

**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.            )  
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Case No. PAC-E-01-16

**MONSANTO'S POST-HEARING BRIEF**

**October 10, 2002**

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COMES NOW Monsanto Company ("Monsanto"), through counsel, and hereby submits the following Post-Hearing Brief.

**INTRODUCTION**

Monsanto submits this Post-Hearing Brief to identify the issues presented for decision and set forth both Monsanto's and PacifiCorp's positions and arguments based upon the testimony and exhibits presented to the Idaho Public Utilities Commission ("Commission") at the September 4-5, 2002 hearing.

Monsanto's Pre-Hearing Brief addressed legal issues and provided supporting legal authority, which will not be further addressed, as no new or additional legal issues appear to be presented by this case. The Pre-Hearing Brief also discussed the nature of the case, described the course of proceedings, provided a history of the electric service provided to Monsanto, reviewed relevant prior regulatory proceedings and Orders, and provided a critical discussion of PacifiCorp's new policy changes and proposal to eliminate interruptible power and treat Monsanto as a firm tariff rate customer. Further discussion of those matters previously

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addressed is unnecessary here, although Monsanto suggests the Commission review its Pre-Hearing Brief as appropriate.

### **ISSUES PRESENTED FOR DECISION**

Monsanto submits that the following issues are in dispute and submitted to the Commission for decision:

1. **Single Integrated Power Supply Agreement:** Should Monsanto continue to receive interruptible and firm power from PacifiCorp pursuant to a single integrated special contract?
2. **Contract Term:** Should the contract term be a minimum of five years as proposed by Monsanto?
3. **Contract Start and End Dates:** Should the contract start on the date the Federal Court determines the existing 1995 Contract terminates, and subsequently terminate on December 31, 2007, as proposed by Monsanto?
4. **Rate Design:** How should the rate be designed and the terms of interruptibility be defined?
5. **Rate Amount:** Should the Commission accept Monsanto's proposed energy charge of \$18.50 per MWH as a fair, just and reasonable rate for electric service?
6. **Jurisdictional Allocation:** For jurisdictional allocation purposes, should Monsanto continue to be treated as a system customer, or should that decision be deferred pending completion of PacifiCorp's Multi-State Process?
7. **Miscellaneous Other Contract Terms:** How should the Commission resolve disputed contract provisions?

## SUMMARY OF MONSANTO'S POSITION

Monsanto respectfully submits that PacifiCorp should be required to provide firm and interruptible power pursuant to a single integrated special contract for a term of not less than five years, which would terminate no sooner than December 31, 2007. Monsanto proposes to pay a single blended energy rate of \$18.50 per MWH for electric service to its Soda Springs facility. The terms of interruptibility should be defined to support and justify the requested contract rate. This rate should be found fair, just, reasonable and non-discriminatory, based upon all special facts, and every element and circumstance established by the testimony and evidence presented in this case.

Monsanto's recommended pricing and contract terms are sought to maintain the Soda Springs plant as a competitive source of phosphorus for the downstream uses of Monsanto and other customers. The rate and pricing method proposed by Monsanto will enable the Soda Springs plant to operate at near full capacity, and remain viable in an increasingly competitive world-wide market characterized by a declining demand for phosphorus, new technologies, and foreign suppliers. The Chinese delivery of phosphorous to the U.S. at prices less than U.S. pricing is a significant existing threat to replace production from the Soda Springs plant if electric costs increase. (Schettler (Dir.) Vol. IV, p. 406, l. 13 – p. 407, l. 14.)<sup>1</sup> Approval of the proposed special contract price and terms will provide the necessary signal of price certainty and stability to Monsanto, as well as its customers and competitors. This price will also support and enable requisite long-term planning and necessary capital investment to develop ore deposits and install the next generation of environmental equipment. The testimony of Mr. Schettler

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<sup>1</sup> The very real risk that a price increase will cause the largest customer to reduce or eliminate purchases from the Soda Springs plant is detailed in the "Confidential" testimony of Daniel R. Schettler. (Confidential Tr. Vol. V, p. 464-485.)

regarding the current status of the phosphorus market and what is required for the Soda Springs plant to remain competitive, together with the testimony of Mr. Hofman concerning the economic importance of the Soda Springs plant to the local and regional economy was received completely without question or challenge in this proceeding.

PacifiCorp presented a single cost-of-service study in an attempt to support its proposed increase of 70%, or a firm rate of \$31.39 MWH. While a proper cost-of-service study may provide guidance, it alone should not be accepted as “gospel”, and most certainly PacifiCorp’s study should not be relied upon. PacifiCorp’s cost study is distorted and should not be used, since it relies upon 1999 test year data which was unaudited, was not normalized, does not reflect merger savings and failed to properly allocate the entire unamortized portion of the \$30 million payment made by Monsanto to the Idaho jurisdiction. (Taylor (X), Tr. Vol III, 269-271, 284-286)

The direct testimony of Mrs. Iverson and Mr. Rosenberg not only critiqued the Company’s single view of the allocation of costs to Monsanto, but also offered a number of alternative treatments which provided the Commission with a more complete picture, as well as increased support for the rate and contract terms proposed by Monsanto. As will be discussed in detail below, Monsanto’s analysis indicates the cost of providing firm service to Monsanto is in the range of \$26 to \$28 per MWH.

Clearly, one of the most important and difficult issues for the Commission to decide is how to define and value the interruption of service to Monsanto. It is undisputed that interruption of the Monsanto load provides a unique and valuable resource to PacifiCorp, due to the size of the load, the flexibility provided by the three furnaces available separately or together, the immediate and certain availability upon seconds notice, coupled with the fact that Monsanto

interruption can provide PacifiCorp with system integrity, operating reserve and/or economic curtailment.<sup>2</sup> Notwithstanding, PacifiCorp has provided little or no guidance in defining the level and terms of interruption, choosing instead to criticize Monsanto's proposals.

Because PacifiCorp's Application and direct testimony only sought to price Monsanto as a firm tariff rate customer, and did not offer any long-term interruptible contract, nor provide any recommendations or methods to establish the level, type or value of interruptions, it became incumbent upon Monsanto to do so.

From Monsanto's perspective, PacifiCorp is, in effect, buying a resource to be used as they see fit. Monsanto's case values interruptibility based upon the avoided costs of a combustion turbine ("CT") or "peaker" plant. This value could range between \$9.40 and \$12.86 per MWH. Based on this analysis a single blended rate of \$18.50 per MWH is clearly fair and reasonable.

Monsanto's preference is to continue the same level of service provided by the 1995 Contract, which only allows interruptions for system integrity purposes. It is not Monsanto's desire, nor intent, to provide more interruptibility than is needed to achieve a sufficient basis to support a price of \$18.50 per MWH. The use of all three furnaces for continuous production enables Monsanto to maximize production, achieve the greatest efficiencies, and produce phosphorus at the lowest cost. Notwithstanding, Monsanto recognizes that some greater level of interruption may be necessary to justify the requested price and time certainty. Particularly, this would be the case should the Commission choose to give considerable weight to cost-of-service pricing methodologies, and reject the historic basis of pricing Monsanto based upon a rate which

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<sup>2</sup> PacifiCorp witness Watters acknowledged these unique characteristics of Monsanto interruptibility, indicating also that Monsanto is "at the top of the heap" as far as providing benefit and value to PacifiCorp. (Watters (X) Tr. Vol. II, p. 168-172)

would pay variable costs and make a reasonable contribution to fixed costs. In order to achieve the desired price, Monsanto has offered to provide only sufficient hours of interruption in a manner that would provide the greatest value to PacifiCorp and resulting credit to Monsanto. Monsanto initially proposed 500 hours of economic curtailment and 300 hours of operating reserves, together with unlimited interruptions for system integrity. (Schettler (Dir), Tr. Vol. IV, pp. 417-418, Exhibit 211-Attachment A.) Operating reserves were offered as a result of earlier indications by PacifiCorp that operating reserves were of greater value than economic curtailment.

