Before the

Public Utilities Commission

of the State of Idaho

In the Matter of the Application of PacifiCorp,	**)**	
dba Utah Power & Light Company for	**)**	**CASE NO. PAC-E-01-16**
Approval of Interim Provision for the Supply	**)**	
Of Electric Service to Monsanto Company	**)**	

Direct Testimony of

Richard M. Anderson

On Behalf of

Monsanto Company

July 19, 2002

energy strategies

Salt Lake City/Phoenix/Austin

PACIFICORP

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<u>Direct Testimony of Richard M. Anderson</u>

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Richard M. Anderson, 39 W. Market Street, Suite 200, Salt Lake City, Utah 84101.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am a principal in the firm of Energy Strategies, LLC. Energy Strategies is a professional consulting firm offering services in the natural gas and electric arenas.

Q. PLEASE DESCRIBE BRIEFLY YOUR EDUCATIONAL BACKGROUND.

A. I received a Bachelor of Business Administration degree from the University of Texas at Austin and a Ph.D. in Economics from the University of Utah.

Q. BRIEFLY DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. I have approximately 20 years of work experience in the energy field. The work has centered on economic assessments and policy development on a variety of energy issues. I have provided direct testimony in regulatory proceedings before the Idaho, Nevada, Oregon, Utah and Wyoming public service/utility commissions.

Appendix A is a brief resume that provides more detail as to my professional experience.

Q. ON WHOSE BEHALF ARE YOU FILING TESTIMONY IN THIS PROCEEDING?

A. I am filing testimony on behalf of the Monsanto Company.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am providing testimony in support of the special contract terms and provisions as advocated by the Monsanto Company. I will address the issues of how the Monsanto load should be treated in a regulatory framework. Specifically, the issue of whether Monsanto's load should be priced as a firm load or as an interruptible customer will be evaluated. I discuss the attributes of the Monsanto load and why these attributes are of significant value to PacifiCorp (the Company). I will also address the issue of whether the Monsanto load should be priced under a single contract versus the Company's suggestion of a multiple contract approach.

Additionally, and also in the nature of the regulatory treatment afforded Monsanto, I will address the issue of 'situs versus system' treatment of the Monsanto load which has been raised through the direct testimony of PacifiCorp witness Mr. Taylor.

Q. ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH YOUR TESTIMONY?

A. Yes. I am sponsoring Exhibit 212 through Exhibit 215.

Q. PLEASE PROVIDE A BRIEF EXPLANATION OF YOUR CONCLUSIONS.

A. The Monsanto load has the capability of offering a variety of interruptible services to PacifiCorp that are of significant value. The controversy in this filing arises from two issues; how the contractual relationship is to be defined and the value of the contract itself. I posit that there is no fundamental reason that the Monsanto/PacifiCorp contractual relationship cannot be defined by a single contract. Despite the Company's arguments referring to market volatility and price risk they believe they will incur, the Monsanto load provides substantial benefits to the PacifiCorp system, its customers, and the state of Idaho and to the local southeast Idaho community. The economic risk to Monsanto resulting from the proposed price increase and the terms and conditions of the Company's proposed contract places a large amount of economic activity at risk. Additionally, the Company's proposal to change the status of the contract to a 'situs' standing is premature and is an attempt to circumvent the discussion and analysis of the same issue in an interstate/interjurisdictional setting.

III. PRICING VEHICLES:
MULTIPLE CONTRACTS VERSUS SINGLE INTEGRATED CONTRACT

Q. WHAT VALUE DOES AN INTERRUPTIBLE CUSTOMER PROVIDE PACIFICORP?

A. An interruptible customer can provide the Company with an array of cost effective options to meet certain of the Company's obligations. As an example, the ability of an interruptible customer to curtail its load can help the Company meet operating reserves or peak load requirements.

Q. DOES PACIFICORP HAVE AN INCREASING PROBLEM MEETING

PEAK LOAD OBLIGATIONS TODAY AS COMPARED TO 1995?

