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December 30, 2002

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington
Boise, ID 83702-5983

Re: Case No. PAC-E-01-16

Dear Ms. Jewell:

Enclosed for filing with this Commission is an original and eight (8) copies of PACIFICORP'S COMMENTS REGARDING PROPOSED ORDER NO. 29157 in the above referenced matter.

Thank you for your cooperation in this matter.

Very truly yours,

Mary S. Hobson

Mary S. Hobson

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Enclosures
cc: John Eriksson (w/enclosures)

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

In the Matter of the Application of PacifiCorp d/b/a Utah Power & Light Company for Approval of Interim Provisions for the Supply of Electric Service to Monsanto Company	PACIFICORP'S COMMENTS REGARDING PROPOSED ORDER NO. 29157 PAC-E-01-16

Pursuant to IDAPA 31.01.01.312 and the Notice of Proposed Order and Notice of Comment Deadline (Order No. 29157) issued December 10, 2002 by the Idaho Public Utilities Commission ("Commission"), PacifiCorp, d/b/a Utah Power & Light Company ("PacifiCorp" or the "Company") hereby submits its comments to the Commission's Proposed Order respecting the terms and conditions to be included in a new Electric Service Agreement between PacifiCorp and Monsanto Company ("Monsanto").

INTRODUCTION

PacifiCorp appreciates the opportunity to comment on the Commission's Proposed Order in this proceeding. While PacifiCorp generally supports the Commission's resolution of most of the issues presented for decision, there are three issues on which PacifiCorp wishes to comment: (1) jurisdictional allocation (situs v. system) of Monsanto's firm, non-furnace load; (2) billing of Monsanto's monthly credits for interruptible or curtailment options; and (3) valuation of

Monsanto's buy-through (replacement power) option. Although these comments are limited, the Company continues to believe its proposed valuation and pricing of service to Monsanto is correct, and by not taking exception to any other of the Commission's determinations, the Company is not waiving its right to assert its positions in response to a final order in this case.

COMMENTS

1. Situs v. System Allocation of Monsanto's Firm, Non-furnace Load

Consistent with its cost-of-service firm rate design, PacifiCorp proposed in its post-hearing brief that Monsanto's firm electric service be allocated on a situs basis to the Idaho jurisdiction. (PacifiCorp Brief at 4.) The Company also proposed that the monthly credits to Monsanto for System Integrity, Operating Reserves and Economic Curtailment be allocated on a system-wide basis. (*Id.* at 5.)

In conjunction with its recommendation that the Commission use the most recent PacifiCorp/Monsanto interruptible power supply agreement (the "1995 Agreement") as its model in this case (Monsanto Ex. 210, Tr. 418-19), Monsanto in its post-hearing brief requested that the Commission defer any changes to its current approach to jurisdictional allocation issues for resolution in the Multi-State Process docket (PAC-E-02-3) or in a general rate case. (Monsanto Brief at 31-32.) Commission Staff and the Idaho Irrigation Pumpers Association (the "Irrigators") agreed with Monsanto's recommended approach. (Staff Brief at 3; Irrigators Brief at 5.)

The Proposed Order is unclear with regard to one portion of Monsanto's load. Monsanto has a firm, non-furnace load of approximately 9 MW. This load has always been treated as an Idaho situs load. In its Proposed Order, the Commission appears to have adopted Monsanto's recommended approach, finding "that it is reasonable to continue with jurisdictional treatment of

Monsanto as a system customer pending conclusion and recommendations in the Multi-State Process case and Company-related filings." (Order No. 29157 at 5.) PacifiCorp interprets this Commission finding to mean that Monsanto's firm, non-furnace load will continue to be assigned situs to Idaho consistent with the Commission's past treatment.[1] This load is not part of the interruptible furnace load that has been allocated system-wide. Accordingly, the Company proposes to apply the Commission-ordered firm rate of $283 per customer month, $8.81 per kilowatt-month ("kW-mo"), and 16.31 mills per kWh to Monsanto's firm, non-furnace load, *viz.*, the first approximately 9 MW of service at 100% load factor or, alternately, the amount of non-furnace load specifically identified and metered.

