

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

Case No. PAC-E-01-16

**TESTIMONY OF
JAMES R. SMITH**

1 **I. INTRODUCTION**

2 **Q PLEASE STATE YOUR NAME, EMPLOYER AND BUSINESS ADDRESS.**

3 A My name is James R. Smith. I am employed by Monsanto Company and my business
4 address is P.O. Box 816, Soda Springs, Idaho 83276.

5 **Q PLEASE PROVIDE YOUR EDUCATIONAL BACKGROUND, WORK
6 EXPERIENCE AND CURRENT POSITION AT MONSANTO.**

7 A I graduated from Utah State University in 1986 with a B.S. in accounting. I began
8 working for Monsanto in 1988 as an accountant at the Soda Springs plant and have
9 continued to work for Monsanto to date in various capacities. I am currently the
10 purchasing supervisor for the Soda Springs plant and Rock Springs, Wyoming coke plant.

11 **Q WHAT RESPONSIBILITIES DO YOU HAVE FOR MONSANTO REGARDING
12 THE PURCHASE OF ELECTRICITY?**

13 A I am responsible for all purchases at the Soda Springs and Rock Springs plants including
14 electricity. During my employment at Monsanto I have been directly involved in all

1 electricity contract negotiations and all electrical contracts entered into between Monsanto
2 and PacifiCorp since 1988. I have also reviewed and am familiar with previous electricity
3 contracts serving the Soda Springs plant.

4 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 A The purpose of my testimony is to: (1) provide a history and information concerning the
6 operation of Monsanto's Soda Springs plant; (2) review the history of Monsanto's special
7 contracts for electric service; (3) discuss the background and present status of the current
8 1995 special contract; (4) review recent agreements in 2000, 2001 and 2002 providing
9 PacifiCorp with additional operating reserves and curtailments; (5) provide an overview
10 of negotiations towards a new contract and discuss the differences between the new
11 contract proposal of PacifiCorp and Monsanto; (6) discuss pricing methods proposed by
12 PacifiCorp and adopted by the Commission in prior contract approval proceedings; and
13 (7) to review the history and function of Monsanto interruptibility.

14 **Q PLEASE INTRODUCE THE OTHER WITNESSES TO BE PRESENTED BY**
15 **MONSANTO IN THIS CASE.**

16 A Daniel Schettler, Vice President of Procurement for Monsanto, will present testimony
17 regarding the phosphorus market worldwide and the importance of the Soda Springs Plant
18 remaining competitive. Mr. Schettler also will present Monsanto's senior management
19 perspective and will discuss operational and economic curtailment limitations. Finally,
20 Mr. Schettler will present Monsanto's recommended terms for a new special contract.
21 Richard Anderson of Energy Strategies, L.L.C., will describe the rationale as to why

1 Monsanto should continue to be provided electric service as a special contract
2 interruptible customer of PacifiCorp and will address the allocation of Monsanto costs
3 and revenues and other related issues. Kathryn Iverson of Brubaker & Associates, Inc.,
4 will critique and make recommendations regarding PacifiCorp's proposed cost of service
5 studies. Alan Rosenberg of Brubaker & Associates, Inc. will present testimony valuing
6 Monsanto interruptibility and will make pricing recommendations for Monsanto electric
7 service. Cory Hoffman, an economist, will present testimony concerning the economic
8 impact of Monsanto upon the regional economy in southeast Idaho.

9 **II. HISTORY AND OPERATION OF SODA SPRINGS PLANT**

10 **Q CAN YOU PROVIDE A BRIEF HISTORY AND OVERVIEW OF THE**
11 **OPERATION OF MONSANTO'S SODA SPRINGS PLANT?**

12 **A** Yes. The Soda Springs plant began operations in 1952. Since opening it has operated
13 continuously and without layoffs of employees. The plant produces elemental
14 phosphorus ("P4"), an essential building block for many end products. Phosphate ore
15 mined in the mountains east of Soda Springs is combined with coke and quartzite, then
16 melted in electric arc furnaces resulting in a chemical reaction enabling phosphorus to be
17 separated and extracted. Historically, electricity has represented approximately one-third
18 of the production costs. With the recent closure of the FMC - Astaris plant in Pocatello,
19 Monsanto's three electric furnaces are the only ones remaining in operation in the U.S.