A. It would appear so. Growth in the Utah urban areas has been substantial during the last two decades. The Company's recently filed updated RAMPP plan in Utah acknowledges the need to meet increasing load growth. In response, the Company has invested in new generation (or entered into a long-term lease arrangement) at West Valley City, Utah and at its existing Gadsby facility in Salt Lake City. Additionally, the Company has pledged to aggressively expand its demand side management programs as an additional tool to meet peak load needs.

Q. WHAT OPTIONS DOES THE COMPANY HAVE TO HELP MEET ITS PEAK LOAD AND OPERATING RESERVE REQUIREMENTS OTHER THAN INTERRUPTIBLE SERVICE?

A. Absent its investment in demand side management programs, the options that are available are limited to two: 1) it can choose to purchase power on the wholesale market or 2) it can build additional generation.

Q. WHAT ARE THE RISKS AND DISADVANTAGES OF RELYING ON MARKET PURCHASES TO MEET THESE OBLIGATIONS?

A. The risk associated with reliance on the market is that of price volatility. The substantial price movements the western wholesale market witnessed beginning in May 2000 was evidence that the market does entail price risk.

Q. WHAT ARE THE RISKS AND DISADVANTAGES OF RELYING ON NEW GENERATION UNITS TO MEET PEAK LOAD AND OPERATING RESERVE REQUIREMENTS?

A. The primary risk and disadvantage lies in the capital outlay necessary to build new generation units and the lead time to construct such units. The capital outlay can be substantial and the construction of the unit is always subject to delays in meeting its timing objectives.

Q. ARE THERE ADVANTAGES OF RELYING ON INTERRUPTIBLE LOADS TO MEET THESE OBLIGATIONS OF THE COMPANY?

A. Yes. Utilizing interruptible load from its existing customer base provides the advantages of no major capital outlay and is currently available. Thus, the Company is able to call upon these existing services to meet today's obligations and do so without incurring substantial capital cost.

Q. HAS PACIFICORP REDUCED OR ELIMINATED INTERRUPTIBLE OPTIONS FROM ITS CUSTOMER BASE?

A. Yes. Prior to the 1995 Contract with Monsanto, economic interruptions were allowed as part of the contractual relationship between Monsanto and PacifiCorp. At the Company's request, language relating to economic interruptions was removed from the current contract. Additionally, in the recent deferred accounting case before this Commission (PAC-E-02-1), the Company altered the historic treatment of irrigation customers as interruptible customers and placed them under firm service.

Q. DO YOU HAVE AN EXAMPLE OF THE CAPACITY COST INCURRED BY THE COMPANY IN THE NEW GADSBY PEAKING UNITS?

A. According to the direct testimony of Company witness Dr. Rand Thurgood (page 12, line 8) in the Utah Docket No. 01-035-37 (Response to Staff Data Request No. 2), the installed capacity cost is approximately $608/kW.

Q. IN THE COMPANY'S PLANNING PROCESS (RAMPP), HOW DOES THE COMPANY PROPOSE TO MEET ITS PEAK LOAD OBLIGATIONS?

A. According to the updated RAMPP-6 Action Plan submitted to the Utah Public Service Commission on June 14, 2002, the Company's action plan selected 265 mWs of Simple Cycle CT in the years 2002 and 2003. The model also selected 126 mWs of wind power in 2003. The selection of the Simple Cycle CTs in 2002 and 2003 are virtually already completed by the Company's investment in the Gadsby Peakers and its long-term lease on the new West Valley units. The model did not select any super peak purchases. I have included as Exhibit 212 (RMA-1) the synopsis of the action plan as presented by the Company to the Utah Commission.

Q. DOES THE PLAN INDICATE THAT INTERRUPTIBLE RESOURCES WILL BE USED TO HELP MEET THE COMPANY'S FUTURE NEEDS?

A. No. Apparently the Company's action plan centers on the acquisition of new generation assets combined with the development of additional demand side management programs.

Q. WHAT ATTRIBUTES OR SERVICES DOES MONSANTO OFFER TO PACIFICORP THAT PROVIDE VALUE IN HELPING MEET THE COMPANY'S NEEDS?

A. Because of the operational characteristics of its plant, Monsanto is capable of offering curtailment or interruptions in a variety of circumstances. Primarily, Monsanto can offer flexibility, both economic and emergency interruptions, ease of interruption, interruption implementation in a matter of minutes, and the avoidance of a large capital outlay.