Consistent with the finding issued in the Proposed Order, PacifiCorp understands that the remainder of Monsanto's electric service will be allocated on a system-wide basis. Thus, PacifiCorp's cost of service study proposed in this case will be modified to remove the Monsanto load above the approximately 9 MW firm load, identified as the furnace load (previously assigned to Idaho on a situs basis) from Idaho loads, and the revenue earned for furnace service will be allocated system-wide as a revenue credit. In this regard, the Company proposes to book the revenue earned from furnace load based on the firm rate and book the total monthly credit for interruptibility as a power purchase.

PacifiCorp respectfully requests that the Commission clarify in its final order that Monsanto's firm, non-furnace load will be allocated to the state of Idaho, consistent with past practice.

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[1] *See e.g., Re PacifiCorp dba Utah Power & Light Co.,* Case No. UPL-E-95-4, Order No. 26282 (1995); *Re Utah Power & Light Co.,* Case No. UPL-E-92-2, Order No. 24220 (1992); *Re Utah Power & Light Co.,* Case No. UPL-E-90-1, Order No. 23124 (1990); *Re Utah Power & Light Co.,* Case Nos. UPL-E-89-3, UPL-E-89-4, Order No. 22622 (1989); *Re PacifiCorp,* Case Nos. U-1152-1, U-1009-184, U-1046-161, Order No. 21867 (1988).

2. Billing of Monsanto's Monthly Credits for Interruptible and Curtailment Options

In its post-hearing brief, PacifiCorp emphasized that the Commission-authorized firm rate design is critical to the valuation of interruptibility and economic curtailment. (PacifiCorp Brief at 10.) In order to better reflect the cost-of-service components associated with service to Monsanto, properly match Monsanto's incentives with PacifiCorp's costs and provide a better matching of costs and revenues should Monsanto's usage characteristics change during the contract term, PacifiCorp proposed a firm rate design that includes the following cost-of-service components: (1) a monthly customer charge; (2) a demand charge; and (3) an energy charge. (*Id.*) For firm electric service, PacifiCorp proposed to charge Monsanto each month a customer charge of $282.89, a demand charge of $9.51 per kW-mo, and an energy charge of $16.31 per MWh. Monsanto, by contrast, proposed that its firm rate be an all-inclusive energy-only rate without a demand charge. (Monsanto Brief at 12-13.)

In its Proposed Order, the Commission found that "separate rate components in the form of customer demand and energy charges are appropriate." (Order No. 29157 at 7.) To reflect the firm rate the Commission found is reasonable -- $30.27 per MWh[2] -- the Commission established a customer charge of $283 per month, a demand charge of $8.81 per kW-mo, and an energy charge of $16.31 per MWh. (*Id.*) Starting with $30.27 per MWh as an all-inclusive firm energy rate, the Commission calculated a total overall energy net price of $23.54 per MWh for Monsanto's firm and interruptible service. (Order No. 29157 at 10.) In its discussion regarding the value of interruptibility, the Commission affirmed the Company's proposed energy or "strike price" of $16.31 per MWh upon which the value of interruptibility and curtailment is based, but

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[2] This firm rate was calculated by adjusting PacifiCorp's proposed embedded cost-of-service firm rate (31.4 mills per kWh) by 1 mill per kWh to reflect the increased revenue on PacifiCorp's Idaho rate of return and by approving an additional reduction of 0.12 mills to reflect Monsanto's proposed fuel shaping adjustment. (Order No. 29157 at 7.)

found “a discounted demand charge of $4.56/kW-month to be reasonable based on net annual revenue of $23.54/MWh.” (Order No. 29157 at 11.)