20 **Q DESCRIBE THE ELECTRIC FURNACES OPERATED BY MONSANTO.**

1 A Monsanto's first six electric furnaces to manufacture phosphorus were built and operated
2 in Columbia, Tennessee. That plant closed in approximately 1986 when it became
3 uncompetitive to operate, primarily due to rising electricity costs. At the Soda Springs
4 Plant, Monsanto initially constructed Furnaces No. 7 and 8 which began operating in
5 1952. Later No. 9 Furnace was constructed and became operational in 1966. The No. 9
6 Furnace was the last and largest electric arc furnace constructed in North America.

7 **Q WHAT ARE THE SIZES OF FURNACES 7, 8 AND 9 AT THE SODA SPRINGS**
8 **PLANT?**

9 A Furnace No. 7 is approximately 46 MW, Furnace No. 8 is approximately 50 MW, and
10 Furnace No. 9 is approximately 67 MW for a total of 163 MW.

11 **Q CAN ALL OF THESE FURNACES BE INTERRUPTED?**

12 A Yes, all of these furnaces can be interrupted separately as well as together in any
13 combination. Interruptions occur for emergency, economic, operating reserve and other
14 reasons within the parameters defined by the contract in place at the time.

15 **Q HOW DO INTERRUPTIONS OCCUR?**

16 A There is a direct phone line from PacifiCorp's dispatch to Monsanto's control room.
17 When a call is received Monsanto can and does interrupt immediately within a matter of
18 seconds.

1 Q ARE THERE OPERATIONAL LIMITATIONS ON HOW LONG A FURNACE
2 CAN BE OFF?

3 A Yes. Monsanto has the ability to curtail one or two of its furnaces for up to 4 hours.
4 While interruptions of all furnaces for longer periods of time are feasible, such
5 interruptions would give rise to a number of operational problems that would have to be
6 dealt with to protect the kiln and other facilities from damage, as well as to comply with
7 emissions requirements.

8 Q WHEN NO. 9 FURNACE BECAME OPERATIONAL IN 1966, HOW MANY
9 ELECTRIC FURNACES PRODUCING PHOSPHORUS WERE OPERATING IN
10 NORTH AMERICA?

11 A There were 31 furnaces in North America in 1966.

12 Q HOW MANY OF THOSE 31 FURNACES ARE OPERATING TODAY?

13 A Only the three furnaces at Monsanto's Soda Springs Plant.

14 Q DO YOU HAVE KNOWLEDGE CONCERNING WHAT THE PRINCIPAL
15 FACTORS WERE IN THE CLOSURE OF ALL OTHER FURNACES IN NORTH
16 AMERICA?

17 A Mr. Schettler will provide more specific testimony in answer to this question. There were
18 several factors which contributed to the closure of these other furnaces. These include
19 rising electricity prices and the emergence in recent years of new technology which

1 permits fertilizer grade phosphate to be purified into phos acid, commonly known as the
2 purified wet acid ("PWA") process.

3 **Q IS IT A FORGONE CONCLUSION THAT MONSANTO'S SODA SPRINGS**
4 **PLANT WILL ALSO BECOME ECONOMICALLY UNFEASIBLE AND GO OUT**
5 **OF BUSINESS?**

6 A No. While that is a possibility, I believe the Soda Springs Plant can remain economically
7 feasible and continue operating at full capacity, provided that we are able to secure a new
8 long term special contract providing electricity at a reasonable price as proposed by
9 Monsanto.

10 **Q HOW MUCH ELECTRICITY DOES MONSANTO CONSUME AT THE SODA**
11 **PLANT?**

12 A Approximately 1.4 billion kWh of energy is consumed annually. We are PacifiCorp's
13 largest single point customer.

14 **Q HOW MANY EMPLOYEES ARE EMPLOYED BY MONSANTO RELATING TO**
15 **THE OPERATION OF THE SODA SPRINGS PLANT?**

16 A On average, 700 full time employees are employed in the operation of the Soda Springs
17 Plant. Of these, an average of 380 are direct full-time employees of Monsanto. The
18 remaining 320 employees are full-time employees of our mining and other sub-
19 contractors. There are also many additional part-time and seasonal employees of

1 Monsanto and our sub-contractors not included in these numbers. There have been no
2 significant changes year to year in these employment numbers over the past 30 plus years.