Monsanto can interrupt or take off line one to three furnaces. In so doing, the actual interruption can range from 46 mWs to 166 mWs. PacifiCorp acknowledges these attributes. Mr. Griswold's Exhibit 7 is a set of draft contracts for super-peak load curtailment and operating reserves. The Company therefore recognizes that Monsanto can and is willing to offer curtailment for the purposes of operating reserves and for helping the Company meet is super-peak load requirement.

Finally, Monsanto offers the benefit of an 85% load factor that can prove helpful in the 'shoulder periods' compared to an open market purchase for interruption services. Most market purchases are in a 6X16 block hour format, while the Company's super peak problem is less in duration. The market purchase tends to place the Company in a position of needing to resale some of those hours at a time during which the prevailing market price is low. A contractual arrangement with Monsanto avoids this 'shoulder period' problem.

Q. HAS THE COMPANY PREVIOUSLY ARGUED THAT THE MONSANTO LOAD PROVIDED A BROAD RANGE OF BENEFITS?

A. Yes, in fact the Company expressed support of the 1995 Contract with Monsanto predicated on an argument that the Monsanto load provided a host of benefits. In their "Technical Assessment Package for Power Supply Agreement between Monsanto Company and PacifiCorp" dated November 1995, the Company "requests IPUC approval of the New Agreement by virtue of the benefits it provides to other customers, the Soda Springs community, the State of Idaho, the United States, Monsanto and PacifiCorp (see Exhibit 204).

Q. HAS THE COMPANY HISTORICALLY SERVED THE MONSANTO LOAD UNDER A SPECIAL CONTRACT RELATIONSHIP?

A. Yes, there has existed a special contract for the Monsanto load for the last two decades. Monsanto witness Mr. Smith discusses this historical relationship in his testimony.

Q. IN THE COMPANY'S FILING, HAS IT SUGGESTED THAT THE APPROACH TO PRICING THE MONSANTO LOAD BE ALTERED FROM THE HISTORIC WAY IT HAS BEEN PRICED?

A. Yes, the Company has advocated that the pricing of the Monsanto load be constructed as a firm load which is different than the way it has been treated in the past. Both Company witnesses Taylor and Griswold provide reasons the Company has chosen to revamp their new pricing approach. Mr. Griswold summarizes the reasons as being both commercial and regulatory.

Q. WHY IS THE COMPANY PROPOSING THAT THE MONSANTO CONTRACT NOW BE VIEWED AS A FIRM POWER SALE?

A. The Company was asked to explain why it now considers the Monsanto load as firm (Data Request No. 35). The response was two fold: 1) that the current supply contract did not allow for economic disruption, and 2) the Company's practice is to limit load curtailment due to system emergencies to two hours, which is insufficient duration to be relied on for capacity.

In addition to the reasons stated in Data Response No. 35, both Mr. Taylor and Mr. Griswold suggest that market conditions have been altered to the extent that pricing a new contract cannot be undertaken in a manner similar to the previous contract. Both witnesses stated that market risk is a primary issue for the Company.

Q. DO YOU AGREE WITH THE COMPANY'S REASONS?

A. No I do not agree. The absence of economic interruptions in the 1995 Contract was at the request of the Company. It was not predicated on the fact that Monsanto could not, nor would not be willing, to provide such interruption services. The absence of language on economic interruptions was thus a contractual issue, not a technical issue. As indicated in Mr. Schettler's testimony, Monsanto is willing today to offer the Company curtailment services for economic reasons.

Secondly, the fact that the Company chose to limit the curtailment in the 1995 Contract to system emergencies gives no indication Monsanto lacks the capability to offer such curtailment for longer time durations. The time limit indicated in Data Response No. 35 is artificial. In fact, Monsanto has offered longer durations under its recent and current operating reserve agreements.

Q. IT WOULD APPEAR THAT THE SERVICES REFERENCED IN DATA RESPONSE NO. 35 ARE IN FACT AVAILABE FROM THE MONSANTO LOAD. IS THAT CORRECT?