The Proposed Order is not clear as to how the Commission intends that the credits for interruptibility be reflected on Monsanto’s monthly bills. To the extent the Proposed Order requires PacifiCorp to provide interruptibility credit by billing Monsanto a discounted monthly demand charge of $4.56/kW, PacifiCorp takes exception to such a requirement. A discounted demand charge would not maintain the necessary relationship between the credit given for interruptibility and the amount of interruptibility actually available. Specifically, if Monsanto does not operate a furnace in a billing month or takes a furnace out of service entirely, interruption of that furnace load will not be available to PacifiCorp. Yet, if Monsanto were billed at the discounted demand charge, it would be getting a discounted rate in exchange for something it could not or did not provide. It is not reasonable to require a rate design with a discounted rate, where the discount is based on the customer providing a level of interruptibility which the customer, by its own choosing or otherwise, may not be able to provide.

PacifiCorp recommends that the Commission order that the credit for interruptibility should be billed as individual credits against the non-discounted demand charge each month for the various types of interruptibility which Monsanto will provide, and that PacifiCorp should also bill all energy to Monsanto at $16.31 per MWh, and all demand at the non-discounted demand charge. PacifiCorp proposes that the credits be set at levels consistent with the total value of interruptibility reflected in the Commission’s Proposed Order. Specifically, PacifiCorp proposes the following credits, which would be provided each month based on Monsanto’s total firm and non-firm load: Operating Reserve – $1.97/kW-month; Economic Curtailment - $2.06/kW-month; and System Integrity - $0.22/kW-month. The sum of these proposed credits,

$4.25, is equal to the value of interruptibility reflected in the Commission's discount to the demand charge ($8.81 minus $4.56). The derivation of the proposed credits is shown in Appendix A, attached hereto and incorporated herein.

In addition, PacifiCorp requests that the Commission clarify that the credits are subject to monthly adjustments to reflect availability of furnace load for interruption and/or curtailment. As PacifiCorp noted in its post-hearing brief, one of the advantages to separate demand and energy charges is to accurately capture changes to furnace availability and/or usage. (PacifiCorp Brief at 10.) PacifiCorp will be paying Monsanto substantial sums for the right to interrupt its furnace load for operating reserves and economic curtailment. If Monsanto's furnace load is reduced for economic or operational reasons during the term of the agreement, permanently or temporarily, PacifiCorp will not be able to interrupt Monsanto for the full contractual amount of load and PacifiCorp would be paying Monsanto for the right to curtail a load that does not exist, unless an adjustment to the credits is made. Such payments would obviously not be reasonable. (For a discussion on this point, see the confidential cross-examination of Daniel Schettler, Tr. pp.468-469.) This clarification would also be consistent with the Commission's recognition in the Proposed Order that a rate design with cost-of-service components "is a more accurate reflection of the cost of service components associated with service to Monsanto than an all energy rate and more properly matches Monsanto incentives with PacifiCorp costs." (Order No. 29157 at 7.)

In particular, to address the need for adjustments related to unavailability, PacifiCorp requests that the Commission approve provisions that the credits for operating reserves and economic curtailment will be reduced by the ratio of all such hours of unavailability within the billing month to the total number of hours in the billing month. Such a provision was previously proposed by PacifiCorp and utilized in prior operating reserve agreements with Monsanto. (PacifiCorp Brief, Attachment A, pp. 3, 4; Exhibit 5).

3. Valuation of Monsanto's Buy-through (Replacement Power) Option

Monsanto originally proposed that the price for buy-through replacement power be based on the published Mid-Columbia index plus $2 per MWh for transmission. (Monsanto Ex. 210, Exhibit A.) PacifiCorp witness Stan Watters objected to this market index as not representative of the wholesale market hub PacifiCorp would use to serve Monsanto. Mr. Watters said that Monsanto is within PacifiCorp's Eastern Control Area and is more closely aligned with the Palo Verde or Four Corners hub. He proposed using the Palo Verde hub, shaped to the actual hours of curtailment, because Palo Verde is the more liquid market hub and maintains higher trading volumes. PacifiCorp's proposed buy-through structure is contained in PacifiCorp Ex. 16 and Attachment A to its post-hearing brief. PacifiCorp witness Bruce Griswold explained that the shaping factors in PacifiCorp Ex. 16 exceed 100% because the Palo Verde on-peak prices are for a 16-hour period. Economic Curtailment allows interruption for only eight hours per day. Any buy-through would occur during the most expensive eight hours of the day (the "super-peak" hours). The shaping percentages adjust the Palo Verde on-peak prices to reflect the higher super-peak values. (Tr. 831.)