PacifiCorp takes a single approach of comparing Monsanto's interruption proposals with short-term products purchased in the open market. Additionally, PacifiCorp argues Monsanto interruptibility should not be priced based upon a CT or "peaker". Instead, PacifiCorp suggests market prices be utilized and relies upon its "Black Scholes" pricing model. This single point-in-time pricing model was presented in an eleventh-hour attempt to establish a credit for Monsanto interruptibility based on projected market prices. Yet, PacifiCorp admits that the economic curtailment offered by Monsanto is not available in the market and that there are no counterparties willing to sell this product. (Klein Reb. P. 7, L. 20-23.) On the other hand, Monsanto, Staff and Irrigator witnesses assert that the value of interruptibility can best be measured by the embedded cost of the proxy resource it avoids – that is, the avoided cost of a peaker.

Not until August 23, 2002 when Monsanto received PacifiCorp's rebuttal testimony, did PacifiCorp provide their value calculations for curtailment, which placed a considerably higher value on economic curtailment than on operating reserves. (Griswold (Reb), Vol. II, p. 9, l. 1-7, Watters (Reb), Tr. Vol. II, p. 8, l. 15-p. 9, l. 9, Exhibits 13, 14, 15.) In response, Monsanto

proposed, as an alternative, the elimination of operating reserves, and offered to provide economic curtailment on all three furnaces up to a maximum of 1,000 hours annually. (D. Schettler Rebuttal, p. 6, Exhibit 243.) In response, PacifiCorp's surrebuttal attempted to recalculate the value of Monsanto's alternative curtailment proposals, and to incorporate two corrections admitted by Mr. Watters. (Tr. Vol III, p.195, 1.13 – p.196, 1.16, Exhibit 28) However, the result presented in Exhibits 27 and 29 concluded that doubling the hours of economic interruption to 1,000 was worth nearly \$1 million less than the 500 hours of interruptibility Monsanto initially proposed.<sup>3</sup> This illogical result, pointed out by Mrs. Iverson's live rebuttal, and illustrated by Exhibit 244, clearly indicates that PacifiCorp's "Black Scholes" model for pricing interruptibility is totally inaccurate and unreliable, and must be invalidated for purposes of valuing the five-year resource provided by Monsanto. (Tr. Vol. VII, p.827-833) Certainly Monsanto is not willing to pay \$1 million to PacifiCorp to be interrupted an additional 500 hours, if PacifiCorp puts no value on those additional hours.

If additional interruptions provide no more value, as PacifiCorp seems to contend, Monsanto recommends a total of 800 hours of curtailment (in addition to unlimited system integrity), which PacifiCorp may utilize and classify in the manner it sees fit, to provide maximum value as a medium term resource. In any case, Monsanto must limit interruptions to a maximum of 1000 hours per year. Additionally, Monsanto desires to limit curtailments to two furnaces, so that one may remain operational at all times. If, in order to achieve the desired price, all three furnaces are taken at once, Monsanto must have two-hours notice and the option of buying through the interruption on one furnace based upon the lowest cost of power available

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<sup>3</sup> In his filed rebuttal testimony of September 27, 2002, Mr. Klein corrects Exhibit 27. This brief will discuss his rebuttal testimony in more detail in Part 5.

on the market. This permits Monsanto to make an economic decision based upon known circumstances at the time.

Monsanto also recommends a single, all-inclusive or “rolled in” energy price. With a single energy price, without demand charges as suggested by PacifiCorp, Monsanto only pays for the energy it consumes. This provides simplicity. It also avoids either party being advantaged or disadvantaged as a result of furnace curtailments. Stated differently, a single energy price eliminates any concern that may be harbored by PacifiCorp, the Commission or other customers, that Monsanto could permanently shut down a furnace and be subsidized by reason of the curtailment payment.

Monsanto believes that the contract provisions and precise language can best be worked out between the parties. Recognizing that the Commission would prefer not to involve itself in drafting contract language, Monsanto has attempted to resolve such matters so that the Commission could focus its efforts on the issues of pricing and terms of interruptibility. However, PacifiCorp has been unwilling to address these matters until the Commission has provided direction whether certain provisions (discussed in part 6 below) should be included in the new contract. To the extent the disputed contract provisions are not resolved by the parties prior to decision, the Commission should provide guidance regarding whether a disputed provision should be included or excluded from the contract. Accordingly, the Commission must decide these disputes. This should enable the parties to incorporate the appropriate language in the contract.

## DISCUSSION OF THE ISSUES

### 1. SINGLE INTEGRATED POWER SUPPLY AGREEMENT.

**A. PacifiCorp's Position:** Prior to the final day and final hour of the hearing, PacifiCorp insisted that Monsanto be subject to completely separate agreements, one to sell firm power and one to buy back interruptions as a short-term resource.<sup>4</sup> During live surrebuttal testimony, Mr. Griswold acknowledged, for the first time, that the Company was willing to have a single agreement, provided that the pricing components for firm and interruptible power were separated. (Tr. Vol. VII, p.815, L.23 – p.816, l.3.) Accordingly, at the conclusion of the hearings, PacifiCorp has conceded to a single integrated contract, even though rate design and other terms remained in dispute.

**B. Monsanto's Position:** Monsanto has consistently maintained that firm and interruptible power should be provided pursuant to a single, integrated contract, in accordance with historic practices. The Commission may or may not choose to discuss the separate pricing components in its Order. In either case, Monsanto submits it is unnecessary to include separate

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<sup>4</sup> In the December 7, 2001 Application of PacifiCorp, the Company proposed to provide firm electric service to Monsanto under the provisions of its Electric Service Schedule No. 9. (App. of PacifiCorp, pp. 4, 5.) Mr. Taylor's direct testimony stated: "Sales of electricity to . . . Monsanto will be full, firm service at embedded cost equivalent prices." (Taylor (Dir) Tr. Vol. III, p.220, l.13-14) Neither the Company's Application or its supporting testimony or exhibits propose that Monsanto would be provided interruptible service or be viewed as an interruptible resource. Similarly, PacifiCorp's responses to data requests indicated "PacifiCorp intends to enter into no more long-term interruptible service contracts" and "intends to discontinue the practice of offering interruptible service as a retail purchase option". (Exhibit 242) Instead, the Company approach would provide for "the purchase of interruptibility back from Monsanto as a short-term resource acquired from the market." (Griswold (Dir) Tr. Vol. II, p.30, l. 8-10)

For the first time in its rebuttal testimony, PacifiCorp indicated it was willing to provide an interruptible agreement that would have the same length of term as the Electric Service Agreement, yet PacifiCorp nonetheless still required two completely separate agreements.. (Schettler (Reb) Tr. Vol. IV , p.406, ll. 3-16.) Mr. Griswold stated in his rebuttal testimony, page 1, lines 15-17:

Q: Is PacifiCorp willing to provide Monsanto an electric service agreement and separate interruptible or curtailment agreements that have the same length of term?

A: Yes. . . .

On cross-examination, both Mr. Taylor and Mr. Griswold admitted that it was possible to provide firm and interruptible power in a single integrated contract. (Tr. Vol. II, p. 68, Vol. III, p. 274, L. 15-22.)

pricing components in the contract. Monsanto proposes that the rate be reflected in the contract as a single net energy price only.

## **2. CONTRACT TERM.**

**A. PacifiCorp's Position:** The term of the contract was not addressed in PacifiCorp's Application or supporting direct testimony. (App. of PacifiCorp, pp. 4, 5) Instead, the Company proposed that Monsanto's rate be firm service, tariff based, and subject to price changes. Mr. Taylor stated in his direct testimony:

... the Monsanto contract is subject to the same level of price changes as the collective changes in base rates for all other Idaho customers. (Taylor (Dir) Tr. Vol. III, p. 214, l. 17-19.)

