Randall C. Budge, ISB 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

Attorneys for Monsanto Company

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** **MONSANTO'S COMMENTS RE: ORDER 29157**

COMES NOW Monsanto Company ("Monsanto"), through counsel, and hereby submits the following Comments to the Commission in response to the Proposed Order No. 29157 dated December 10, 2002.

INTRODUCTION

The Commission is commended for thoroughly addressing all relevant contract and rate issues in a reasoned and detailed manner. Other than the price issues and rate design which are the focus of these comments, Monsanto is pleased that the Commission's proposed decision on other contract issues provides Monsanto with price certainty and stability through December 31, 2006 which are critically important factors in Monsanto's future planning and operational decisions.

Monsanto's Comments will be limited and request the Proposed Order be revised on three critically important areas of concern: (1) the proposed rate for firm and interruptible service should be reduced; (2) the proposed pricing components should be eliminated in favor of an all in energy rate; and (3) consideration should be given to the principles of rate shock and gradualism by phasing in the new rate over a three (3) year period. Otherwise, Monsanto believes that the Proposed Order establishes contract terms that it can live with, and should enable the parties to finalize and file a new electric service contract with the Commission for approval once a final order is entered .

1. ADJUSTMENTS TO REDUCE THE OVERALL RATE.

Monsanto is disappointed and greatly concerned with the proposed overall rate of 23.54 mills/kWh, which would result from the Commission's rejections of several of Monsanto's recommendations. The proposed rate and pricing mechanism clearly jeopardizes the Soda Springs plant's competitiveness in the world-wide phosphorus market and threatens its viability. As testified by Mr. Schettler, Monsanto's recommended energy price of 18.50 mills/kWh, or a price very near to that rate, is needed for the plant to remain competitive in the increasingly competitive world-wide market characterized by a declining demand for phosphorus, new technologies and foreign suppliers. Tr. Vol. IV, p. 406, l. 13 – p. 407, l. 14.

Monsanto believed that an ample record was established in this case to support a cost-based rate at or near the current rate of 18.50 mills/kWh, given the additional 800 hours of interruptions offered. Monsanto will not here further argue these positions that were extensively addressed in its Post-Hearing Brief. Instead, Monsanto recommends certain adjustments to further refine the Commission's Proposed Order.

A. Firm (Base) Rate

The Commission accepted only Monsanto's proposed rate of return and fuel shaping adjustments in reducing the Company's proposed 31.39 mills/kWh firm rate slightly to 30.27 mills/kWh. (Proposed Order, P.7). At a minimum, the Commission should further lower the firm rate by 1.00 mill to reflect the proper assignment to the Idaho jurisdiction of the $30 million payment to buy-out the 1992 contract. This adjustment was conceded by the Company's cost-of-service witness Taylor on cross-examination and is not opposed by any party. (See Monsanto Post-Hearing Brief, P. 16) (Taylor (X), Tr. Vol III., pp. 282, l. 3-7283, l.15-25, 286, l.8-19)

Properly assigning the payment to the Idaho jurisdiction would lower Idaho's revenue requirement, and likewise lower Monsanto's firm rate by an additional 1.00 mill resulting in a firm rate of 29.27 mills/kWh. A firm rate of 29.27 mills/kWh is directly in line with the new special contract PacifiCorp entered into with Geneva Steel, priced at an energy-only rate of 29.30 mills/kWh and which PacifiCorp admitted was equivalent to 29.12 mills if applied to Monsanto load. (Griswold (X), Tr. Vol. VII, p. 825, l. 4-23) Consequently, Monsanto asks the Commission to make, at a minimum, this one adjustment to its Proposed Order on firm (base) rates, thereby reducing the firm (base) rate down to 29.27 mills/kWh.

B. Value of Interruptibility

Monsanto is disappointed with the proposed credit established for the 800 hours of interruption of the Monsanto load. It appears that the Commission chose to establish this credit based upon some particular *services* that Monsanto provides PacifiCorp (i.e., system integrity, operating reserves and economic curtailment), valued at a hypothetical market price established under PacifiCorp's "Black Scholes" model, rather than on the resource that would be avoided by virtue of the interruption. Staff witness Schunke, Irrigation witness Yankel, and Monsanto witness Rosenberg all recommended the latter approach.

As Dr. Rosenberg explained, it is easier to value an avoided resource and have PacifiCorp use that resource in the most economic and efficient way possible, than to presuppose Monsanto supplies specific services. This is particularly true given the fact that PacifiCorp has admitted that there is no equivalent resource available in the market.

The "Black Sholes" model significantly undervalues the avoided cost of capacity. For example, while PacifiCorp' model values capacity at only $37 per kW-year, the avoided cost of the Oregon-Washington peaker of RAMPP-6 is nearly twice that amount, or $73.48 per kW-year. (Exhibit No. 14, capacity charge of $3.08 per kW-month which is equivalent to $36.96/kW-yer; Exhibit 246 for OR-WA Simple Cycle CT).