In his rebuttal testimony, Monsanto witness Richard Anderson stated that the buy-through price for replacement power should be the "lowest cost of energy available." (Monsanto Ex. 243; Tr. 508-09.)

In the Proposed Order, the Commission agreed with PacifiCorp "that replacement power will most likely come from Palo Verde." (Order No. 29157 at 11.) Notwithstanding that finding, rather than adopt PacifiCorp's proposal or Monsanto's initial proposal respecting the replacement power price, the Commission found that "*to the extent possible*, replacement power costs passed on to Monsanto should reflect the *lowest possible actual cost* at the time the transaction is made." (*Id.* (emphasis added).)

First, PacifiCorp notes that the language in the Proposed Order regarding replacement power being provided at the "lowest possible actual cost" is subject to misinterpretation. The value of interruptibility was developed using PacifiCorp's highest incremental costs – market purchases or peaking generators – under the theory that PacifiCorp can displace or avoid its highest cost resource by interrupting Monsanto. Indeed, Monsanto proposed to value interruptibility not on the cost of PacifiCorp's lowest cost resources, but on the cost of a peaking generator. Monsanto Brief at. 21. Similarly, Commission Staff developed a value for interruptibility based on the cost of an avoidable peaking plant. (Tr. at 730.) If "lowest possible actual cost" were interpreted to mean the lowest cost of all of PacifiCorp's resources, that pricing would be inconsistent with the method for valuing interruptibility, and also inconsistent with the very concept of economic curtailment, which allows PacifiCorp to interrupt Monsanto if it can apply the power to a more economic transaction. Consistent with the fundamental basis for economic interruptions, "lowest possible actual cost" must mean the lowest price after PacifiCorp serves all its other retail and wholesale loads.

Further, the requirement to price replacement power at "actual cost" is an invitation for dispute and litigation. The existence of prior disputes over what is the "actual cost" of replacement power for interruptible customers is one reason PacifiCorp proposed the use of a market index. (Tr.at 201-202.) The use of an independent market index avoids the risk and expense of disputes over what is "actual cost." PacifiCorp's power supply system is too complex to allow for an easy determination of the actual cost of serving a particular load in any given hour. *Id.* During an hour of economic curtailment, PacifiCorp could actually be selling power into the wholesale market, or it might have no transactions whatsoever to which it could point for determining "actual cost," depending on the Company's load and resource balance going into the hour.

In order to make the "lowest" cost replacement power available to Monsanto, avoid the problems associated with utilizing "actual costs," recognize Monsanto's initial proposal to use the Mid-C index, and also recognize the Commission's acknowledgement that replacement power will most likely come from Palo Verde, PacifiCorp proposes that the Commission adopt the following in its final order: During those hours when PacifiCorp's ability to utilize transmission on "Path C"[3] is not constrained, Monsanto will pay PacifiCorp the lower of the appropriate (on-peak or off-peak) Dow Jones Mid-Columbia or Palo Verde index price for firm power, shaped hourly in accordance with the shaping factors proposed by PacifiCorp (Exhibit 16; PacifiCorp Brief, Attachment A, p. 4). For all other hours, Monsanto will pay for replacement power at the Palo Verde index prices, shaped hourly as previously proposed by PacifiCorp. *Id.* PacifiCorp believes that this pricing proposal is reasonable and responsive to the parties' and the Commission's concerns.

CONCLUSION

PacifiCorp respectfully requests clarification and modification of the Commission's Proposed Order as described in these Comments. PacifiCorp also requests that the Commission state in its final order that the approved rates are to be effective as of the termination date of the prior contract, and pending the determination of such termination date, as of the service date of the final order.

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[3] "Path C" is a particular transmission path which is generally constrained during the summer, at which times the Company cannot move power from the Mid-C market to serve Monsanto. Tr. at 199-200.