3 **Q WHERE DO THE FULL-TIME EMPLOYEES RESIDE?**

4 A The breakdown by county is as follows: Caribou - 409, Bannock - 113, Bear Lake - 110,
5 Franklin - 19 and other - 49.

6 **Q WHAT WAS MONSANTO'S TOTAL PAYROLL FOR YEAR 2001?**

7 A The payroll and benefits for all Monsanto full-time, part-time and seasonal employees in
8 2001 was \$35,778,000.00. This does not include amounts paid to employees of sub-
9 contractors.

10 **Q WHAT DOES MONSANTO PAY ANNUALLY IN ADDITION TO IDAHO**
11 **VENDORS?**

12 A In 2001, Monsanto paid over \$61 million dollars to 417 Idaho vendors using Idaho
13 employees.

14 **III. HISTORY OF MONSANTO ELECTRICAL CONTRACTS**

15 **Q PLEASE PROVIDE THE HISTORY OF THE MONSANTO ELECTRICAL**
16 **CONTRACTS.**

17 A Monsanto entered into its first special contract with Utah Power and Light Company to
18 provide electrical service at the Soda Springs Phosphorus Plant on April 30, 1951, ("1951

1 Contract") for a term of ten (10) years. The contract supplied 54 MW of interruptible and
2 6 MW of firm power.

3 After No. 9 furnace became operational, an additional contract was entered into
4 January 22, 1965 ("1965 Contract") to supply an additional 70 MW of electricity for a
5 furnace for 10 years. This contract was also interruptible for economic and emergency
6 reasons. Idaho Power was an additional supplier to this contract pursuant to an
7 arrangement between Idaho Power and Utah Power.

8 The 1951 Contract and the 1965 Contract continued to be extended until replaced
9 by a new contract entered into July 3, 1991 ("1991 Contract"). The 1991 Contract
10 consolidated the service under the prior agreements into a single contract. This contract
11 provided for the supply of 9 MW of firm power and 154 MW of interruptible for a five-
12 year term through June 30, 1997. Monsanto was subject to both emergency and economic
13 curtailment.

14 The 1991 Contract was replaced by the current 1995 Contract entered into on
15 November 1, 1995, which provides for 9 MW of firm power and 206 MW of interruptible
16 power. This contract allowed Monsanto to be interrupted for system emergency purposes
17 but not for economic reasons. This is the first and only contract that did not provide for
18 economic interruptions for reasons which will be discussed below.

19 **Q HAS MONSANTO EVER RECEIVED POWER AT THE SODA PLANT AS A**
20 **FIRM TARIFF RATE CUSTOMER?**

21 **A** No. Monsanto has always received power pursuant to a special contract. PacifiCorp does
22 not have any tariff rates in Idaho applicable to large industrial users. The last industrial

1 tariff in Idaho was eliminated in 1990. At that time and prior, Utah Power had Schedule
2 13 which provided a tariff rate for customers over 15 MW. Utah Power had no customers
3 on that tariff at that time. Accordingly, on May 18, 1990, PacifiCorp Sr. Vice President
4 John A. Bohling wrote the commission stating:

5 Utah Power would prefer to see the schedule eliminated and hereby
6 makes that request to the commission. Schedule No. 13 for large
7 industrial services has never been used by any customer. Currently there
8 are no customers on it and in the future any customers who would
9 qualify, having loads over 15,000 KW, would be provided for under a
10 special contract.

11 **IV. EFFECT OF 1988 AND 1999 PACIFICORP MERGERS**

12 **Q WHEN PACIFIC POWER AND UTAH POWER MERGED IN 1988 DID THE**
13 **COMMISSION ADDRESS MONSANTO'S SPECIAL CONTRACT THEN IN**
14 **EFFECT?**

15 **A** Yes. In Order No. 21867, entered in April 1988, the Commission stated that Monsanto
16 would continue as a special contract and be treated as an interruptible system customer,
17 but would not share in the merger rate reductions. The Commission stated in Order No.
18 21867 at page 10 as follows:

19 The merged company will continue Monsanto's special contract with
20 Utah Power. Monsanto will not share in the immediate 2 percent
21 reduction proposed for Utah Power's tariff customers, but would benefit
22 by the merged system's reduced fuel costs through its fuel adjustment
23 clause.