Later, in rebuttal testimony, the Company changed its position and agreed to provide Monsanto with an interruptible agreement having the same term as the electric supply agreement. Mr. Griswold recommended a term of "four years and four months, effective September 1, 2002, and terminating December 31, 2006." (Exhibit 10.)

The Staff supports a single contract for a five-year term. (Schunke (Dir) Tr. Vol.VI, p.711, ll. 23-24.) The Irrigators also support a single, long-term contract. (Yankel (Dir) Tr. Vol VI, p.761, ll. 15-17, p.762, ll. 20-21) The Company did not present any opposition to Monsanto's proposed minimum five-year contract term. On cross-examination from Commissioner Hansen, Mr. Griswold indicated that the Company preferred calendar year contract start and end dates, and did not oppose a five year term. (Griswold (Com) Tr. Vol.II, p.125 l.16-23)

**B. Monsanto's Position:** Monsanto has always received power pursuant to special contracts with terms ranging from five to ten years. (Smith Dir Vol. IV, p. 331, l. 17 - p. 332, l. 18.) Monsanto recommends a term of not less than five years. (Schettler Dir Vol. IV, p. 417, ll. 18-19.)

15-18.) Because the start date of the new contract is undetermined, and because the Company prefers the contract start and end on a calendar year, Monsanto recommends the contract start January 1, 2003, and terminate no sooner than December 31, 2007. The result would be either a five-year term, if the Court determines the old contract ends year-end 2002, or a six-year term, if the Court determines it ends year-end 2001.<sup>5</sup> Monsanto is satisfied with the “true-up” mechanism established by the Commission in Order No. 28918 as may be applied once the start date has been determined.

### **3. CONTRACT START AND END DATES.**

**A. PacifiCorp’s Position:** PacifiCorp’s rebuttal testimony requested a start date of September 1, 2002, and end date of December 31, 2006, for both the electric service agreement and the interruptibility agreement. (Griswold Reb, Tr. Vol. II, p. 40, ll. 17-22.) However, on cross-examination, Mr. Griswold admitted that the start date was dependent upon the Court’s determination of the end date of the existing contract; and, further, that the Company also preferred a calendar year start date. (Tr. Vol. II, p. 57, l.7; p.58, l.12; p.125, l.9-14.) If the earliest date the old contract could end is year-end 2002, as asserted by Monsanto, the Company’s proposed termination date would result in only a four-year contract.

**B. Monsanto’s Position:** Monsanto recognizes and agrees that the contract start date will be determined by the Court. Should this Commission approve the \$18.50 per MWH price as recommended by Monsanto, there would be no need for any true-up, and the Commission could, for all practical purposes, establish the start date. In response to Commissioner Hansen’s question, Mr. Griswold also agreed that if the rate set is \$18.50 “there is no dollar value

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<sup>5</sup>Nothing stated by Monsanto in this Brief or elsewhere in this proceeding should be construed as a waiver or admission regarding the termination date of the 1995 Contract for purposes of the pending litigation between the parties.

associated with” a court hearing. (Tr. Vol.II, p.126, l.4-9) This is because there would be no true-up amount. Litigation over the old contract termination date would be moot, rendered meaningless and could be dismissed. In either case, Monsanto recommends a termination date of December 31, 2007, for the reasons discussed in 2.B. above. This will provide Monsanto with a contract term of not less than five or more than six years.

#### **4. RATE DESIGN.**

**A. PacifiCorp’s Position:** PacifiCorp initially proposed a seasonal pricing method consisting of a customer charge in dollars-per-month, a demand charge in dollars-per-KW-month, and on-peak/off-peak energy charge of dollars-per-MWH, with overall price of \$31.4 per MWH. (Exhibit 2) In rebuttal testimony, PacifiCorp changed its proposed rate design to a non-seasonal demand and energy rate, and eliminated the on-peak/off-peak differential in the energy charge component. (Griswold (Reb) Tr. Vol.II, p. 41, ll 3-5.)

**B. Monsanto’s Position:** Monsanto proposes that the rate design be based on a single “rolled-in” energy charge only, as in Monsanto’s existing contract. This is consistent with treatment provided to other recently negotiated industrial rates of PacifiCorp. The rates for both Magcorp and Geneva Steel contain no demand charges. (Exhibit 208, Exhibit 23.) If PacifiCorp’s demand charge is included in Monsanto’s rate design, and if Monsanto is continuously interrupted, as has been indicated by PacifiCorp, Monsanto’s load factor will surely decrease and its cost will surely increase. As a result, Monsanto would end up paying substantially more than the Company’s proposed firm price of \$31.39 for power in those months, as admitted by Mr. Klein. (Tr. Vol.VII, p.810, l. 5-13.) Under PacifiCorp’s rate design, Monsanto’s firm price may be over \$36 per MWH as a result of the interruptions, even before any consideration of the additional cost for buy-through.

By adopting a blended energy price without demand charges, Monsanto only pays for the energy it consumes. Not only does this provide simplicity, but it also removes the possibility of either party being advantaged or disadvantaged as a result of furnace curtailments. Utilizing a blended energy price eliminates any concern that Monsanto might permanently shut down a furnace in order to benefit from a monthly curtailment subsidization. For these reasons, Monsanto recommends that it be priced under a single “rolled-in” energy rate.

**5. RATE AMOUNT.**

**5.1 FIRM RATE.**

**A. PacifiCorp’s Position.** The Company proposes to sell firm energy to Monsanto at an overall rate price of \$31.39 per MWH. PacifiCorp bases its proposed price on “situs” cost-of-service studies using its preferred “12 CP; 75/25” allocation methodology and a 1999 test year. The 1999 test year data relied upon was unaudited, was not normalized, does not reflect merger savings, and fails to properly allocate the entire unamortized portion of the \$30 million payment made by Monsanto to the Idaho jurisdiction. (Taylor (X), Tr. Vol. III, p. 269-271, 284-286) As noted by Staff witness Mr. Schunke:

Cost of service for firm load customers is an imprecise science and establishing the cost of service for an interruptible load is even more difficult, requiring considerable judgment. (Schunke (Dir), Tr. Vol.VI, p. 714, l. 1-4)

This observation is particularly relevant since Idaho has not had a general rate case to review cost-of-service methodology since the Utah Power – Pacific Power merger in the late 1980s. PacifiCorp does not even address the traditional and historic method of pricing Monsanto at a rate which would pay the variable costs and make a reasonable contribution to fixed costs.

**B. Monsanto’s Position.** While PacifiCorp chose only a single view to allocate costs to interruptible customers (i.e., treat Monsanto as a firm customer), Monsanto witnesses

offered a more complete picture by providing alternative means to value both firm and interruptible service, all of which provide an ample basis to support the conclusion that Monsanto's proposed rate is fair, just and reasonable.

The record is undisputed that based on the Company's own cost-of-service study, the variable cost to serve Monsanto is \$14 per MWH. Accordingly, at the current contract price of \$18.50 per MWH, the contribution to fixed costs is \$4.50 per MWH, or \$6.3 million. (Iverson (Dir), Tr. Vol. VI, p. 541, ll. 4-11.) This evidence alone is sufficient to support Monsanto's proposed contract rate and terms. Since the "variable cost + fixed cost contribution" standard was used by the parties and the Commission to justify the 1995 Contract as fair, the same method remains valid. In rejecting this method, Mr. Taylor argues that it is no longer relevant because the basis for the fixed costs standard is incremental costs. Mr. Taylor's argument must be rejected. First, as Commission Staff witness Mr. Schunke correctly notes in his direct testimony, native load customers such as Monsanto are served from embedded resources, not incremental:

Mr. Taylor's statement seems to imply that the special contract customer should be served from the incremental or marginal resource, and I don't think that is appropriate. The special contract rate, for native load customer, should be based on average cost of embedded resources. (Schunke (Dir), Tr. Vol. VI, p. 714, l. 19-24)

Second, Mr. Taylor's argument directly contradicts the Company's statement in its Technical Assessment Package, Exhibit 203, at page 5:

Since PacifiCorp has served Monsanto for over forty years, no incremental resources need to be acquired to continue serving the customer.

