

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

In the Matter of the Application of)
PacifiCorp, dba Utah Power & Light)
Company for Approval of Interim)
Provisions for the Supply of Electric)
Service to Monsanto Company)
_____)

CASE NO. PAC-E-01-16

Rebuttal Testimony of
David L. Taylor

PACIFICORP

- 1 Q. Please state your name, business address and position with PacifiCorp dba Utah Power
2 & Light Company (the Company).
- 3 A. My name is David L. Taylor. My business address is 825 NE Multnomah, Suite 800. I
4 am the Cost of Service Manager at PacifiCorp.
- 5 Q. Are you the same David L. Taylor that previously filed direct testimony in this case?
- 6 A. Yes.
- 7 Q. What is the purpose of your testimony?
- 8 A. I will explain how PacifiCorp developed its proposal for pricing service to Monsanto. I
9 will do this in the form of a decision tree type of analysis. I will discuss the various
10 decision points, explore the available alternatives at each decision point, and explain the
11 options selected by PacifiCorp and the resulting pricing proposal. Along the way, I will
12 rebut specific positions taken by Mr. James Smith, Mr. Richard Anderson,
13 Ms. Kathryn Iverson, and Dr. Alan Rosenberg who represent Monsanto, Mr. David
14 Schunke of the IPUC staff, and Mr. Anthony Yankel who represents the Idaho
15 Irrigation Pumpers Association.
- 16 Q. Is PacifiCorp willing to provide interruptible service to Monsanto?
- 17 A. Yes. The contract terms described in the testimony of Bruce Griswold and Stan
18 Watters constitute interruptible service as that term has been used in our retail contracts.
- 19 Q. What are the primary decisions that need to be made in developing a pricing proposal
20 for service to Monsanto?
- 21 A. There are four primary decisions that need to be made:

1 1. What pricing standard should be used to develop the contract rate? There are
2 two standards generally applied to develop a contract rate. They are: (a) Cost of
3 Service and (b) Contribution to Fixed Costs.

4 2. What cost of service methodology should be used? In this case PacifiCorp has
5 presented an embedded cost of service study that applies the traditional embedded cost
6 of service methodology used before the Idaho Commission. The Monsanto witnesses
7 present cost of service results that employ a number of modifications to this
8 methodology.

9 3. How should the Commission value the Monsanto interruptible terms so an
10 appropriate credit to the firm service rate can be determined? Three general approaches
11 are presented in this proceeding. One approach is to compare the prices, or discounts
12 from standard tariff, for other interruptible customers. The next is to include only a
13 portion of Monsanto's load in the allocation of costs. The third is to estimate the costs
14 of a resource with characteristics similar to the level of interruptibility proposed for
15 Monsanto.

16 4. Should the Commission account for the Monsanto revenues, loads, and costs
17 on a system-wide basis, an Idaho situs basis or a combination of the two?

18 Q. Please explain the available standards for developing a contract rate.

19 A. Historically we have used two types of standards to develop interruptible contracts: (a)
20 Cost of Service and (b) Contribution to Fixed Costs. As I explain below, the
21 contribution to fixed costs standard doesn't work today for a customer like Monsanto.
22 For this reason, PacifiCorp chose to use the cost of service standard. The cost of

1 service standard is also the approach recommended by Mr. Schunke of the IPUC staff
2 and Mr. Yankel.

3 The cost of service standard assumes a monopoly environment in which the customer
4 does not have viable alternatives to taking service from the regulated utility. In this
5 environment, prices are set based on the utility's cost of providing service. In Idaho, the
6 Commission uses the utility's embedded costs to ensure that all customers are paying
7 their full and fair share of the utility's costs to provide service. Because Monsanto is an
8 interruptible customer, full cost of service is only the starting point. It must be adjusted
9 to reflect the cost savings associated with Monsanto's contractual terms of
10 interruptibility. I will discuss the options for these adjustments later.

