to carry only a 6% reserve margin.

The Monsanto interruptible load is not treated as an Idaho jurisdictional load for jurisdictional allocation purposes.  It is treated as a system load.  PacifiCorp has four other smaller loads in Utah that are also treated as system loads.  Costs and revenues associated with system loads are spread to all jurisdictions instead of just the jurisdiction in which the customer is physically located.  Four percent of Monsanto revenues are spread to Idaho based on a jurisdictional energy allocator.

There are at least two sections in the agreement between Monsanto and PacifiCorp that contain mechanisms that could lead to future rate changes.  Section 2.3 allows for renegotiation of the agreement "after December 1, 1998, not more often than once during any consecutive twelve-month period."  It also requires PacifiCorp to "negotiate terms and conditions for the delivery" of third party power to Monsanto if then existing law allows retail wheeling and if PacifiCorp does not offer to meet the third party price.

Simply stated Section 4.1.5 says that if after January 1, 1998, PacifiCorp gives any of its other customers a comparable or better deal than Monsanto has, PacifiCorp must also offer that deal to Monsanto.

STAFF RECOMMENDATIONS

Staff recommends that the Commission accept the filed agreement between Monsanto and PacifiCorp.  Staff believes that the 18.5 mill/kWh rate contained in the agreement covers the average variable costs associated with serving the Monsanto load and provides some contribution to fixed costs.  Staff has no reason not to believe that the municipalization or reduced service alternatives available to Monsanto are real.  Staff further recommends that the Commission make it perfectly clear that its acceptance of the proposed agreement in no way pre-authorizes retail wheeling, accounting, ratemaking treatment or any rates other than those specifically identified in the agreement.  Staff also recommends that the Commission's order in this proceeding require PacifiCorp to file a schedule identifying rates and charges for Commission approval.

DATED  at Boise, Idaho, this                    day of December, 1995.

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Scott Woodbury

Deputy Attorney General

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Keith D. Hessing

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