The 1995 Contract, in and of itself, is evidence of the reasonableness of Monsanto's proposed rate. Rates for other customers in Idaho and other states have been relatively flat, as depicted by Exhibit 207, prepared by PacifiCorp. In fact, as a result of the recently-concluded **MONSANTO'S POST-HEARING BRIEF** - 16

Case No. PAC-E-02-1, the rates of other Idaho customers will be decreasing, most by double digits, as shown by Exhibit 223. There is no evidence that PacifiCorp's embedded cost of generation and transmission has increased since 1995.<sup>6</sup> In fact, just the opposite has occurred: PacifiCorp witness Taylor admitted on cross-examination that the Company's 10K Report for the fiscal year ending March 31, 2001 reflected a \$101 million, 12% decrease in expenses as a result of the merger Transition Plan and sale of Centralia; and that the Scottish Power Annual Review for 2001/2002 indicated cumulative year two cost savings of \$117 million. (Tr. Vol. VI, p. 270-271) The evidence of cost savings since 1995, together with the lack of evidence in the record of any increase in operating costs provides clear indication that the \$18.50 rate found fair and reasonable in 1995 remains the same today, especially with the addition of increased interruptibility.

Monsanto proposed through Mrs. Iverson five modifications to the Company's cost-of-service studies:

- Correction of the rate of return applied to Monsanto.
- Modification of the 75% demand/25% energy classification for the allocation of production and transmission demand-related expenses.
- Use of an 8 CP demand allocator, rather than 12 CP; or an average of the results of 8 CP and 12 CP cost studies.
- Adjustment for administrative and general (A&G expenses) allocated to Monsanto.
- Incorporation of fuel shaping in the overall allocation of fuel and purchase power costs.

The results of these proposed adjustments support a firm price in the range of \$26 to \$28 per MWH. (Iverson (Dir), Tr. Vol. VI pp.542-554)

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<sup>6</sup> To the contrary, Mr. Taylor admitted the Company has built no new base load plant and has sold the Centralia plant since 1995. (Tr. Vol. III, p. 271-272) Those facts coupled with normal depreciation indicates rate base has decreased.

PacifiCorp's proposed \$18 million increase to Monsanto would actually increase the Idaho jurisdictional rate of return to 8.867%, exceeding the Company's proposed rate of return of 8.418% for Monsanto, which PacifiCorp admits. (Iverson (Dir), Tr. Vol. VI, p. 542, l. 20 - p.543, l. 8). Mr. Taylor also admitted his cost study improperly assigned Monsanto's \$30 million payment to the system, rather than to the Idaho jurisdiction. If the Commission accepted only Monsanto's correction to the authorized rate of return, the resulting firm rate is \$29.30 per MWH. Assigning the Idaho jurisdiction the \$30 million payment would further lower Idaho's revenue requirement, resulting in a firm rate of \$28.30 per MWH for Monsanto. (Taylor (X), Tr. Vol. III, pp. 282 , l. 3-7, 283, l. 15-25, p. 286, l. 8-19; Rosenberg, Tr. Vol VI, p. 593, l. 13)

Another method and perspective that should be considered is to compare the Company's \$31.39 cost of service rate for Monsanto with the cost that PacifiCorp charges other large industrial customers. PacifiCorp just entered into a new negotiated special contract with Geneva Steel, priced at an energy rate only of \$29.30 (Tr.Vol. VII, p.818, l.6-10; p.824, l.6-9), which PacifiCorp admits would be the equivalent of a \$29.12 **firm** rate if applied to Monsanto load. (Griswold (X), Tr. Vol. VII, p.825, l.4-23.)

In sum, Monsanto's analysis supports a firm rate as low as \$26 per MWH, and no higher than \$29.30 MWH. Monsanto recommends a conservative firm rate of \$28.30 per MWH, based on PacifiCorp's proposed firm rate corrected to the authorized rate of return and proper assignment to the Idaho jurisdiction of the \$30 million payment.

## **5.2 INTERRUPTIBLE VALUE.**

**A. PacifiCorp's Position:** Until their rebuttal testimony had been filed, the Company proposed to buy back interruptible energy from Monsanto as needed pursuant to a separate short-term contract. While PacifiCorp's direct testimony states that the net effect of

these two separate contracts is a cost of \$27 to \$28 per MWH, the actual net cost was indeterminate, since the second contract's quantity, price and timing were all unknown. (Griswold (Dir), Vol.II, p. 30, l.22 – p. 31, l. 3, Exhibit 4.) Furthermore, PacifiCorp offered no documentation on the interruptibility terms associated with Mr. Griswold's purported net price of \$27 to \$28 per MWH in his direct testimony.

As a part of the Company's rebuttal testimony, filed August 23, 2002, in Mr. Griswold's "Draft Terms for Electric Service" (Exhibit 10), the monthly credits for interruptibility were included based on Monsanto's proposed 800 hours of interruption (500 hours of economic curtailment plus 300 hours of operating reserves). The Company's valuation resulted in a \$4.39 per MWH credit and a net price of \$27.00 per MWH. Mr. Watters' rebuttal testimony ostensibly provided supporting calculations for Mr. Griswold's proposed credit of \$4.39 per MWH for interruptibility. However, based upon Mr. Klein's later testimony, those numbers are questionable at best and should not be relied upon.

On cross-examination, Mr. Watters readily admitted two errors on his calculation of the interruptibility credit. First, in calculating the lost retail revenue, the Company erroneously used the full firm price of \$31.39, rather than the variable energy portion of PacifiCorp's proposed pricing, which is \$16.31. (Watters (X), Tr. Vol. III, p. 195, l. 13 - p. 196, l.16.)<sup>7</sup> Second, the wrong furnace size for calculating economic curtailment was corrected to 67 MW, the size of Furnace No. 9. (Watters (Reb) Tr. Vol. II, p.148, ll. 10-12, Iverson (Reb), Tr. Vol.VI, p. 560, ll. 11-20.)

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<sup>7</sup>Mr. Watters indicated in making his calculations that he was unaware this Commission had denied the recovery of lost revenue in Case No. IPC-E-01-34, Orders No. 28992 and 29103. (Watters Cross-Rebuttal, Tr. Vol. III, p. 197, ll. 10-19.)

Monsanto presents **Exhibit 245** attached for illustrative purposes to show how PacifiCorp values Monsanto interruptibility after correcting the two admitted mistakes. Column (1) reflects the PacifiCorp's proposed value of \$4.39, resulting in a net rate to Monsanto of \$27.00. This is based upon Monsanto's initial 800-hour interruption proposal and includes PacifiCorp's so called "lost revenue" amount and the \$250 FERC cap for purposes of the system integrity calculation. Column (2) of Exhibit 245 reflects PacifiCorp's correction for the third furnace (l. 4) and lost retail revenue cost (ll. 15, 27 and 32), and arrives at a proposed value of \$6.15, resulting in a net rate to Monsanto of \$25.24. When the FERC cap is corrected to \$1000 per MWh as pointed out by Commissioner Smith, then Column (2) of Exhibit 245 would reflect an even higher interruptibility value of \$7.22 and a lower net price of \$24.17.

Column (3) of Exhibit 245 uses PacifiCorp's model to calculate the value of 500 hours of economic interruption and 300 hours of operating reserves with the "lost revenue" removed, the FERC cap at \$1000 and a conservative starting firm price of \$29.30. The result is an interruptible value of \$7.63 and a net price of \$21.67.