11 The contribution to fixed costs standard is a market or economic efficiency test. It is
12 used when a customer has viable alternatives to service from the regulated utility. The
13 theory is that if the customer leaves the system and takes service through one of its
14 alternatives, remaining customers will be worse off because they will have to make up in
15 their rates the contribution the departed customer made to the recovery of fixed costs.
16 To avoid this situation, regulatory commissions will often approve a special contract
17 with the customer that is priced below embedded cost of service, provided the price
18 recovers the utility's full incremental cost of service and provides a contribution to the
19 recovery of fixed costs that would be borne by other customers. This price reduction to
20 the contract customer is fair to other customers because they would receive no
21 contribution to fixed costs if the customer departed the system. The test, then, is to
22 determine whether other customers would be better off (that is, have lower prices) if the

1 utility were to continue to serve the customer at a rate lower than full cost of service
2 rather than not serve the customer at all. To benefit other customers, the rate for the
3 contract customer must recover the utility's full incremental cost of providing service to
4 the contract customer plus pick up some of the contribution to fixed costs that would
5 otherwise be borne by remaining customers. This was the standard that was used to
6 support the 1995 Monsanto contract. The service alternatives available to Monsanto at
7 that time are described in Monsanto Exhibit 203, the Company's Technical Assessment
8 Package included with its application for approval of the 1995 contract.

9 The contribution to fixed costs standard was not used by PacifiCorp in this case
10 because the Company's incremental costs for the term of the contract are expected to
11 be higher than embedded costs. Using the contribution to fixed costs standard today
12 would drive Monsanto's prices above the levels proposed in this case. To support the
13 prices the Company has proposed, it is necessary to use the embedded cost analysis
14 that was used in earlier contracts, before the 1995 contract. Once you switch to the
15 embedded cost standard, however, it is inconsistent to compare proposed prices to
16 former prices, because of the different pricing standards used. The appropriate
17 comparison would be either (a) embedded costs at the time of the former contract (that
18 is, 1995) to current embedded costs, or (b) contribution to fixed costs in 1995 to
19 contribution to fixed costs today, after first recovering the full incremental costs of
20 supplying power. Because the incremental costs of supplying power today exceed the
21 rate proposed in this case, Monsanto's current contribution to fixed costs would be

1 negative. This is why PacifiCorp and the other parties to this case are using an
2 embedded cost analysis.

3 Mr. Anderson, Ms. Iverson, and Dr. Rosenberg argue that using either the Company's
4 incremental costs or market costs is inappropriate. They claim that because Monsanto
5 has been served for over 50 years, it is entitled to a share of embedded costs and as
6 long as its price covers embedded variable costs they are making a contribution to fixed
7 costs. I agree that Monsanto is entitled to a price based on its share of embedded
8 costs; that is why PacifiCorp chose to use the embedded cost standard. What
9 Mr. Anderson, Ms. Iverson, and Dr. Rosenberg miss in their arguments is that the basis
10 for the contribution to fixed costs standard is incremental costs, not variable costs. As
11 used in this context, the term "incremental costs" refers to the additional costs
12 PacifiCorp would incur to serve the Monsanto load as opposed to not serving the
13 Monsanto load, or the difference between the cost of service without the Monsanto
14 load and the cost of service with the Monsanto load. If PacifiCorp serves Monsanto at
15 a price lower than its full incremental costs, other customers must pick up the shortfall in
16 incremental costs incurred to serve Monsanto. This is not an issue in an embedded cost
17 analysis.

18 Mr. Smith presents as part of his testimony the Technical Assessment Package
19 prepared by the Company in 1995, Monsanto Exhibit 203. There were three
20 measurements of contribution to fixed costs in that analysis. One measurement
21 compares the proposed Monsanto price against "Net Production Incremental Costs,"
22 the next against "Market Alternative Incremental Costs," and the third against

1 “Surrogate Avoided Resource-Based Incremental Costs.” You will note in each case
2 the comparison is against incremental costs. While the Technical Assessment Package
3 shows a contribution for the 1995 contract, the world is very much different today.
4 PacifiCorp does not have surplus capacity in a sub \$20 per MWH market. The
5 Company’s cost of incremental resources, our market price forecast, and the recently
6 filed Surrogate Avoided Resource Costs are all above the net price proposed for
7 service to Monsanto.

8 In 1995 Monsanto justified replacing the 1992 contract, which was scheduled to run to
9 1997 with prices up to \$26 per MWH, because of changes in power markets and the
10 Company’s surplus capacity (as Mr. Smith states at page 14 of his testimony, “power
11 on the open market was trading as low as \$2 per MWH at the same time Monsanto’s
12 rates were scheduled to increase”). When it comes time to replace the newer contract,
13 however, Monsanto ignores the high prevailing market prices and the fact the
14 PacifiCorp is at times capacity deficit.