A. Yes, both curtailment to meet load requirements and operating reserve services are available from Monsanto, and are included in Monsanto's proposed agreement

It would also appear that the Company does not believe that the need for interruption services, be it for peak load curtailment or operating reserves, is a short run phenomenon. As indicated in their updated RAMPP-6 Plan and their recent investments in the Gadsby and West Valley units, the Company views the need for operating reserves and load curtailment services as a long-term issue.

Q. PLEASE PROVIDE A SUMMARY OF HOW THE PRICING OF THE MONSANTO LOAD WOULD CHANGE UNDER THE COMPANY'S PROPOSAL.

A. The pricing change is multi-faceted but shifts the Monsanto load to a 'firm' price while providing short-term supplemental contracts to price other attributes such as peak load curtailment and operating reserves. Additionally, the economic value assigned to the emergency curtailment contained in the 1995 Contract has been eliminated. The Company's proposal alters the traditional way in which special contract customers have been priced under the "contribution to fixed cost standard." The new pricing scheme the Company seeks would abandon this historic approach of a single price/single contract and, instead, use a multiple contracts approach where Monsanto's attributes such as curtailment or operating reserves would be priced separately and would constitute a 'purchase power' contract or a contract to purchase operating reserves. The length of the contracts (for firm power and for interruptible services) would differ, thus creating a disconnect in the price certainty Monsanto would experience in their overall electric cost. This approach introduces a significant amount of uncertainty and potential rate instability into Monsanto's operations.

Q. IS THE USE OF A MULTIPLE CONTRACT STRUCTURE NECESSARY TO PRICE INTERRUPTIBLE SERVICES OFFERED BY MONSANTO?

A. No. The same net value can be obtained through the single contract structure which has been employed for years. Mr. Griswold, under cross examination in the recent Utah docket involving a special contract for Magcorp and one in which the Company had attempted to use the multiple contract approach, admitted that a single contract structure would suffice (Exhibit 213 (RMA-2)).

Q. IN YOUR OPINION, HAS THE COMPANY MADE AN AFFIRMATIVE CASE FOR ALTERING THE STRUCTURE OF THE MONSANTO CONTRACT TO A MULTIPLE CONTRACT APPROACH?

A. No. The reasons put forth by the Company do not provide a compelling reason why the structure of the contract should change. Surely the reasons delineated in Data Response No. 35 are insufficient to force a change in the contract structure.

With regard to the market concerns expressed in Mr. Griswold's and Mr. Taylor's direct testimony, I believe they also cannot justify a structural change in the way the contract is designed. I will speak more on the economic arguments later in this testimony.

IV. SITUS VERSUS SYSTEM RESOURCE TREATMENT OF THE MONSANTO CONTRACT

Q. DOES THE COMPANY'S PROPOSED APPROACH ALSO ALTER THE TRADITIONAL MANNER OF ALLOCATION OF THE COST AND BENEFITS FROM THE MONSANTO CONTRACT?

A. Yes. The proposed approach also encompasses a change in how the allocation of costs and benefits derived from the Monsanto load are to be allocated. The historic approach of treating the Monsanto load as a 'system resource' is abandoned in favor of a 'situs' treatment. In other words, in previous Monsanto's contracts both the costs and benefits associated with the contract were spread across all jurisdictions within the PacifiCorp system. The approach now advocated by the Company alters the current system and assigns the revenues and costs to the Idaho jurisdiction only.

Q. WHY DOES MR. TAYLOR BELIEVE THE SITUS APPROACH TO PRICING THE MONSANTO LOAD IS NECESSARY?

A. Mr. Taylor states that pricing based on the traditional approach is no longer applicable due to conflicts on special contract treatment between the PacifiCorp state jurisdictions. The Company offered as evidence of this conflict Data Response No. 39 (a), testimony submitted in Oregon and Utah by members of the respective Commission's staff.