The concept of reducing the value of interruptibility by "lost revenues" was only raised by PacifiCorp in rebuttal. In fact, Mr. Watters' rebuttal testimony makes no mention of this adjustment in his testimony, instead only revealing this adjustment in his exhibits. When PacifiCorp offered Exhibits 13 and 14, witness Watters "adjusted" (i.e. reduced) the value of the economic interruptions by \$31.40 per MWh for alleged "Lost Retail Revenue". During cross examination Mr. Watters conceded that this was, to use his term, a "faux pas", and when Mr. Klein later sponsored Exhibit 27 in the last hour of the hearing, he had "corrected" this lost revenue to \$16.31 per MWh. (Watters (X-Reb), Tr. Vol.III, p. 196, l. 2-9)

Monsanto submits that *any* sort of “lost retail revenue” adjustment should be rejected. First, the Commission has recently rejected recovery of lost revenue for demand-side management initiatives in Case No. IPC-E-01-34, Orders No. 28992 and 29103. Second, allowing the Company to reduce the value of interruptibility by lost retail revenues is bad public policy because it has the effect of lowering the interruptibility credit and discourages demand-side resources. Other compelling reasons to reject PacifiCorp’s “lost retail revenue” include:

- PacifiCorp never mentioned, let alone justified, "lost revenues" in either its direct or rebuttal testimony.
- PacifiCorp is the only party that proposed a lost revenue adjustment.
- Even PacifiCorp did not include a lost revenue adjustment when it prepared its versions of an Equivalent Resource savings (Exhibits 17, 18, 19 and 20).
- It does not appear that the Utah Commission accepted a “lost revenue” adjustment in the Magcorp case.
- It is not clear there would be any “lost revenue” to the extent that Monsanto made up any lost production due to the curtailments, or if PacifiCorp were able to effect additional off system sales as a result of the curtailment.
- If PacifiCorp’s proposed demand/energy rate design were approved, curtailment would decrease Monsanto’s load factor, thereby increasing its effective rate paid to PacifiCorp. Monsanto submits that it would be unfair to penalize Monsanto even once for complying with curtailments that benefit the system, let alone twice.<sup>8</sup>

At the end of the hearing, Mr. Klein (sponsoring Mr. Watters’ exhibits 27-29) attempted to explain his valuation of Monsanto’s interruptibility based upon a “Black Scholes” model. (Klein (Reb), Tr.Vol. VII, p.293-803, Exhibits 27, 28, 29). PacifiCorp never mentioned, let alone justified, the use of such a model in either its direct or rebuttal testimony, or during the cross-examination of the witnesses sponsoring pre-filed testimony. The “Black Scholes” model

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<sup>8</sup> Monsanto does recognize that this reason would not apply if Monsanto’s preferred rate design of an energy only rate were approved by this Commission. Nevertheless, the other reasons for rejecting PacifiCorp’s “lost revenue” adjustment would still be valid.

used by PacifiCorp to value interruptibility relies upon market prices in addition to a number of other factors which are highly variable, yet established as constants, at a single point-in-time “snapshot”.

This model is clearly unreliable and should be considered invalid for the purpose of valuing the five-year interruptible resource provided by Monsanto. The model produced a totally illogical, if not impossible, result when PacifiCorp attempted to demonstrate the value of doubling the hours of economic interruption from the 500 hours initially proposed by Monsanto to the alternate proposal of 1000 hours. Mr. Klein’s “Black-Scholes” model illogically concluded that 1000 hours was worth less than 500 hours, an erroneous calculation clearly demonstrated by the live rebuttal of Mrs. Iverson, and illustrated by Exhibit 244. By using PacifiCorp’s own flawed model and calculations, Exhibit 244 established that the value of 1000 hours of economic curtailment was \$2.9 million, actually \$1 million less than the \$3.9 million value of 500 hours. (Tr. Vol. VII\_, p. 827-833.) Mr. Klein admitted that Exhibit 244 was correctly calculated, according to the PacifiCorp model, and agreed that Monsanto would certainly not pay PacifiCorp nearly \$1 million to be interrupted an additional 500 hours. (Tr. Vol. VII, p.839, 1.19-24) In response to Exhibit 244, Mr. Klein smiled and admitted: “I was a little worried actually that someone would do this.” (Tr. Vol. VII, p.839, 1.7-12) Why Mr. Klein was not forthcoming in his testimony remains unknown. Clearly, the errors were not corrected by PacifiCorp upon discovery.<sup>9</sup> This credibility gap casts considerable doubt on the reliability of the Company’s modeling efforts to establish a rate for Monsanto.

The results of PacifiCorp’s “Black Scholes” model of increasing Monsanto interruptions above 500 hours are totally inconsistent with the testimony of Mr. Watters. Mr. Watters stated

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<sup>9</sup> The discussion of Mr. Klein’s September 27, 2002 Rebuttal Testimony is in section 5.3 of this brief.  
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that the 1000 hours would cover roughly 6 ½ months of peak loads curtailment, which would cover all of PacifiCorp's summer and winter peaks. (Tr. Vol. II, p. 157, 162) Further, Mr. Watters states PacifiCorp operates their highest cost resource peakers (which includes Gadsby) "well over 30 percent." Mr. Waters further stated "these peakers are pretty much in the money quite a bit of the time...so they provide value beyond typically hitting a peak resource." (Tr. Vol.II, p.164-165, 180 l. 15-22) If the Company's peakers provide value up to 30 percent of the time (2680 hours), certainly Monsanto interruptions of 11 percent (1000 hours) also provides a valuable resource. However, the "Black Scholes" model fails to properly value Monsanto's interruptibility above 500 hours and so should be rejected by the Commission.

**B. Monsanto's Position:** Monsanto proposes to pay a blended energy rate of \$18.50 per MWH for electric service to the Soda Springs facility. In order to retain a single rolled-in net energy rate of \$18.50 per MWH, Monsanto values its interruptibility based on the avoided cost of a peaker. PacifiCorp can make use of Monsanto's interruptibility for whatever purpose affords it the best value, that is, PacifiCorp can use these interruptions for system integrity, operating reserves and/or economic curtailment, to the extent necessary to support and justify this price, up to a maximum of 1000 hours per year. If necessary, this can include all three furnaces at one time, provided that if all three furnaces are taken at once, Monsanto receives two hours notice, and has a right to buy-through on one furnace, based upon the lowest cost of power available on the market. Monsanto's intent is to provide PacifiCorp with a resource that it can utilize as it sees fit to provide the highest benefit. **It should be emphasized that Monsanto does not want to provide any more interruptibility than is absolutely necessary to support this price.** Interruptions reduce production and cause operational economies of scale to diminish

when fixed costs are spread over a few pounds of production, impacting Monsanto's ability to produce phosphorus at competitive prices.

From the record established in this case, it is clear that PacifiCorp has adopted and implemented new policies to reduce or eliminate demand side management resources, such as interruptible rates. Instead, the Company has chosen to construct new plant and rely upon market purchases in order to meet peak load growth. The Company adopted policies to eliminate long-term interruptible contracts. (Exhibit 240) Consistent with these policies, the Company went about eliminating the previously existing interruption rights from large industrial contracts, like that offered Monsanto in 1995. While Monsanto's 1995 Contract continued to allow unlimited interruptions without notice for system integrity purposes, all rights to interrupt for operating reserve and/or economic curtailment purposes were eliminated. In retrospect, these policies proved ill-advised. As a result, when the 2000-2001 energy crisis hit, PacifiCorp not only suffered excessively as a result of its market exposure, but, like many other utilities, contributed to the problem.

Because the 1995 Contract did not allow interruptions for operating reserve purposes, PacifiCorp came to Monsanto and acquired needed operating reserves by separate short-term contracts in 2000, 2001 and 2002. Additionally, an Outage Deferral Agreement was entered into in 2001 to move Monsanto off peak. (Exhibit 6) Monsanto was able to enter into the Operating Reserve Agreements on a short-term basis, only because it already had the \$18.50 rate in effect. As a result of payments received by Monsanto under the Operating Reserve Agreements and the Outage Deferral Agreement, the actual annual energy rate Monsanto paid was considerably less than \$18.50, being \$17.57 in 2000, \$16.61 in 2001, and is expected to be in the same range in 2002. (Schettler (Reb), Tr. Vol. IV, p. 428, ll. 11-18.)