15 Q. Having chosen to use Embedded Cost of Service as the standard, what is the next
16 decision point?

17 A. The next decision concerns which allocation methodology to employ in calculating
18 Monsanto’s embedded cost of service. The Company applied the traditional
19 embedded cost of service methodology used before the Idaho Commission since the
20 Utah Power/Pacific Power merger, with a few minor modifications as laid out in my
21 direct testimony. The Company’s study calculated a cost for firm service to Monsanto
22 at \$31.40 per MWH. We believe that to be a reasonable, embedded cost based

1 starting point for a contract price with Monsanto. Both Mr. Schunke and Mr. Yankel,
2 representing all the intervening parties except Monsanto, agree that both Company's
3 embedded cost of service methodology and the resulting \$31.40 per MWH embedded
4 cost of service are reasonable for firm service.

5 Ms. Iverson, representing Monsanto, proposed several modifications to the Company's
6 methodology. Neither Mr. Schunke nor Mr. Yankel agrees with any of her adjustments
7 and I believe they should all be rejected as well. Before I address her adjustments
8 individually, I should note that the result of any change in cost allocation methodology is
9 not simply a reduction in costs for Monsanto. Any change in cost allocation away from
10 Monsanto causes a shift of costs toward residential, small business, agricultural, and
11 other large industrial customers. Let me discuss Ms. Iverson's modifications one at a
12 time.

13 First, Ms. Iverson proposes a reduction in the target rate of return applied to Monsanto
14 because setting the Monsanto price to equal the state ROE without a change in prices
15 for other customers raises the state ROE. She suggests that a lower return for
16 Monsanto is justified because that is all that is needed to keep the state ROE equal. I
17 agree that our proposed price for Monsanto, without a change in prices for other Idaho
18 customers, increases the return for Idaho by a small amount. This is because Monsanto
19 picks up some of the costs that are assigned on a situs basis to Idaho. As I explain
20 below, there are also some cost savings to Idaho associated with assigning the full costs
21 of special contracts in other states to those states on a situs basis, which I have done in
22 this case. However, I disagree with her adjustment for four reasons:

1 1. The Idaho ROE with the higher Monsanto revenue is still lower than a
2 reasonable utility return. This increase in revenues will not push PacifiCorp over its
3 currently authorized Idaho ROE (which was last set over 15 years ago) or any ROE
4 recently approved for PacifiCorp by any other jurisdiction.

5 2. Under her proposal the Monsanto return is 6.88 percent, below both the state
6 average and a reasonable utility return. This is based on costs from a two-year old test
7 period. This shortfall would be locked in over the life of the Monsanto contract,
8 resulting in a rate subsidy for Monsanto.

9 3. Under Ms. Iverson's proposal, any benefit associated with situs treatment of
10 contracts in other states is passed on to Monsanto rather than to other Idaho customers
11 who have been carrying the cost of system wide allocation in the past. These benefits
12 should accrue to all Idaho customers, not just Monsanto.

13 In previous studies, special contract customers were treated on a system wide basis.
14 They were removed from both state jurisdictional results of operations and class cost of
15 service studies. No costs were assigned to these customers (that is, the costs to serve
16 them were assigned to other customers) and their revenues were treated as revenue
17 credits which were allocated to all states and all classes of customers. Any revenue
18 shortfall from these contracts was therefore picked up in the rates of retail customers.

19 In developing Monsanto's cost of service in this case all special contracts were assigned
20 on a situs basis to the state where the customer takes service. The coincident peak and
21 energy data for these customers were included in the allocation of costs to their
22 respective home states. Additionally, the revenue from these contracts that was

1 previously allocated across all states was assigned directly to the contract customer's
2 home state. As a result, in the cost of service study done in this case, each state bears
3 the full embedded revenue requirement responsibility for all special contract customers
4 in that state. The revenue shortfall from these contracts that was previously allocated to
5 Idaho has now been reassigned back to the customer's home jurisdiction. One
6 implication of Ms. Iverson's rate of return adjustment for Monsanto is that it takes
7 Idaho's entire share of that benefit and uses it to lower Monsanto's contract rate rather
8 than flowing it to all Idaho customers.