Q. DO THESE TESTIMONIES SUPPORT MR. TAYLOR'S POSITION THAT THE TREATMENT OF SPECIAL CONTRACTS IS A MAJOR CONCERN?

A. No. The testimonies do discuss the issue of the allocation of special contracts. However, the issue arose in an Oregon docket in which there was a stipulation ultimately agreed to by all parties, including the Company. The issue was not therefore litigated before the Commission itself. With regard to the Utah staff position, the Utah Commission recently supported a special contract between the Company and Magcorp in which the Commission chose not to address the issue on a permanent basis but instead references the Multi-State Process as the more appropriate forum through which the allocation issue should be resolved (see Exhibit 208). Consequently, the testimonies cited by the Company do not appear to be conclusive that the situs approach to treating special contracts has now been adopted as policy in the other states.

Q. WHAT SPECIFICALLY IS OF CONCERN TO THE COMPANY REGARDING THE ALLOCATION OF SPECIAL CONTRACTS?

A. The Company, in response to Data Request No. 27, stated, "PacifiCorp's proposed treatment is meant to eliminate the risk the Company faces that states may not accept system revenue credit treatment for special contract customers outside their own state, thus resulting in shareholder subsidization of special contracts."

Q. AT THE TIME OF THE 1988 UTAH POWER/PACIFIC POWER MERGER AND THE 1999 SCOTTISHPOWER MERGER, DID THE COMPANY INDICATE IT WOULD ACCEPT RESPONSIBILITY FOR ALLOCATION RISKS?

A. Yes. PacifiCorp clearly was aware that cost allocation problems between the jurisdictions existed at the time of both the 1988 and 1999 mergers. The Company agreed that its shareholders would assume all risks that could result from less than full system recovery if allocation methods between the states differed. These commitments are summarized and discussed in "Discussion Document" presented by PacifiCorp Regulation Manager Gordon McDonald dated May 13, 2002, and presented at the May 29-30 Multi-State Process meeting in Case No. PAC-E-02-3, a copy of which is attached as Exhibit 214 (RMA-3).

Q. IS THIS TREATMENT OF SPECIAL CONTRACTS AN ISSUE UNDER INVESTIGATION BY THE COMPANY AND THE VARIOUS STATE COMMISSIONS?

A. Yes, this is one of the issues now under investigation by all the parties involved in the Multi-State Process. In fact, as part of that process, a special contracts task force has been formed to analyze the different approaches that may be employed in the treatment of special contracts within the PacifiCorp system. To that end, every party in this case, including the Idaho Commission staff, is an active participant in the task force work.

Q. DOES THIS INVESTIGATION INCLUDE AN INQUIRY INTO THE ISSUE OF SYSTEM VERSUS SITUS TREATMENT OF SPECIAL CONTRACTS?

A. Yes it does.

Q. HAS THE COMPANY PROVIDED AN ANALYSIS OF WHAT COSTS WOULD BE INCURRED IN THE IDAHO JUSIDICTION IF THE MONSANTO CONTRACT IS TREATED AS A SITUS ALLOCATION?

A. Yes. Mr. Taylor has provided analysis reflecting the cost allocation to the Idaho jurisdiction if the Monsanto contract is treated as a situs resource. Monsanto witness Ms. Iverson, who is providing testimony on the cost of service study, addresses Mr. Taylor's analysis.

Q. HAS THE COMPANY PROVIDED ANY ANALYSIS OF HOW THE SITUS TREATMENT MAY AFFECT OTHER PACIFICORP RATEPAYERS IN IDAHO?

A. No. The Company's presumption is that the situs allocation of cost will be borne entirely by Monsanto. Under such a pricing scheme the rate increase to the Soda Springs plant would roughly be in the 70 percent range. The Company provided no analyses of other scenarios whereby the situs allocation of the cost would be spread among Monsanto and other Idaho ratepayers as well. Thus, it remains uncertain how other ratepayers could be affected by the ultimate pricing of the Monsanto load, except in the case where Monsanto absorbs the entire situs allocation of costs.

Q. IS IT YOUR OPINION THAT TREATMENT OF SPECIAL CONTRACTS BY OTHER JURISDICTIONS IS A REASON THAT PRICING OF THE MONSANTO LOAD SHOULD BE ALTERED FROM PAST PRACTICES?