24 Monsanto will continue to be treated as an interruptible customer, not
25 only for the Utah Power Division, but for the entire merged system's
26 power supply needs. . . . Furthermore, as a matter of policy, the merged
27 company will not seek to interrupt Monsanto to make more lucrative
28 off-system sales. (Case Nos. U-1152-1, U-1009-184, U-1046-16)

1 Q AFTER THE 1988 UTAH POWER-PACIFIC POWER MERGER, DID
2 MONSANTO EXPERIENCE AN INCREASE IN THE ECONOMIC
3 CURTAILMENTS?

4 A Yes. At the time of the merger, promises were made that Monsanto would be interrupted
5 less by the merged company. However, after the 1988 merger, Monsanto experienced a
6 substantial increase in the number and duration of curtailments to levels far more than had
7 ever been experienced under Utah Power. In order to sustain operations at desired levels,
8 Monsanto expended considerable sums to purchase power during curtailments in order to
9 supply customer orders.

10 Q HAVE YOU PREPARED AN EXHIBIT REFLECTING THE HISTORY OF
11 CURTAILMENTS AT THE PLANT?

12 A Yes. Exhibit 201 reflects the Soda Springs plant Curtailment History from 1986 to date.
13 It was prepared by me and is based upon the daily logs maintained by our operators.

14 Q PLEASE EXPLAIN THE “TOTAL CURTAILMENT” SHOWN IN COLUMN 1.

15 A Column 1 reflects the “Total Curtailments” in kWh from 1986 forward. As can be seen,
16 these curtailments increased substantially beginning in 1988 after the Utah Power-Pacific
17 Power merger. The Total Curtailment numbers reflected in Column 1 are the total of
18 Column 2, which is the System or Emergency Curtailments and Column 3 which is
19 Economic Curtailment, and Column 5, which is Operating Reserve Curtailment.

1 **Q PLEASE DESCRIBE COLUMN 2 ENTITLED SYSTEM CURTAILMENT?**

2 A Column 2 reflects curtailments by PacifiCorp for system emergency purposes. You will
3 note Column 1 and Column 2 are the same after 1995 until 2000. This is because the
4 1995 Contract only provides for curtailment for emergency purposes. No economic
5 curtailment provisions were included in the 1995 Contract. Such provisions were not
6 needed by PacifiCorp because they then had excess power, and there was a surplus on the
7 market.

8 **Q PLEASE DESCRIBE COLUMN 3 ENTITLED "ECONOMIC CURTAILMENT".**

9 A Column 3 reflects Economic Curtailments as allowed pursuant to the Contracts in effect
10 in each of the years. As can be seen, after 1995 there were no Economic Curtailments.
11 This is because the 1995 Contract did not provide for Economic Curtailments for the
12 reasons I discussed above.

13 **Q PLEASE DESCRIBE COLUMN 4 ENTITLED "PREMIUM PAID".**

14 A The "Premium Paid" reflected in Column 4 is the amount paid by Monsanto to PacifiCorp
15 to buy-through economic curtailments. These buy-through expenditures were not
16 anticipated at the time of the 1988 merger. Prior to the merger, in order to secure
17 Monsanto's support for the merger, promises were made by Pacific Power and Utah
18 Power management to Monsanto management that Monsanto would see less economic
19 curtailment after the merger. Unfortunately, the actual curtailments turned out to be much
20 greater.

1 Q PLEASE DESCRIBE COLUMN 5 ENTITLED “OPERATING RESERVE”.

2 A Column 5 entitled “Operating Reserve” reflects curtailments in 2000, 2001 and 2002
3 pursuant to separate agreements entered into in those years as discussed below.

4 Q PLEASE DESCRIBE EXHIBIT 201, P. 2 “MONSANTO POWER
5 CURTAILMENTS BY MONTH”.

6 A Exhibit 201, p. 2 sets forth the total number of furnace interruptions by month for the
7 years 1992 to date.

8 Q WHEN PACIFICORP AND SCOTTISHPOWER MERGED IN 1999, DID
9 MONSANTO SHARE IN THE \$6.4 MILLION MERGER-RELATED COST-OF-
10 SERVICE REDUCTIONS PROVIDED BY WAY OF A MERGER CREDIT?