Because PacifiCorp in its Application and supporting testimony did not offer interruptible rates, it became incumbent upon Monsanto to develop an interruption proposal and present methods to value the same. Based upon indications from PacifiCorp that operating reserves were of greater value than economic curtailment, Monsanto's initial proposal provided 300 hours of operating reserves and 500 hours of economic curtailment, for a total of 800 hours of interruption. Unlike PacifiCorp, which chose to rely on a single model for valuing interruptibility, Monsanto recognized that no single formula would yield an unerring and precise rate for interruptible service.

Through the testimony of Dr. Rosenberg, Monsanto presented five separate methods to arrive at a cost-base rate for serving Monsanto's interruptible load, including:

- An examination of the rates for other comparable interruptible contract.
- The average cost of short term purchase power included in the company rates.
- A cost-of-service study that allocates materially less than 100 percent of the demand-related generation and transmission cost to Monsanto.
- A cost-based firm rate less the avoided resource cost by virtue of the load being subject to interruptibility.
- The average variable cost of production, plus losses, plus a judgmental additur for contribution to fixed costs.

(Rosenberg (Dir), Tr. Vol. VI, p. 615 – 630)

These benchmarks provided a range of net costs from \$14 to \$23. (Rosenberg (Dir), p.629, Table 5.)

Monsanto acknowledges that Monsanto interruptibility is not a perfect substitute for a CT. Both interruptible resources and CT's have their advantages and disadvantages. The advantages of an interruptible demand side resource such as Monsanto over a CT noted by Dr. Rosenberg include:

- **Shorter Response Time.** In its testimony supporting the Gadsby units, PacifiCorp notes that one advantage of these units is that they can be ramped up in 10 minutes. Any two of Monsanto's furnaces can be interrupted instantaneously.
- **No Environmental Risk.** A CT, when it runs, has emissions. In fact, as Dr. Rosenberg noted, the Utah Department of the Environment limits CTs to running for no more than six months out of the year. In contrast, when Monsanto is curtailed, emissions are avoided rather than produced.
- **Greater Reliability.** Combustion turbines, when turned on and off repeatedly to respond to variations in load, frequently do not start. In contrast, Monsanto's furnaces have proven to be a reliable resource when called upon to curtail.
- **Avoidance of Fuel Risk.** A peaker is at the mercy of gas prices, which have proven to be quite volatile. Transportation of the gas might not always be available and PacifiCorp has gas supply contracts which are interruptible.
- **Avoidance of Construction and Permitting Risk.** Building peakers could suffer from delays and cost overruns. In some instances there could be difficulty in even getting a permit to build the plant.
- **Less Transmission Risk.** During the summers of 2000 and 2001, PacifiCorp used non-firm transmission paths, including approximately 300 MW from Southern California, to meet the summer peaks. In the future, this non-firm transmission may not be available or may be reduced.

Dr. Rosenberg's analysis prices Monsanto interruptibility based upon a CT. This "avoided peaker" approach compares Monsanto interruptibility favorably with the capacity and energy charges the Company would avoid by not constructing a CT. Monsanto interruptibility offers a number of advantages over constructing a CT, including certain availability at all times on seconds notice, avoidance of capital expenditures, and construction cost delays and price uncertainties, and avoidance of adverse environmental and site problems. The cost of the West Valley and Gadsby Peakers are \$6.13 and \$6.32 per KW-month. (PacifiCorp Response to Monsanto Data Request No. 131.) This is right in line with Dr. Rosenberg's value of a peaker of \$6.12 per kW-month (\$73.48 per kW-year), taken from PacifiCorp's own resource plan, RAMPP-6.

Dr. Rosenberg avoided peaker analysis, as summarized in the attached **Exhibit 246**, supports a value of Monsanto interruptibility in the range of \$8.51 to \$12.48 per MWH. Using a conservative firm price of \$29.30 per MWH results in a net price ranging from \$20.79 to \$16.82 per MWH. This clearly provides cost-based support for determining that Monsanto's recommended net price of \$18.50 per MWH is fair, just and reasonable.

In his rebuttal testimony, Mr. Taylor argued that any avoided capacity cost savings should be discounted because Monsanto's interruptibility of approximately 10% (800 hours divided by 8,760 hours per year) is less than the "expected" capacity factor of 15% shown for the Simple Cycle Combustion Turbine posited in RAMPP-6. We expect PacifiCorp to repeat that argument in its brief (as it indeed argued in the Magcorp case). PacifiCorp's argument is specious and should be rejected (as it was in the Magcorp case) because capacity costs are fixed and do not vary with hours run. All that is necessary for PacifiCorp to realize the savings is it to actually avoid the stated kilowatts when Monsanto is called upon to curtail.

PacifiCorp itself exposed the speciousness of Mr. Taylor's argument when Mr. Klein implied that 1000 hours of interruption were no more valuable (and ostensibly even *less* valuable if Mr. Klein's analysis is taken on face value) than 500 hours of interruption.

In summary, Monsanto has shown that its interruptible resource is as valuable as an avoided peaker, and so should be valued accordingly. A net price of \$18.50 per MWH is economically supportable based on the number of furnaces and hours which Monsanto is willing to be interrupted.

### **5.3 MR. KLEIN'S REBUTTAL TESTIMONY**

During the hearing, Monsanto's Exhibit 244 demonstrated that PacifiCorp was attributing a negative value to the final 500 hours. The Commission found "the record incomplete" on this

issue, and so reopened the record by Order No. 29118. The Commission requested Mr. Klein to answer a series of 18 questions in writing. Mr. Klein provided his rebuttal testimony and accompanying exhibits on September 27, 2002. The Commission found that parties to the case may respond to the additional record as part of their post hearing briefs.

**A. PacifiCorp's Position:** In his rebuttal testimony, Mr. Klein presented Exhibit 36, a 50-page exhibit showing economic curtailment valuation based on PacifiCorp's "Black Scholes" model. Exhibit 36 contained 200 valuations, estimated at 25 points in time (3 in September 2002, and 2 in each of the preceding 11 months, for a total of 25 dates). For each point in time, he values either 67 MW or 46 MW of curtailment capacity. He also values this capacity using a strike price of either \$31.4 or \$16.31 per MWH, and using either 500 hours or 1,000 hours of interruption for economic curtailment. Thus, he has 200 valuations (25 data points x 2 levels of capacity x 2 strike prices x 2 hourly interruptions). Mr. Klein further claims that Exhibit No. 36 provides "all documentation" as requested by the Commission.

**B. Monsanto's Position.** Mr. Klein's testimony and exhibits provide little new information to the Commission. While he provides a brief explanation of "Black-Scholes" in his testimony, the real truth of his testimony is found in his exhibits, notably Exhibit 36.

Monsanto summarizes Mr. Klein's 200 valuations in the attached **Exhibit 247**. On these four pages, we have simply organized the results of PacifiCorp's economic curtailment options for ease of review. Pages 1 and 2 are Mr. Klein's results using a strike price of \$31.4 per MWH, with page 1 using a capacity of 67 MW, and page 2 based on a capacity of 46 MW. Pages 3 and 4 are Mr. Klein's results using a strike price of \$16.31 per MWH. Column 1 is taken directly from the *even* pages of PacifiCorp's Exhibit 36, while Column 3 is taken directly from the *odd*

pages of Exhibit 36.<sup>10</sup> Column 2 is the difference between Column 3 and Column 1 in order to show the value attributed by PacifiCorp to the final 500 hours.