In valuing Monsanto's interruptibility, the Commission based its Proposed Order on PacifiCorp's Exhibit No. 35, adjusted for lost revenues:

System Integrity:	$486,000
Operating Reserves Curtailment:	$3,922,193
Economic Curtailment:	$4,025,469
Sub-Total	$8,433,662
Lost Revenue Adjustment	$ 992,627
Total Valuation	$9,426,289

Dividing the $9.5 million valuation into the 1999 energy sales of 1,400,846 results in an interruptible credit of 6.73 mills/kWh. When credited against the Commission's firm (base) rate of 30.27 mills/kWh, the overall proposed rate of 23.54 mills is derived. (Proposed Order, P.10). However, the sole basis for the 6.73 mills/kWh credit is Exhibit No. 35, which is nothing more than PacifiCorp's "Black Scholes" model. The Commission appears to place little or no value in the Company's "Black Scholes" model, stating at p. 10:

> While we are uncertain that the Company itself completely understands the "Black Scholes" model or is able to explain its valuation of Monsanto economic curtailment above 500 hours, it was troubling to the Commission that the Company appeared to be less than forthcoming and not totally candid in attempting to explain it.

The fact that the Company's "Black Scholes" model still is not understood or adequately explained is further underscored by the fact that the Commission took the unusual step of re-opening the record after the hearing closed to provide yet another opportunity for the Company to resolve unanswered question and inconsistencies rendering the model unreliable.

Monsanto too finds the misapplication of the "Black Scholes" model produces inconsistent and unreliable results and should be disregarded as a means of valuing interruptions. Quite obviously, this model has applications to options, hedging and financial markets where liquidity exists, but is not designed or valid to value Monsanto interruption, which is unique. Monsanto clearly demonstrated the misapplication of the "Black Scholes" model as discussed in detail in our Post-Hearing Brief (pp 19-21). The problem with using the "Black Scholes" model, however, is not simply limited to curtailments <u>above</u> 500 hours. The improper use of the "Black Scholes" is no more reliable for valuating of the <u>first</u> 500 hours of interruption than for the <u>additional</u> 500 hours. Staff similarly rejects the use of the "Black Scholes" model, stating: "Staff recommends that the Commission not determine the value of Monsanto's interruptibility based solely on the modeled results presented by PacifiCorp." (Posthearing Brief of Commission Staff, p. 4)

All other witnesses of this proceeding based their interruptible valuations on the avoided cost of a peaker from PacifiCorp's RAMPP-6 integrated resource plan. For example, based on the avoided capacity and energy costs of the Oregon/Washington Simple Cycle Combustion Turbine used by Staff witness Schunke, an interruptible credit of approximately $11.5 million is derived. (Exhibit 246) The $11.5 million is a reasonable interruptible valuation in that is based on the lower avoided costs of a Oregon/Washington turbine, as compared to the more costly Utah resource.

Based on 1999 energy consumption, the $11.5 million results in a credit of 8.23 mills/kWh.[1] Starting with the adjusted approved all-in firm (base) energy rate of 29.27 mills/kWh , factoring in the adjusted credit of 8.23 mills results in a net price of 21.04 mills/kWh. This overall net price for firm and interruptible service would be fair, just and reasonable, cost-justified and supported by the evidence. Consequently, Monsanto asks the Commission to consider adjusting the interruptible value to $11.5 million, thereby increasing the credit from the Proposed Order amount of 6.73 mills/kWh to 8.23 mills.

2. ELIMINATION OF COMPONENT CHARGES IN FAVOR OF AN ALL IN ENERGY RATE ONLY

The Proposed Order contemplates separate rate components in the form of customer, energy and demand charges:

Customer Charge: $283 per month

Energy Charge: $16.31 per MWH

Discounted Demand Charge: $4.56 per kW/month

The Proposed Order implicitly assumes that the above proposed rate design is equivalent to the proposed overall cost of 23.54 mills/kWh. However, the final cost of electricity Monsanto would experience under the Proposed Order would be <u>greater</u> than 23.54 mills/kWh, and in fact would be as high as 24.50 mills/kWh. This is due to the fact that when Monsanto is interrupted, its load factor will suffer and the average cost under the proposed rate design will increase.[2] Monsanto should not pay more for its energy from PacifiCorp simply as a result of being interrupted. Furthermore, when

[1] $11,526,674 ÷ 1,400,846,000 kWh = 8.23 mills per kWh.

[2] The only time Monsanto would achieve an overall average cost of 23.54 mills/kWh from PacifiCorp would be if Monsanto was never interrupted. However, PacifiCorp testified at the hearing that with a strike price of $16.31 per MWH, Monsanto would most certainly be interrupted the maximum number of hours possible.

considering the attendant costs related to the 800 hours of interruption (whether operational or buy-through), the situation is even more dire.