11 A No. The merger credit was allocated among PacifiCorp’s retail tariff customers. In Order
12 No. 28213 issued November 15, 1999, in Case No. PAC-E-99-1, the Commission stated:

13 ScottishPower and PacifiCorp shall provide guaranteed merger-related
14 cost-of-service reductions for four years through an annual merger
15 credit. The amount of credit shall be \$1.6M per year for the years 2000,
16 2001, 2002, and 2003. The total credit in years 2000-2003 will be
17 \$6.4M. The merger credit shall be allocated among PacifiCorp’s retail
18 tariff customers on the basis of a percentage of the customer bill,
19 exclusive of taxes. . . .

20 Q WERE MONSANTO’S RATES AS A SPECIAL CONTRACT CUSTOMER
21 AFFECTED AS A RESULT OF THE RECENT POWER COST SURCHARGE IN
22 CASE NO. PAC-E-02-1?

23 A No. On June 7, 2002, the Commission entered Order No.29034 in Case No. PAC-E-02-1
24 approving the proposed settlement entered into between PacifiCorp, Staff, the Idaho
25 Irrigation Pumpers Association and Monsanto. The resulting proposed changes in rates

1 over those in effect in 2000 for tariff rate customers are a 34 percent decrease for
2 Schedule 6A General Service Customers; a 28.2 percent decrease for residential
3 customers; a 28 percent decrease for irrigation customers; and a maximum of 4 percent
4 increase for Schedules 6, 9, 10 and 13 Commercial and Industrial Customers. *See Order,*
5 *p. 7, Stipulation Attachment B, Table BB2.*

6 **Q DO THE ORDERS DISCUSSED ABOVE ILLUSTRATE THE DIFFERENCE**
7 **BETWEEN BEING A SPECIAL CONTRACT CUSTOMER VS. A TARIFF**
8 **CUSTOMER?**

9 A Yes. If Monsanto were a firm customer, or if its special contract provided a rate tied to
10 firm tariff rates, rates would vary up or down on a case by case basis. As a special
11 contract customer, Monsanto rates are established by the terms of the contract for the term
12 of the contract. This provides price certainty and stability for a set period. This is critical
13 to Monsanto's planning and operational decisions affecting capital expenditure decisions
14 at the plant, as well as mining, production and marketing decisions.

15 **V. 1995 SPECIAL CONTRACT**

16 **Q CAN YOU PROVIDE BACKGROUND REGARDING THE NEGOTIATIONS**
17 **THAT PRECEDED THE 1995 CONTRACT?**

18 A Yes. I was directly involved in those negotiations as part of Monsanto's negotiating
19 team. Under the 1992 Contract which was scheduled to run through 1997, Monsanto
20 began paying \$22.265 per MWH in 1992 which increased to \$24 in 1993 and was
21 scheduled to increase to \$25 in 1995 and \$26 in 1997.

1 Monsanto entered into negotiations with PacifiCorp in 1994, which continued
2 through 1995, in an effort to replace the 1992 Contract and bring pricing more in line with
3 PacifiCorp's current cost of energy. This resulted in the 1995 Contract.

4 During negotiations there were large surpluses of power in the electricity market
5 and PacifiCorp had excess capacity. At times, power on the open market was trading as
6 low as \$2 per MWH at the same time Monsanto's rates were scheduled to increase.
7 Additionally, at that time, deregulation efforts were being pursued across the country and
8 it was anticipated that all markets would deregulate in three to five years, resulting in
9 lower prices. Additionally, factors in the phosphorous market rendered it imperative for
10 Monsanto to make changes in order to remain competitive.

11 **Q DID MONSANTO PAY PACIFICORP ADDITIONAL CONSIDERATION TO**
12 **TERMINATE EARLY THE 1991 CONTRACT?**

13 **A**Yes. As a part of the consideration, Monsanto paid PacifiCorp a one time cash payment
14 of \$30 million. This payment is described in paragraph 4.1.2 of the 1995 Contract as
15 follows:

16 4.1.2 In consideration for the termination of that certain power supply
17 agreement dated July 3, 1991, and PacifiCorp's release of Monsanto and
18 settlement of all outstanding obligations arising thereunder, Monsanto
19 shall pay PacifiCorp THIRTY MILLION DOLLARS AND NO/100
20 (\$30,000,000.00) . . .

21 **Q HOW WAS THE \$30,000,000 PAYMENT TREATED?**

22 **A**The ratemaking treatment of the \$30 million payment was not determined by the
23 Commission at the time thje 1995 Contract was approved by Order No. 26282.