A. The question of treatment of special contracts by the various Commissions to whom PacifiCorp is regulated is a critical issue under investigation in the MSP process. Representation in that process consists of each of the Commissions plus other interested parties. To that end, the question of special contract treatment will be resolved by all parties of interest. The MSP process thus is serving as the forum through which this issue will be decided. There may emerge through the MSP process a new interjurisdictional allocation of special contract costs and benefits. On the other hand, the MSP process could result in no change at all. Until such time, there is no strong reason as to why the treatment of such contracts should change. It is speculation at this period in time. Besides, such treatment is not relevant to the Monsanto load. They provide benefits to PacifiCorp regardless of how they are treated.

V. POTENTIAL CHANGE IN RESERVE REQUIREMENTS OF WESTERN UTILITIES

Q. DO YOU AGREE THAT POTENTIAL CHANGE IN THE WECC RESERVE REQUIREMENTS SERVES AS A REASON TO PRICE THE MONSANTO LOAD DIFFERENTLY THAN IT HAS BEEN PRICED IN THE PAST?

A. No, I disagree. The extent that the WECC may change the way reserves are measured, and by doing so, change the level of reserves required of western utilities is still uncertain. To employ the language of traditional ratemaking, the discussion around how and if the reserve requirements should change is not a 'known and measurable' future event and thus should not at this time play a role in the setting of price on the Monsanto load.

VI. WESTERN POWER MARKET VOLATILITY AND PRICE RISK

Q. MR. GRISWOLD SUGGESTS THAT BECAUSE OF HIGH MARKET PRICES, THE COMPANY ABSORBED SUBSTANTIAL ECONOMIC LOSS IN THE SUMMER OF 2001 SERVICING THE MONSANTO LOAD. DO YOU AGREE WITH HIS ARGUMENT?

A. No, I disagree. The Monsanto load has been served by the Company for well over fifty years. As noted in the 1995 Technical Assessment Package, no incremental generation resource was built or purchased to simply serve the Monsanto load. The presence of the Monsanto load on the PacifiCorp system is surely not a new event. Mr. Griswold suggests that the Company specifically had to purchase power at prices in excess of $150/mWh to serve Monsanto (Griswold Direct Testimony, at page 3, lines 2-4). To that extent it made purchases of higher cost than its own generation cost. How Mr. Griswold was able to color code electrons and link the purchase of wholesale power directly to the Monsanto load is unclear. What is clear is that the Company has made wholesale purchases recently to meet its peak load requirements. To that extent, prices of some purchases likely exceeded the price paid by all its customers (both tariff and special contract customers). Inadequate generation capacity to meet peak load is not a problem that can be traced to the presence of the Monsanto load and the economic cost of meeting that peak load is not attributable to the existence of the current Monsanto contract.

Q. MR. TAYLOR HAS STATED THAT MARKET PRICES AND THE COMPANY'S AVOIDED COST NOW MAKE THE CONTRIBUTION TO FIXED COST STANDARD MUCH HARDER TO MEET. DO YOU AGREE?

A. Mr. Taylor is correct only if one assumes the narrowest definition of how the Monsanto load is served. The concept of a 'contribution to fixed cost standard' assumes that the variable cost the special contract customer will pay is less than the tariff rate reflecting an embedded average cost. Mr. Taylor has used as a proxy for the variable cost the western wholesale market price. Instead, variable cost should reflect the variable cost incurred in their system. Again, Mr. Taylor seems to implicitly argue that the Monsanto load is served in its entirety out of market purchases. Mr. Taylor's position is that the variable cost (as defined by market prices) now exceeds the embedded cost of the Company. Under this rather restrictive scenario, the special contract customer is economically better off being priced under a tariff rate.

To suggest that the Monsanto load is served from wholesale purchases is also at odds with the long-held position of Company officials that you cannot "color code" electrons. In fact, PacifiCorp is a system and Monsanto is served from system resources identically to other PacifiCorp customers.

Q. DOES PRICE VOLATILITY IN THE WESTERN MARKET CREATE EXCESSIVE PRICE RISK FOR THE COMPANY IN RELATION TO THE VALUE OF INTERRUPTIBILITY?