Page 1 shows that based on a capacity of 67 MW and a strike price of \$31.4 per MWH, of the 25 dates examined by PacifiCorp, **PacifiCorp consistently values the final 500 hours as a negative number**. Put another way, PacifiCorp is willing to pay on average \$2,560,109 for 500 hours of interruptions (Exhibit 247, Column 1, l. 28), but is only willing to pay \$1,824,092 for 1,000 hours of interruptions (Column 3, l. 28). Thus, the value of the final 500 hours as shown in Column 2 is a **negative number**.

Page 2 of Exhibit 247 shows the value attributed by PacifiCorp to the final 500 hours for 46 MW. Out of 25 dates, only 2 of those dates (September 3, 2002 and August 22, 2002) have positive values. On average (l. 28), the final 500 hours are negatively valued.

Pages 3 and 4 of Exhibit 247 show the value based on a strike price of \$16.31. Using 67 MW (page 3), there are 15 dates where the final 500 hours are valued negatively, and only 10 dates with a positive value.<sup>11</sup> On average though, the value of the entire final 500 hours is only \$20,053, compared to \$3,383,759 for the first 500 hours. Likewise, page 4 of Exhibit 247 is based on 46 MW of curtailed capacity. According to PacifiCorp's "Black-Scholes" model, out of 25 dates, there are only five where the final 500 hours are valued positively. This means that 20 dates result in a negative value, for an overall average of negative \$23,882 (p. 4, column 2, l. 28).

To summarize, out of the 100 data points shown in Column 2 of Exhibit 247, PacifiCorp places a **negative value on the final 500 hours 83 times, or 83% of its runs**. The message

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<sup>10</sup> This is because the *even* pages (2, 4, 6, etc.) of Exhibit 36 all use 500 hours of interruption, while the *odd* pages (1, 3, 5, etc) all use 1,000 hours.

<sup>11</sup> Note that September 3, 2002, is the line which Mr. Klein corrects his Exhibit 27, showing that the value of the 1,000 hours is \$4,643,950 rather than the \$2,927,230.

should be clear by now: PacifiCorp's "Black-Scholes" model places absolutely no value on interruptions over 500 hours.

Monsanto finds other problems with Mr. Klein's testimony, which we briefly describe:

- Mr. Klein shows the same annual capacity and energy payments by Monsanto regardless of the number of hours interrupted, or the capacity interrupted (i.e., a constant energy payment of \$21,897,209 with a strike price of \$16.31, or a constant energy payment of \$42,156,492 with a strike price of \$31.4 per MWH.) This assumes that Monsanto must pay PacifiCorp for energy **even when they are interrupted**. This would, of course, negate any argument by PacifiCorp for "lost revenues". More importantly, his careless assumption ignores the very real higher costs Monsanto would incur under PacifiCorp's proposed firm rate design.
- Exhibit No. 36 shows the "net cost" to Monsanto. However, to come to his net cost, Mr. Klein has assumed in half of his runs that Monsanto would be interrupted 1,300 hours, (i.e., 288 hours for operating reserves, 12 hours for system integrity, and 1,000 hours for economic curtailment, for a total of 1,300 hours.) Monsanto has been quite clear that it can not be interrupted more than 1,000 hours. Thus, Mr. Klein's proposed net cost is consistently understated on the odd pages (the pages using 1,000 hours of economic curtailment) of Exhibit No. 36.
- Mr. Klein's results reveal how volatile a "snapshot" is, depending on the date the analysis is performed. For example, looking at page 1 of Exhibit No. 247, the maximum valuation occurs October 29, 2001 with a valuation of \$3,723,394. Three months later, on January 24, 2002 the valuation for the very same product drops to \$584,089, a decline of 84%. Looking at page 2, the decline is even more dramatic – falling 93% from the maximum of \$2.7 million down to less than \$200,000.
- While Mr. Klein testifies that Exhibit 36 contains "all documentation" of his valuations, the truth is that his exhibit provides no supporting workpapers or documentation whatsoever – simply a single number is provided for each of his runs. There is no way for the Commission to ascertain the avoided reservation fee, avoided energy costs, or gas prices used in each of the runs, similar to the information he provided to the Commission in earlier runs (Exhibits 14, 27, 29).
- Mr. Klein claims that the economic curtailment valuation must be "modified to account for Monsanto's desire for the right to buy-through". He further testifies that "Since no physical interruption is involved, the buy-through provision still requires PacifiCorp to carry the same amount of physical generation to meet its load obligation." Mr. Klein is mistaken. The buy-through provision does not necessitate any obligation on behalf of PacifiCorp as it is a short-term arrangement whereby PacifiCorp serves Monsanto only if the resource is available. As Dr. Rosenberg explained, in RAMPP-6, interruptible loads are treated as short-term purchases, by reason of which there is no need for

PacifiCorp to keep or plan for operating reserves in the event of a buy-through by Monsanto. (Rosenberg (X), Vol. VI, p. 669, l. 16-p. 670, l. 9.) There is no need to modify the interruptible valuation because of the buy-through provision.

- Mr. Klein admits that the economic curtailment offered by Monsanto is not available in the market and that there are no counterparties willing to sell this product. (Klein Reb. P. 7, L. 20-23.) Thus, Monsanto is left with one, and only one, party to whom it can sell this resource: PacifiCorp. Mr. Klein's candid remark in live testimony emphasizes he "is in the business of trying to bring value back to PacifiCorp." (Klein (X), Vol. VII, p. 850, l. 3-7), and that PacifiCorp "would certainly look at it" if "someone is willing to ... basically give that option away." Monsanto is clearly not interested in "giving away" its interruptible resource through a distorted valuation that offers less money for 1,000 hours of interruption than 500 hours.

In summary, PacifiCorp's "Black-Sholes" model is clearly unreliable, produces illogical and volatile results, and should be rejected for the purpose of valuing the five-year interruptible resource provided by Monsanto.

#### **5.4 BUY-THROUGH INDEX.**

PacifiCorp requests that any buy through by Monsanto to keep one furnace operating be priced at Palo Verde. Mr. Watters admitted Palo Verde is traditionally the most expensive index in the western grid. (Tr. Vol.III, p. 198) Mr. Watters also admits their proposed Palo Verde index could in some instances give rise to an arbitrage. (Tr. Vol. II, p.200, 208, l. 4-12) That would occur by PacifiCorp charging Monsanto at Palo Verde price at times when the power could be supplied at a lower cost from other market sources or the Company's own resources. This would allow PacifiCorp to profit at Monsanto's expense. Monsanto's proposed buy-through at the lowest cost available prevents this inequity, while effectively holding the Company harmless any time Monsanto may elect to buy through.

## **5.5 PRINCIPLE OF GRADUALISM.**

Considerable, and perhaps excessive, testimony and evidence was presented by both parties in this case regarding the principle of “gradualism” or avoiding “rate shock”. Monsanto submits that neither of these principles would come into play in this proceeding if the Commission accepts Monsanto’s rate proposal. The Commission should consider that simply retaining the rate of \$18.50 will, in fact, result in an increase in Monsanto’s rates. This is because the 1995 Contract does not provide operating reserve and system curtailments, while Monsanto’s new proposal will provide both. Given the added interruptibility, the new \$18.50 rate results in a rate increase in the range of 5 to 11 percent, compared with the actual net price Monsanto paid to PacifiCorp the last three years, ranging from \$16.61 to \$18.24. This range of rate increase would not violate the principle of gradualism.

Should the Commission choose to reject Monsanto’s cost analysis and price recommendation, it is appropriate and necessary to consider and apply the principle of gradualism to avoid rate shock. At the time the 1995 Contract was approved, Monsanto paid PacifiCorp \$30 million for the early termination of the 1992 Contract. The Application of PacifiCorp for approval of the 1995 Contract, together with PacifiCorp’s supporting Technical Assessment Paper, clearly stated the payment was compensation for terminating the 1992 Contract. (Exhibit 202, par. 8, 10, 203). Similarly, paragraph 4.1.2 of the 1995 Contract recites that the payment was for termination of the prior contract. Ratemaking treatment of the payment was not determined at the time of approval and was reserved for a rate case. (Order No. 26282, Smith (Dir) p.338, l. 13 – p.16, l.16). By approving the contract the Commission implicitly gave approval of the payment characterization.