24 The Commission stated:

1 Utah Power states that it does not seek a determination at this time on the
2 ratemaking treatment applicable to Monsanto's \$30 million payment or
3 the other rates and charges under the New Agreement. The Company
4 requests that all ratemaking issues be reserved for a rate case.

5 Consequently, treatment of the payment has not yet been determined.

6 **Q WHAT SIGNIFICANT CHANGES WERE MADE IN THE 1995 CONTRACT?**

7 A The price for all energy delivered was reduced to \$18.5 per MWH. Economic curtailment
8 provisions that had existed in all prior contracts were eliminated. This was because
9 PacifiCorp had substantial excess capacity, and there was excess power and low prices in
10 the market. Pricing mechanisms were also substantially simplified to eliminate demand
11 charges and excess energy charges. Firm and interruptible charges were rolled into a
12 single energy rate of \$18.5 per MWH.

13 **Q WHEN PACIFICORP MADE APPLICATION TO THE COMMISSION TO**
14 **APPROVE THE 1995 CONTRACT, DID IT DISCUSS THE CIRCUMSTANCES**
15 **EXISTING AT THAT TIME IN THE ELECTRICAL MARKET AND THE BASIS**
16 **UPON WHICH THE PRICE WAS DETERMINED UNDER THE NEW**
17 **CONTRACT?**

18 A PacifiCorp described the circumstances that existed in 1995 and the basis upon which
19 Monsanto's new contract was priced in its "Application" to the Commission seeking
20 approval of the new 1995 Contract and also in PacifiCorp's "Technical Assessment
21 Package", filed with the Commission, Exhibits 202 and 203. The Contract was priced
22 based upon meeting variable costs with a reasonable contribution to fixed costs. The
23 Application stated:

1 9. The New Agreement provides substantial benefits to Utah Power's
2 other customers. Monsanto is the Company's single largest customer,
3 contributing over 28 percent of all retail revenues from all customer
4 classes in Idaho. Revenues from Monsanto contribute to Utah Power's
5 recovery of fixed costs, which allow the Company to charge lower prices
6 to its other customers.

7 10. The New Agreement will provide additional benefits beyond the
8 increase in contributions to fixed costs. The \$30 million up-front
9 payment will fully compensate for the termination of the Existing
10 Agreement.

11 The Technical Assessment Package provided analysis of Monsanto's contribution
12 to fixed costs. The Commission's Order No. 26282 approved the Contract as "fair, just
13 and reasonable" based on a pricing methodology of meeting PacifiCorp's variable costs
14 with a reasonable contribution to fixed costs. This method has been consistent throughout
15 Monsanto's special contract history. Until now, PacifiCorp has never sought to price
16 Monsanto as a situs customer priced based on traditional costs of service methods.

17 **Q WHEN DOES THE 1995 CONTRACT TERMINATE?**

18 A It is Monsanto's position that the 1995 Contract is an "evergreen" contract, which
19 continues until terminated by one of the parties upon one year's notice, given in
20 compliance with the terms of the contract. Monsanto and PacifiCorp are in dispute over
21 the validity and effect of attempts made by PacifiCorp to terminate the contract on
22 December 31, 2001. This dispute is presently being litigated in the U.S. District Court for
23 the District of Idaho, Case No. CV-01-607-E-BLW. Attempts to secure an early
24 resolution before the Court of this contract interpretation dispute based on summary
25 judgment motions were unsuccessful. The case is now scheduled for trial August 4, 2003.

26 As requested by the parties, mediation before a Federal Magistrate Judge is scheduled.

1 **Q WHEN WOULD THE NEW RATE ESTABLISHED IN THIS PROCEEDING BE**
2 **EFFECTIVE?**

3 A Any new rate established by the Commission in this proceeding would take effect upon
4 the date the U.S. District Court determines that the 1995 contract ends. Until that time,
5 the existing rate under the 1995 contract of \$18.5 per MWH would remain in effect,
6 subject to a “true-up” mechanism which both parties agreed to and the Commission
7 adopted. Accordingly, if the Court determines that the existing contract ended December
8 31, 2001, as asserted by PacifiCorp, Monsanto would pay the newly-established rate from
9 January 1, 2002, plus 4 percent interest on the difference between the interim rate of
10 \$18.5 per MWH and the new rate. On the other hand, if the Court determines that the
11 1995 contract terminates December 31, 2002, or a later future date, the new rate would
12 take effect on that date and there would be no need for a true-up.