A. This would hold true only if the Company were forced to continually pay a value for interruptible provisions that was in excess of the value they would pay to acquire such services in the market. In other words, there is a single scenario where the Company would incur price risk on the value of interruptible service – that being the case where the market value of the service is constantly below the contract price for similar service. It is interesting to note that the Company witnesses express fear that the wholesale market price will be (or has been) just the opposite, too high. Under this scenario, the price risk associated with a fixed value for interruptible service would be zero. Setting a fixed value for interruptible provisions during the term of a contract does not imply that the Company has now taken on a substantial amount of price risk. It is interesting to note, that the proposed contract structure as advocated by the Company now would shift price risk to Monsanto.

Q. IS IT NOT TRUE, HOWEVER, THAT WITH ECONOMIC GROWTH IN THE WESTERN REGION, ELECTRIC MARKET PRICES WILL TEND TO RISE OVER TIME?

A. This would be the outcome if the supply of power remained constant over the same time period or if curtailment options were systematically eliminated. The price will reflect both the demand and supply of power. One significant outcome of the high western market prices during 2000 and 2001 was an aggressive generation expansion plan in the western states. Exhibit 215 (RMA-4) delineates the current "planned" and "under construction" generation units in the WECC. To the extent that the increase in western market prices was attributable to a capacity shortage, the new construction should resolve much of this problem. Additionally, if prices remain high one would expect that demand responses on behalf of consumers would lessen the upward pressure on prices. Again, the critical point is that one cannot state that prices will be either increased or decreased on a continual basis. Prices tend to move in both directions.

Q. DOES MR. GRISWOLD'S SUGGESTED PRICING APPROACH REDUCE THE UNCERTAINTY SURROUNDING THE VALUE OF THE INTERRUPTIBLE RESOURCE?

A. No. Using the short-term market as a barometer of the value of the interruptible resource will add greater uncertainty instead of lessening uncertainty. Equating Monsanto's contribution to meeting peak resources or to contributing to operating reserve requirements under Mr. Griswold's suggested pricing scheme will result in the value of that contribution continually being uncertain.

The short-term nature of the Company's current proposal for procurement of curtailment creates substantial price uncertainty and risk to Monsanto. It effectively places Monsanto in the electricity business via the assignment of power price risk to the Soda Springs facility. Unlike the Company, Monsanto is not situated to effectively hedge this risk.

Q. MR. GRISWOLD SUGGESTS THAT THE COMPANY'S PREFERRED APPROACH TO PRICING THE CONTRACT IS TO SET AN OPTION VALUE FOR THE RIGHT TO INTERRUPT WITH MARKET BASED VALUE FOR THE ACTUAL HOURS INTERRUPTED. HOW DOES THIS PRICING APPROACH MIRROR THE SHORT TERM MARKET?

A. It is unclear exactly how the proposed pricing approach would mirror the short term market on an ongoing basis. Mr. Griswold's Exhibit 7 accompanying his direct testimony highlights the fact that the Monsanto interruptions for the purposes of load curtailment would be priced under a scheme whereby there is a monthly call option ($/kw-month) and a 'strike' payment ($/kWh) on the call. Both the option value and the strike price remain constant for the term of the contract. Thus, when the Company suggests that the value of the interruptible service Monsanto can provide should equate to the short-term market, it is not necessarily the case that the Company is insisting on a moving value for such services. The combination of an option value and strike price does set a predetermined value for the interruptible service that does not move or change with variations in the short-term market.

Q. HOW SHOULD THE INTERRUPTIBLE SERVICE THAT MONSANTO CAN OFFER BE PRICED?

A. It should be priced as part of an integrated, single contract structure. Mr. Griswold's testimony suggests that by pricing interruptible provisions separately there will be a better match of value to price. Of critical concern to the Company is flexibility in the contract price. Mr. Griswold's example noted above pertaining to the $150 market price suggests that the single contract has exposed the Company to considerable market risk. Yet the Company has already offered a set price for interruptions to meet super-peak requirements through the use of a strike price concept. The strike price, which would be paid to Monsanto along with a kw-based monthly option value, is set to a predetermined value of $/mWh. It would appear therefore that the Company is not opposed to the use of a set price for interruptions aimed at alleviating its super-peak problem.