DATED: December 30, 2002

STOEL RIVES LLP

Mary S Hobson

James T. Fell
John M. Eriksson
Mary S. Hobson

Attorneys for PacifiCorp

CERTIFICATE OF SERVICE

I hereby certify that I caused a copy of the foregoing PACIFICORP'S COMMENTS REGARDING PROPOSED ORDER NO. 29157 to be served upon the following by United States mail, postage prepaid, at the addresses indicated on December 30, 2002:

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Brandi L. Gearhart

Brandi L. Gearhart, PLS
Legal Secretary to Mary S. Hobson
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Calculation of Separate Interruptible and Curtailment Credits for Application to Demand Charge per Proposed Order

Monsanto Load[(1)]	MW	MWh
Total	185	1,400,864

Proposed Rate[(2)]		
Customer Charge	$283	per month
Demand Charge	$ 8.81	per kW-month
Energy Charge	$ 16.31	per MWh

Firm All-in Cost[(3)]	**$ 42,409,688**	**$ 30.27**

Interruptible and Curtailment Credits per Proposed Order[(4)]

Conversion to Demand Charge Credit[(5)]

	Interruptible Load, MW	Available Hours	Monthly Dollar Credit	Annual Credit	MWh Basis		kW-month Basis[(5)]		
					Credit	Net Price	Credit	Lost Revenue Credit [(6)]	Total Credit[(7)]
Operating Reserves ($ per kW month)	95	300	$ (326,849)	$ (3,922,193)	$ (2.80)		$ (1.77)	$ (0.20)	$ (1.97)
Economic Curtailment ($ per kW month)	67	500	$ (335,456)	$ (4,025,469)	$ (2.87)		$ (1.81)	$ (0.25)	$ (2.06)
System Integrity ($ per MWh)	162	Included in 300	$ (40,500)	$ (486,000)	$ (0.35)		$ (0.22)		$ (0.22)
Totals / Net Price		800	$ (702,805)	$ (8,433,662)	$ (6.02)	$ 24.25	$ (3.80)	$ (0.45)	$ (4.25)
Lost Revenue Credit of $0.71 per MWh applied to Reserves and Economic Curtailment				$ (994,613)	$ (0.71)				
All-in Cost with interruptible and curtailment credits				**$ (9,428,275)**	**$ (6.73)**	**$ 23.54**	**Net kW-Month**		**$ 4.56**

Notes

(1) Monsanto Load based on test year used in developed of Cost-of-Service Components per Exhibit 1 page 3.

(2) Proposed Rate reflects Commission findings for firm service before adjustment for interruptibility and curtailment credit

(3) Firm All-in Cost is the estimated annual cost to Monsanto based on test year usage data in (1) and billing components (2)

(4) Interruptible and Curtailment Credits are based on 100% availability of the specific furnaces for operating reserves and/or economic curtailment. Actual credit each month to be adjusted based on specific furnace availability.

(5) Conversion of Monthly Dollar Credit for Interruptibility and Curtailment based on test year demand of 185MW per Exhibit 1, page 3
($ per kW-month credit = Monthy Dollar Credit / 185MW)

(6) Lost Revenue Credit converted from $0.71 per MWh credit to $0.45 per kW-month credit and split between operating reserves and economic curtailment on interrupted/curtailed MWh basis

Revenue Credit converted to kW-month ($0.45 per kW-month = $0.71 per MWh * 1,400,864MWh / 185MW / 12 months / 1000)

kW-Month Revenue Credit split based on MWh curtailed for Operating Reserve and Economic Curtailment
($0.20 = $0.45 * 45%) ($0.25 = $0.45 * 55%)

Share of Revenue Credit on kW-month Basis		Percent of Lost Revenue Credit	Lost Revenue Credit on KW-month Basis	MW	Hours	MWh	Total
Operating Reserve	$ 0.20	45%	$ 0.45	95	288	27,360	
Economic Curtailment	$ 0.25	55%	$ 0.45	67	500	33,500	60,860

(7) Individual credits for Operating Reserves and Economic Curtailment to be adjusted based on furnace availability for those options in each month and applied to total demand of Monsanto in that month