9 4. In the next rate case, when there is an opportunity to change prices for other
10 customers, any existing shortfall from the Monsanto contract will either be borne by
11 other Idaho customers or absorbed by PacifiCorp. Neither outcome is fair. Plus, any
12 revenue requirement change that would have been assigned to Monsanto in the case will
13 also be borne by other Idaho customers.

14 Her second proposal is to change the classification of Generation and Transmission
15 fixed costs from 75 percent demand / 25 percent energy to 100% demand.
16 Mr. Schunke and Mr. Yankel both argue that classification of a portion of the
17 Company's fixed generation and transmission costs as energy related has long been
18 accepted by the Idaho Commission. Mr. Schunke supports the Idaho Commission's
19 position on this by stating that base load power plants are built not just to meet peak
20 demand, but also to produce low cost energy. He further argues that most recent
21 discussions around the classification of fixed generation costs have been to classify a
22 larger portion of the costs as energy related. I agree with both Mr. Schunke and

1 Mr. Yankel on this issue. In recent Multistate Process (“MSP”) discussions, proposals
2 have been made to reclassify as much as 75% of the fixed base-load generation costs
3 as energy related.

4 Third, Ms. Iverson proposes to use an 8 coincident peak (“CP”) allocation method
5 rather than the current 12 CP method. While this adjustment may help Monsanto, it
6 hurts Idaho if it is applied on a consistent basis. Because of the concentration of load in
7 the summer, the 8 CP allocation method allocates more costs to Idaho than does the 12
8 CP method. As a result, if an 8 CP method were used for state jurisdictional allocation,
9 in the next rate case Idaho would see a larger revenue requirement. Of course, all of
10 this would be borne by customers other than Monsanto. Also, if a 12 CP method were
11 used for state jurisdictional allocation and an 8 CP method were used for the Monsanto
12 contract, costs would be shifted from Monsanto to other Idaho customers. This
13 proposed change is inconsistent with the cost allocation method that has been used in
14 Idaho and should be rejected.

15 Her next proposal is to allocate A&G Expense on the basis of labor rather than plant.
16 This adjustment is neither right nor wrong, it is just a different approach than has been
17 historically applied. This type of change generally shifts costs from large customers to
18 smaller, primarily residential customers.

19 Her final recommendation is to shape the allocation of energy costs between high load
20 and low load periods. Conceptually this could be a reasonable refinement to the cost
21 study. MSP has looked at allocating energy costs hourly rather than annually. The
22 impact of such a change for our system, however, appears to minimal. Ms. Iverson’s

1 back of the envelope approach seems to bear that out. The impact of this proposed
2 change on Monsanto's costs is only about 1/3 of 1 percent. I don't believe this change
3 has a large enough impact to warrant additional analysis at this time.

4 Q. Having established \$31.40 as a reasonable embedded cost basis for firm service, what
5 is the next decision point?

6 A. The next step is to determine the appropriate credit for the level of interruptibility
7 provided by the customer. There have been three general approaches to valuing
8 interruptibility presented in this proceeding with some variations of each. One approach
9 is to compare the prices, or discounts from standard tariff, for other interruptible
10 customers. The next is to include only a portion of Monsanto's load in the allocation of
11 costs. The third is to estimate the costs of a resource with similar characteristics to the
12 terms of interruptibility proposed for Monsanto.

13 PacifiCorp believes that the third option is the most appropriate. Mr. Watters presents
14 a discussion of how PacifiCorp values Monsanto's interruptibility in the context of the
15 Company's resource needs. In my testimony I review some of the proposals on valuing
16 interruptibility presented up to this point in the case. I show that when you make the
17 necessary adjustments to match them to Monsanto's proposed level of interruptibility,
18 their range of value compares quite closely with that presented by Mr. Watters.

19 Q. What potential resources have been proposed?

20 A. There are at least three options: generic single-cycle combustion turbines (CT) from
21 RAMPP-6, the recently completed West Valley City CT project, and purchase options
22 in the market.