Secondly, the integrated contract provides the necessary match between valuing the interruptible service and the provision of power to the Soda Springs facility. If these time frames are different, there exist price risk and uncertainty for Monsanto in a market in which they do not have access to hedge.

It has been documented that the Monsanto load provides benefits to the PacifiCorp system. Yet, implicit in the Company's position seems to be an argument that there exist markets to which Monsanto can sell these services should the Company decline to purchase. In fact, the world in which Monsanto finds itself is one characterized by monopsony, a situation in which there exists a single buyer of a service or good. Economic theory would demonstrate that the monopsony situation is just as harmful as that of the more well-known market problem of monopoly. Each one results in a distorted market price and harmful economic behavior resulting from the abuse of market power. It is an interesting twist of facts that the Company insists that the price of the Monsanto interruptible services be priced at market yet there exist only a market characterized by a single buyer who, by definition, has substantial market power.

Monsanto witnesses Mr. Rosenberg addresses the specifics of pricing the special contract.

VII. OTHER CONSIDERATIONS IN THE PRICING OF THE MONSANTO CONTRACT

Q. ARE THERE OTHER HARMFUL ECONOMIC EFFECTS LIKELY TO RESULT FROM THE PROPOSED PRICING SCHEME OFFERED BY THE COMPANY?

A. The proposed contract for firm power the Company has offered is roughly a 70 percent increase in the current Monsanto contract. The notion or concept of gradualism seems to have been abandoned by the Company in proposing this large an increase. For any entity whose power cost represents a significant input cost into their productive process, such an increase as proposed by PacifiCorp is certain to result in substantial economic disruption. When asked in a data request (Data Request No. 117) why the Company did not employ some threshold limit when developing its proposed Monsanto rate, the Company simply replied because the proposed rate is not being offered as part of a general rate case. We are left to ponder why this is to be a compelling argument. We are also left with the notion on behalf of the Company that a 70 percent rate increase is acceptable and that any form of gradualism is not to be employed in this filing.

Q. HAS THE COMPANY TAKEN PRIOR POSITIONS ON GRADUALISM OR AVOIDANCE OF RATE SHOCK WHEN ADVOCATING A MAJOR RATE INCREASE?

A. Yes. In response to Data Request No. 22, the Company provided previous testimony of Mr. Taylor where he advocates ‘phased in’ changes in rates to avoid substantial rate impacts. This does not appear to be the case in this filing, however.

Q. **DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes it does.

APPENDIX A

Resume

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Education:

University of Utah, Ph.D., Economics, 1985

North Texas University, M.S., Economics, 1975

University of Texas, Austin, B.A., Business Administration, 1971

Professional Positions:

1999 – Present	Principal, Energy Strategies, LLC
1994 – 1999	Senior Consultant, Energy Strategies, Inc.
1985 – 1994	Director, State of Utah, Division of Energy
1983 – 1985	Assistant Director, State of Utah, Utah Energy Office
1981 – 1983	Economist, State of Utah, Utah Energy Office
1976 – 1981	Teaching Fellow, University of Utah, Department of Economics

Professional Experience:

Utah Public Service Commission, Docket No. 01-035-23, In the Matter of the Application of Pacificorp for Approval of Its Proposed Electric Rate Service Schedules & Electric Service Regulations – Hunter Plant; Docket No. 01-035-29, In the Matter of the Application of Pacificorp dba Utah Power & Light Company for a Deferred Accounting Order; Docket No. 01-035-36, In the Matter of the Application of Pacificorp dba Utah Power & Light Company for Recovery of Excess Wholesale Power Costs, Stipulation – April 3, 2002

Nevada Public Utility Commission, Docket No. 01-11029, In re Application of Nevada Power Company for authority to increase its annual revenue requirement for general rates charged to all classes of electric customers and for relief properly related thereto, Direct

Testimony on Behalf of Nevada Coalition of Commercial Energy Consumers – February 20, 2002

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