The Company, through witness Taylor, argues the effective rate Monsanto is paying is \$23 per MWH relying solely on a comment made by Monsanto's attorney Mr. Racine. (Taylor (Reb), Tr. Vol. III, p. 245, l.16- p. 19, l.13, Exhibit 24) The statement made by Mr. Racine did not change the payment characterization stated by PacifiCorp and the Commission as discussed above. The statement was made simply to provide a point that might be considered in finding reasonable the rate reduction under the 1995 Contract. The Company is yet to seek any ratemaking treatment of the payment. Had the \$30 million payment been a prepayment, as the Company now argues, there would have been no need to defer its ratemaking treatment, which the Commission did at the Company's request. It is significant to note that PacifiCorp's cost of service study incorrectly allocated the payment to the system rather than to the Idaho jurisdiction, which Mr. Taylor admitted was an error. (Taylor (X), Tr. Vol. II, p. 282-286) Since the Company's cost study is based on situs treatment of the Monsanto load, the full amount should have been allocated to the Idaho jurisdiction, thus reducing the revenue requirement.

If rate shock is to be considered, the starting point should not be the Company's hypothetical number, and should instead be the rate Monsanto has actually been paying. That rate was \$18.50 from 1995 through 1999, \$16.61 in 2000, \$17.57 in 2001 and \$18.24 through July of 2002 as a result of the operating reserve purchases. (Schettler (Reb), Tr. Vol. IV, p. 428)

## **6. JURISDICTIONAL ALLOCATION.**

**A. PacifiCorp's Position:** The Company proposes that the electric service agreement be retail load situs to the Idaho jurisdiction, and that the interruptible agreement be system located. (Griswold (Reb), Tr. Vol. II, p. 41, ll. 13-15, p. 42, l. 12.)

**B. Monsanto's Position:** Monsanto asserts that this case presents neither the right time nor place to address jurisdictional allocation issues. Jurisdictional allocation problems were

well known and expressly assumed by the Company's stockholders at the time of the 1988 and 1999 mergers. (Smith (Dir), Tr. Vol. IV, p.347, ll. 14-16, Anderson (Dir), Tr. Vol. VI, p. 490 - 493, l. 9, Exhibit 214.) Monsanto has consistently maintained that jurisdictional allocation issues need not be addressed in this case. This position is also supported by Staff and the Irrigators, who also assert that allocation issues should be addressed in the Multi-State Process or in a general rate case. (Schunke (Dir) Tr. Vol. VI, p. 720, l. 13 - p. 721, l. 1; Yankel (Dir), Tr. Vol. VI, p. 750, ll. 1-7.)

**7. MISCELLANEOUS OTHER CONTRACT TERMS.**

The parties are in disagreement regarding whether certain provisions should be included or excluded in the new contract. The disputed provisions are discussed as a part of the parties' positions set forth below. The Commission must decide these disputes. Once this direction has been provided, Monsanto expects the parties can work out the appropriate language to implement the Commission's Decision in the contract. The following summarizes the disputed contract provisions and the parties positions:

<u>Description</u>	<u>Include PacifiCorp/Monsanto</u>	
1. <u>Direct Access Reopener:</u> Would allow either party to terminate agreement within 90 days of open access being allowed in Idaho. (Tr.Vo. VII, p.812, l.17-21)	Yes	No
2. <u>Cost of Service Reopener:</u> In the event delivered power charges are not meeting cost of service, PacifiCorp will automatically re-open and change the rate. (* PacifiCorp initially requested this reopener, but conceded it could be eliminated in final live testimony of B. Griswold, Tr. Vol. VII, p.812, l.2 - p.812, l.9)	No*	No
3. <u>Interruptibility Reopener:</u> Would allow contract reopen if other Commissions or task force established interruptibility tariffs.	No*	No

(\*PacifiCorp initially requested this reopener, but conceded it could be eliminated in final live testimony of B. Griswold, Tr. Vol.VII, p.813, l.10-13.)

4. **Annual Price Adjustment: Allowed once-per-year adjustment to all price components based on change in average Idaho jurisdictional rate of return.** No\* No  
(\*PacifiCorp initially requested this adjustment, but conceded it could be eliminated in final live testimony of B. Griswold, Tr. Vol. VII, p. 813, l. 5-8.)
5. **Significant Changes Reopener: Would allow Monsanto to reopen to renegotiate price in the event of certain significant changes, including changes in power generation and power purchase costs. (Tr.Vol. VII, p.814, l.1-3)** No No
6. **Favored Nations Clause: Existing contract paragraph 4.1.5 which provides that after three years, if PacifiCorp enters into an agreement or establishes a tariff with an interruptible customer upon more favorable terms, the same offer would be made to Monsanto. (Tr.Vol.VII, p.813, l.20-23)** No Yes
7. **Evergreen Clause: Provides that after the termination date, the contract would annually renew for an additional one year, unless either party gave one-year notice of termination. (Note: both parties agree that the ambiguous language in the 1995 Contract regarding when the notice can be given should be corrected.)** No No
8. **New Power Quality Standards: Update existing quality standards provision to reflect new standards.** Yes No\*  
(\*Monsanto is unaware of any problems with power quality standards as addressed in the 1995 Contract. The proposed “New Power Quality Standards Based on Prudent Industry Practice” requested by PacifiCorp, are unknown, not defined and cannot be evaluated.)  
(Tr.Vol.VII, p.816, l.8-10)
9. **Safety Issues: Update to address cooperation in operation for safety issues.** Yes No\*  
(\*Monsanto is unaware of any safety issues not fully addressed by the 1995 Contract.)  
(Tr.Vol.VII, p.814, l.11-13)
10. **All Agreements Subject to IPUC Approval** Yes Yes  
(Tr.Vol. VII, p.816, l.1-3)

Monsanto objects to the multitude of reopeners requested by PacifiCorp because they could have the effect of eliminating the price certainty and stability important to

Monsanto. Furthermore, reopeners in effect shift to the customer planning and operational risks, which should properly be borne by the public utility as a matter of sound public policy. If utilities are allowed to eliminate risks by shifting them to customers, their authorized rate of return should similarly be lowered in line with treasury bill interest rates.

### **CONCLUSION**

Monsanto respectfully requests that the Commission enter an Order requiring PacifiCorp to provide firm and interruptible power pursuant to a single integrated special contract. The term of the contract should be not less than five years and terminate no sooner than December 31, 2007. The Commission should establish a single energy rate of \$18.50 per MWH for service to the Soda Springs facility. In order to retain a single rolled-in net energy rate of \$18.50 per MWH, Monsanto offers interruptions only to the extent necessary to support and justify this price, up to a maximum of 1000 hours per year. In the event the terms of interruptibility allow PacifiCorp to interrupt all three furnaces at the same time, a minimum of two-hours notice should be required and Monsanto should have a right to “buy-through” the interruption on one furnace at the lowest cost energy available, plus transmission losses, if purchases from sources other than the Company are utilized. It should be emphasized that Monsanto does not want to provide any more interruptibility than is absolutely necessary to support this price. The Commission should give direction to the parties regarding the other contract terms in dispute. Finally, the Commission should enter a finding that the recommended pricing and contract terms are fair, just, reasonable and nondiscriminatory, as a matter of law.

RESPECTFULLY SUBMITTED this 10<sup>th</sup> day of October, 2002.

**RACINE, OLSON, NYE, BUDGE &  
BAILEY, CHARTERED**

By \_\_\_\_\_

RANDALL C. BUDGE

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that on this 10<sup>th</sup> day of October, 2002, I mailed a true and complete copy of the foregoing document, postage prepaid, to each of the following:

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