The Commission's Proposed Order suggests that the demand/energy rate design 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." (Proposed Order, P.7) While the cost of service does indeed classify costs as demand and energy-related, since Monsanto is its own class within the cost study, retaining separate classifications is not necessary. In fact, the other recent large industrial contracts of PacifiCorp with Magcorp and Geneva Steel each provide only for an all-in energy rate design. (Exhibits 208, 23) As for matching "Monsanto incentives with PacifiCorp costs", Monsanto already has a full incentive to keep its operational costs as low as possible. A demand/energy rate is entirely unnecessary as a further incentive. Monsanto has had an all energy rate since November 1995, and Monsanto continues to use energy intensively, with a high load factor. Changing to a demand/energy rate provides Monsanto with neither incentive nor ability to further increase its load factor. It would only serve to penalize Monsanto for the fact that it has offered 800 hours of interruptibility. Consequently, we urge the Commission to revise its Proposed Order on rate design, and find for an all energy rate.[3]

3. CONSIDERATION OF PRINCIPLES OF RATE SHOCK AND GRADUALISM

Based on the proposed rates increases, the Commission must also consider the fundamental and time-honored rate-making principles of gradualism and rate shock avoidance. Through witness Taylor, PacifiCorp admits that the Commission should consider the principle of gradualism in setting rates. (Tr. Vol III, p. 294, ll. 8-16) Comparing Monsanto's current firm rate since 1995 of

[3] Should the Commission accept Monsanto's first request for adjusting the overall rate to 21.04 mills/kWh, but reject the rate design request, the discounted demand charge would be $2.98/kW-month with the $16.31 per MWH

18.50 mills/kWh with the proposed firm rate of 30.27 mills/kWh results in an increase of 11.77 mills/kWh, or 63.6%. Comparing Monsanto's current rate to the proposed new net interruptible price of 23.54 mills/kWh, an apples to oranges comparison, results in an increase of 5.04 mills/kWh, or 27.24%. Since the current rate of 18.50 mills/kWh does not allow any interruptions other than for emergency purposes, it is simply not properly comparable to the new proposed net interruptible price which includes 800 hours interruptions, i.e., an apples to oranges comparison.

Increases of this magnitude are unprecedented, not only for Monsanto but also for any other PacifiCorp customer in Idaho or elsewhere in the last decade since the Utah Power-Pacific merger. Clearly an increase anywhere near the proposed rates would result in rate shock to Monsanto. Monsanto urges the Commission to phase in the increases over a period of not less than 3 years.

CONCLUSION

Monsanto respectfully requests that the Commission enter a Final Order incorporating the revisions proposed by Monsanto as discussed above. Accordingly, the Final Order should require PacifiCorp to provide an all in energy rate of 21.04 mills/kWh. Further Monsanto respectively requests that the new rate be phased in over a (3) three year period, 19 mills in year one, 20 mills in year two, and 21.04 mills for the remainder. These changes will enable the Soda Springs plant to remain competitive, viable and an important contributor to the regional economy.

---

energy charge and $283 per month customer charge. While Monsanto would still pay more than 21.04 mills/kWh when interruptions are factored in, the penalty is reduced somewhat.

RESPECTFULLY SUBMITTED this 27th day of December, 2002.

RACINE, OLSON, NYE, BUDGE &
BAILEY, CHARTERED

By____________________________________
RANDALL C. BUDGE

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 27th day of December, 2002, I mailed a true and complete copy of the foregoing document, postage prepaid, to each of the following:

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
P.O. Box 83720
472 W. Washington Street
Boise, Idaho 83720-0074
Fax: 208-334-3762
E-mail: jjewell@puc.state.id.us

John R. Hammond, Jr.
Deputy Attorney General
Idaho Public Utilities Commission
472 W. Washington Street
Boise, Idaho 83702-5983
E-mail: jhammon@puc.state.id.us

John M. Eriksson
Stoel Rives LLP
201 S. Main St., Ste 1100
Salt Lake City, Utah 84111
E-mail: mjeriksson@stoel.com

Mary S. Hobson
Stoel Rives LLP
101 South Capitol Blvd, Suite 1900
Boise, Idaho 83702-5958
E-mail: mshobson@stoel.com

Doug Larson
PacifiCorp
201 South Main, Suite 2300
Salt Lake City, Utah 84140-0023
E-mail: doug.larson@pacificorp.com

Rick Anderson
Energy Strategies, Inc.
39 Market Street, Suite 200
Salt Lake City, Utah 84101
E-mail: RAnderson@Energystrat.com

Alan Rosenberg
Brubaker & Associates, Inc.
P.O. Box 412000
St. Louis, Missouri 63141-2000
E-mail: arosenberg@consultbai.com

James R. Smith
Monsanto Company
P.O. Box 816
Soda Springs, Idaho 83276
E-Mail: jim.r.smith@monsanto.com

RANDALL C. BUDGE