1 Mr. Schunke, Mr. Yankel, and Dr. Rosenberg all use the cost of a simple-cycle
2 combustion turbine from RAMPP-6 although they each use the data a bit differently.
3 Let me review them one at a time. Mr. Schunke takes the total resource cost of a CT
4 at the 15 percent estimated capacity factor (\$78.43 per MWH), multiplies it by the
5 maximum number of interruptible MWH included in Monsanto's proposal and spreads
6 these costs across Monsanto's total usage. This yields a \$4.34 discount from the firm
7 service rate for a net price of around \$27 per MWH. I generally agree with
8 Mr. Schunke's analysis; however, I would make one adjustment. He has used the total
9 resource cost of the CT. I believe it is more appropriate, as Dr. Rosenberg has done,
10 to use only the fixed cost in order to hold other customers neutral to the choice between
11 constructing a CT and contracting with Monsanto for interruptibility. Monsanto's
12 interruptibility is not providing any energy or generating revenues associated with the
13 production of energy. If the CT were installed and run rather than interrupting
14 Monsanto, there would be revenues for those hours of operation that would offset the
15 operating costs. The fixed cost of the CT, spread across the estimated hours of
16 operations is \$55.92 per MWH. This modification changes the interruptibility discount
17 to \$3.10 and the net price to \$28.29, very close to the Company's proposal. This is
18 shown in Exhibit No. 17 (DLT-R1).

19 Mr. Yankel uses the cost for different CTs from RAMPP-6 and performs a similar
20 analysis. He adjusts the costs for losses, which is reasonable, but unlike Mr. Schunke,
21 he applies the resource costs to Monsanto's total furnace load for all 800 hours. Since
22 Monsanto is only proposing to shut down one or two furnaces, this is an overstatement

1 of the resource savings. Adjusting the resource savings in line with the maximum
2 potential MWH of interruption and using only the fixed resource cost produces a net
3 price in the \$28 range. This is shown in Exhibit No. 18 (DLT-R2).

4 Dr. Rosenberg uses the fixed resource costs from the same RAMPP-6 CT as
5 Mr. Schunke. He adjusts that value for both losses and a 10% reserve margin. While I
6 don't agree that the reserve margin adjustment is warranted, I have not removed it in my
7 modifications to Dr. Rosenberg's calculations. Dr. Rosenberg then applies the resource
8 savings to the entire Monsanto load to arrive at a discount of \$11.00 per MWH. He
9 disregards the fact that Monsanto has agreed to interrupt only part of its load, not the
10 entire load. He also disregards that Monsanto proposes to only interrupt that part of
11 the load for far less than the 1300 hours that a 15 percent capacity factor would
12 require. With those adjustments the resulting discount falls back to the \$3.00 range with
13 a resulting net price around \$28.00 per MWH. This is shown in Exhibit No.19 (DLT-
14 R3).

15 Another alternative resource to use in this analysis is the recent lease of the West Valley
16 Combustion Turbines. Exhibit No. 20 (DLT-R4) shows similar calculations as those
17 just shown. The West Valley CT lease has higher fixed costs than the generic RAMPP-
18 6 turbine, but it also is expected to operate at a higher capacity factor. Comparing
19 Monsanto's interruptibility against the West Valley lease produces a net price of over
20 \$29 per MWH.

21 Both Mr. Schunke and Mr. Yankel use potential avoided market purchases as another
22 alternative value for interruptibility. In his calculations Mr. Schunke uses the value of

1 \$33.54 per MWH out of the Company's recent surrogate avoided cost filing. That
2 amount applied to the maximum interrupted MWH yields a net price of \$29.50. This is
3 probably an understatement of the cost savings during the high load hours when
4 Monsanto would be interrupted. Mr. Yankel uses historical high load hour market
5 purchases from 2000 and 2001 in his calculations. The wide variations in market
6 prices, as shown in his calculations, show the challenge of this method in setting a long-
7 term contract price. In addition to the uncertainty of the market prices, two adjustments
8 need to be made to Mr. Yankel's analysis to accurately reflect the interruptibility
9 savings. First he assumes 160 MW of interruption for 800 hours. As indicated earlier,
10 this in nearly twice the available MWH of interruption proposed by Monsanto. Second,
11 he has compressed the hours of interruptibility into a shorter time frame than their
12 proposal allows. In Exhibit No. 21 (DLT-R5) I have restated both the quantity of
13 available MWH and the distribution of those hours across the months of the year. The
14 resulting net price after these changes is between \$26 and \$28 per MWH.