13 **VI. 2000, 2001 AND 2002 CURTAILMENT AGREEMENTS**

14 **Q ALTHOUGH THE 1995 CONTRACT DOES NOT ALLOW PACIFICORP TO**
15 **INTERRUPT MONSANTO FOR ECONOMIC REASONS, HAVE THE PARTIES**
16 **ENTERED INTO AGREEMENTS PURSUANT TO WHICH PACIFICORP HAS**
17 **PURCHASED ADDITIONAL INTERRUPTIONS FROM MONSANTO?**

18 A Yes. In recent years, at PacifiCorp’s request, Monsanto has entered into four separate
19 agreements to provide for economic interruptions. Economic interruptions are not
20 provided for under the 1995 Contract. Three separate Operating Reserve Agreements
21 were entered into in 2000, 2001 and 2002, which enabled PacifiCorp to curtail Monsanto

1 and obtain needed operating reserves. The 2000 and 2001 Operating Reserve Agreements
2 are included in Exhibit 5 to the Direct Testimony of Bruce W. Griswold. Additionally, an
3 Operating Reserve Agreement was recently entered into on July 9, 2002, to provide short-
4 term operating reserve interruption rights during the period July through September this
5 year. The terms of the 2002 Agreement are generally the same as the prior Agreements,
6 except for the price, which has doubled this year from what was previously paid.

7 An Outage Deferral Agreement was also entered into in 2001 to defer a shutdown
8 of one of our furnaces from the spring to July and August of 2001 when PacifiCorp was
9 projecting shortages of electricity and high market prices due to the energy crisis. This
10 agreement is attached as Exhibit 6 (CONFIDENTIAL) to the Direct Testimony of Bruce
11 W. Griswold.

12 **Q WERE THE RECENT OPERATING RESERVE AGREEMENTS AND OUTAGE**
13 **DEFERRAL AGREEMENT SUBMITTED TO THE IDAHO PUBLIC UTILITY**
14 **COMMISSION FOR APPROVAL?**

15 **A** No. We made an inquiry to PacifiCorp to determine if Commission approval was needed
16 and were informed it was not required.

17 **Q DID MONSANTO RECEIVE COMPENSATION FOR THESE ADDITIONAL**
18 **CURTAILMENT AGREEMENTS?**

19 **A** Monsanto did receive compensation for additional curtailment under the Operating
20 Reserve Agreements. Under the Outage Deferral Agreement Monsanto received a
21 payment for providing PacifiCorp with the right to decide when the shutdown would start.

1 This payment was to reimburse Monsanto for the expenses of having its contractors on
2 hold pending PacifiCorp's decision when to start the shutdown. The Outage Deferral
3 Agreement also called for Monsanto to share in the savings 50/50 between the spring
4 energy price and the summer energy price. However, no payments were received for the
5 deferral because summer prices dropped following the FERC imposed price caps.

6 **Q WAS MONSANTO INTERRUPTED BY PACIFICORP BETWEEN 2000 AND**
7 **EARLY 2002?**

8 A Yes. During the period March 8, 2000, through January 23, 2002, Monsanto was
9 interrupted 100 times, of which 97 were for operating reserves. These interruptions are
10 reflected in Exhibit 204, "Monsanto Curtailments 2000-2002". The 2002 Operating
11 Reserve Agreement was entered into July 9, 2002, and provides for additional
12 interruptions between July 9 and September 15, 2002 not reflected in Exhibit 204.

13 **Q DURING THE PERIOD OF RECORD HIGH ENERGY PRICES IN 2000 AND**
14 **2001, DID MONSANTO OFFER TO PACIFICORP ANY ADDITIONAL**
15 **CURTAILMENT?**

16 A Yes. Monsanto offered to curtail one of its furnaces during December of 2000 and again
17 in January of 2001. During this period of energy crises, Monsanto had been contacted by
18 another utility that was desperate for energy. Monsanto was temporarily long on
19 inventory and was willing to curtail one furnace for up to a week. I made this proposal to
20 Mr. Griswold of PacifiCorp. He flatly declined both offers and there were no further
21 discussions of price or other terms. This is an example of why we feel it is critically

1 important to price both firm and interruptible power in a single contract. Short-term
2 curtailment agreements provide no bargaining power to Monsanto since it has no access
3 to any other purchasers in the market.