15 Q. You mentioned earlier that another proposed method to calculate the value of
16 interruptibility is to remove a portion of Monsanto's load from the allocation of costs. Is
17 this an effective method to value interruptibility?

18 A. This method is a usable tool, but I don't feel it is as effective as the resource valuation
19 method just discussed. Ms. Iverson and Dr. Rosenberg have suggested removing 50
20 percent of Monsanto's contribution to system peak from both the jurisdictional
21 allocation and the class cost of service study. I disagree with their study for two
22 reasons:

1 First, I don't believe a 50 percent reduction in Monsanto's share of capacity costs is an
2 even exchange for the option to interrupt 2/3 of their load less than 7 percent of the
3 hours in a year. The bulk of PacifiCorp's generation fleet consists of base load, coal
4 fired resources that generally run with capacity factors in excess of 80 percent.
5 Monsanto proposes a 50 percent reduction in its share of these costs. The simple cycle
6 combustion turbines identified from RAMPP-6 have an expected capacity factor of 15
7 percent. The proposed Monsanto interruptibility is less than 7 percent. Under
8 Monsanto's proposal, other customers would in effect be picking up half the cost of a
9 base load resource in exchange for interruptibility rights with less than half the potential
10 capacity factor of a peaking turbine. This is not a fair exchange.

11 Second, Ms. Iverson removes 50 percent of the entire load Monsanto identifies as non-
12 firm (all but 9 MW). However, Monsanto's proposal never proposes to have their
13 entire "non-firm" load interrupted except under the most dire of circumstances. They
14 only propose up to two furnaces or 116 MW. If a percentage reduction in contribution
15 to system peak is made it should be only for the 116 MW portion that is actually
16 available for interruption. I have made that adjustment to our cost of service study and
17 the resulting cost of service is \$26 to \$27 per MWH depending on the reduction in
18 MWH sales associated with the interruptions.

19 Monsanto's 50 percent load adjustment also reduces its allocation of transmission
20 costs. Historically, while interruptible customers have reduced the Company's
21 generation capacity requirements, the Company has always planned to have adequate
22 transmission capacity to deliver their energy requirements. If you apply the load

1 adjustment to generation costs only, leaving the allocation of transmission costs
2 unchanged, the cost of service increases by about \$1.00 per MWH.

3 Q. You indicated that the final decision point is how to allocate the revenues, loads, and
4 costs associated with the contract. What are the proposed options?

5 A. There are three options:

6 1. Assign Monsanto's load and all the revenue on a situs basis to Idaho;

7 2. Assign all costs and revenues associated with Monsanto on a system-wide basis
8 with an allocation back to all states as part of the jurisdictional allocation process; or

9 3. A hybrid approach where the Monsanto load along with the Commission
10 approved firm service revenues are assigned to Idaho and the credit associated with
11 interruptibility is allocated system-wide as a power cost expense.

12 PacifiCorp believes the third approach is the most appropriate.

13 Q. Does the PacifiCorp proposal appropriately capture the system benefits provided by
14 Monsanto's interruptibility?

15 A. Yes. The system benefits of the Monsanto contract comes from their interruptibility, not
16 from serving their load. I believe PacifiCorp's proposal appropriately separates the
17 transaction into its two essential elements and accounts for each element, the retail sale
18 of electricity and the wholesale purchase of power, in the correct manner. The
19 Company proposes to book as Idaho retail revenue the sales of electricity to Monsanto
20 at the firm service price of \$31.40 per MWH and to account for the monthly credit
21 associated with the interruptible provisions of the contract as a power purchase. Both

1 the sale and purchase provisions can be separately identified on the same bill with the
2 customer paying the net amount.

3 The loads associated with Monsanto's firm service and the associated revenue will be
4 included as part of Idaho's jurisdictional allocation and included in its revenue
5 requirement. The purchased power portion of the contract, capturing the system value
6 of the interruptibility, will be allocated among all states along with other power costs.

7 Q. Several parties in the case argue that assigning the cost of service attributable to
8 Monsanto to the Idaho jurisdiction would pose the potential for significant price
9 increases for other Idaho customers. Is this correct?

10 A. It is not correct if the price for Monsanto's firm service reflects the full-embedded cost
11 of service. If the Idaho Commission orders a price for firm service to Monsanto that is
12 lower than what would be supported by the embedded cost of service study – that is, if
13 there is a cost of service subsidy in favor of Monsanto – then other Idaho customers
14 could be required to bear the cost of that subsidy. I agree with Mr. Schunke when he
15 states “if rates are set at full cost of service, including a reasonable discount for
16 interruptibility, there is no subsidy.” In such a case, as has been proposed by the
17 Company, other Idaho customers would not be harmed by including Monsanto as part
18 of the Idaho jurisdiction.

19 If, for local economic reasons, the Idaho Commission should decide that a discount
20 greater than the system value of interruptibility is warranted, the Company's proposal
21 gives them that option. Because those economic benefits accrue to Idaho and not to
22 other states, the additional discount should be included as part of Idaho retail revenues.

1 Q. Mr. Smith takes exception with PacifiCorp's characterization of Monsanto's current
2 price as \$23 per MWH. He states that the 1995 contract clearly states that the
3 \$30 million payment at the beginning of the contract was a buyout of the old contract
4 and that their current actual and effective rate is \$18.50 per MWH. He further states
5 that PacifiCorp is requesting a 70 percent rate increase from Monsanto. Do you agree
6 with his characterizations?

7 A. No. While I agree that the 1995 contract identified the \$30 million as a buyout of the
8 old contract, all parties in the case recognized that the only reason for the \$18.50 price
9 was because of the prepayment. Monsanto's own attorney argued in the contract
10 approval case that the \$30 million prepayment made the effective price in excess of \$23
11 over the life of the contract. In support of the 1995 contract Mr. Racine stated:

12 "Amortizing the \$30 million payment at the prime interest rate of 8.75%
13 over the life of the Agreement, the average Monsanto rate, including the
14 1.85 cents / kWh energy charge, would be in excess of 2.3 cents /
15 kWh."

16
17 Amortizing the \$30 million over the remaining live of the old contract would have
18 resulted in an effective price of over \$32, greatly in excess of the contract rates
19 scheduled for 1996 and 1997.

20 The error in Mr. Smith's argument is that he completely ignores the \$30 million
21 payment, allocating it to neither the 1992 contract nor the 1995 contract. The payment
22 was made, and it must be allocated to one contract or the other.

23 Certainly the Company's proposed increase is not 70%. The net price including
24 interruptibility is approximately \$27 per MWH. An increase from \$23 to \$27 is only

1 17.4 percent over 6 years or less than 3 percent a year. If the \$30 million is allocated
2 to the 1992 contract, the price including interruptibility actually decreases from \$32 per
3 MWH to \$27 per MWH.

4 Q. Is the 1995 contract the proper base line for comparing the price and terms of a new
5 contract for Monsanto?

6 A. No. The Monsanto witnesses consistently refer back to the 1995 contract as the basis
7 of comparison for the proposed new contract. Such a comparison is misleading, both in
8 terms of price and in terms of interruptibility. A comparison to the 1992 and other
9 previous contracts puts the proposed contract in an appropriate context. The 1995
10 contract was developed under unique circumstances that did not exist when the pre-
11 1995 contracts were approved and do not exist today. As noted by Mr. Smith in his
12 testimony, the 1992 contract, which was scheduled to run to 1997 with prices
13 increasing to \$26 per MWH, was terminated early because of changes in power
14 markets and the Company's surplus capacity. In 1995 PacifiCorp had excess capacity,
15 power was trading in the wholesale market at prices below \$20 per MWH, direct
16 access appeared imminent in much of our service territory, and Monsanto had viable
17 alternatives to service from PacifiCorp. None of those conditions existed at the time of
18 the pre-1995 contracts and they do not exist today.

19 Q. How does the Company's proposal match up when compared to the 1992 contract?

20 A. When compared to the 1992 contract, the net price change proposed by the Company
21 is a very modest increase. An increase from \$26 (the end price of the 1992 contract)
22 to \$27 is less than 4% over 4½ years. If you look at the history of the Monsanto

1 contract over time, you will see that the Company's current proposal compares very
2 favorably with past contracts. This price trend is illustrated in the graph contained in
3 Exhibit No.22 (DLT-R6).

4 Q. Does this conclude your rebuttal testimony?

5 A. Yes it does.