4 **Q DID YOU INFORM THE COMMISSION THAT MONSANTO'S OFFER OF**
5 **ADDITIONAL CURTAILMENTS DURING THE ENERGY CRISIS HAD BEEN**
6 **REJECTED?**

7 A Yes. In response to an inquiry regarding what Monsanto was doing to help ease the
8 energy crisis, I sent a letter explaining what had occurred on January 9, 2001, which is
9 attached as Exhibit 206. Apparently this was brought to PacifiCorp's attention, evoking
10 response by Mr. Griswold's letter dated January 16, 2001, which is attached as Exhibit
11 206. These letters were part of the record in the PacifiCorp deferred accounting case,
12 Docket No. PAC-E-02-1. While I disagree with much of what was said in Mr.
13 Griswold's letter, further discussion in this case serves no useful purpose. The problem
14 does illustrate why reliance upon short-term operating agreements can be problematic and
15 will not provide the price certainty and stability needed by Monsanto.

16 **Q EXPLAIN WHY MONSANTO WAS WILLING TO ENTER INTO THE RECENT**
17 **OPERATING RESERVE AGREEMENTS.**

18 A There were several reasons. First, Monsanto wanted to do its part to assist with the
19 energy crisis at hand, which was fundamentally the right thing to do at the time to help the
20 region out. Recall that Monsanto's existing contract did not contain economic curtailment
21 provisions that had been in all of the prior contracts. Second, Monsanto would receive

1 compensation for curtailment at a price that made it economically feasible based upon
2 circumstances existing at that time. Third, we wanted to demonstrate to PacifiCorp that
3 Monsanto could in fact provide a substantial and unique benefit to the system as a whole
4 in the form of operating reserves and load balancing. Fourth, we felt it was important to
5 help PacifiCorp meet its needs and obligations and reach an agreement on some items in
6 an effort to show good faith, and build on that success with regard to the power supply
7 contract negotiations that were ongoing.

8 **VII. PROPOSED NEW SPECIAL CONTRACT**

9 **Q PLEASE DESCRIBE THE EFFORTS MADE TO NEGOTIATE A NEW**
10 **SPECIAL CONTRACT.**

11 **A** Shortly after the PacifiCorp-ScottishPower merger negotiations began in 1999, Monsanto
12 felt it was important to start discussions as soon as possible with the new PacifiCorp
13 management. This is because Monsanto's ability to secure a continuous and long term
14 power supply contract is critically important for long term planning and capital
15 expenditure purposes, which are dependent upon an affordable and reliable source of
16 electricity. Historically, Monsanto begins negotiations of a new power supply contract
17 well in advance of the expiration date. Accordingly, it has been common to terminate an
18 existing contract early and replace it with a new contract as occurred in 1965, 1987, 1991
19 and 1995. While the negotiation process can be difficult and time consuming, up until
20 now it has always resulted in a new power supply contract at rates that were fair and
21 reasonable to Monsanto and PacifiCorp. In each instance the negotiated agreement was
22 approved by the Commission. Unfortunately, negotiations to replace the 1995 Contract

1 have not been successful and are at an impasse which must be resolved by the
2 Commission. We believe this was primarily and directly a result of PacifiCorp's
3 insistence upon substantially new and different terms and pricing methods from those that
4 have proven successful and mutually beneficial in the past.

5 **Q DESCRIBE THE CHANGES PACIFICORP HAS REQUESTED IN THE NEW**
6 **POWER SUPPLY CONTRACT WHICH ARE SIGNIFICANTLY DIFFERENT**
7 **FROM ALL PRIOR CONTRACTS.**

8 A PacifiCorp is insisting upon several new and significant changes detrimental to Monsanto
9 which would alter the special contract methods that have successfully been utilized for
10 many years. First, PacifiCorp insists upon pricing Monsanto as a firm tariff customer
11 based on costs of service methodologies. This would raise Monsanto's rates from \$18.5
12 \$31.4 per MWH, an increase of 70% of \$18 Million. Second, PacifiCorp insists on
13 Monsanto's rates being tariff based rather than set for a specific contract term. Third,
14 PacifiCorp is no longer willing to provide both firm and interruptible electric service to
15 Monsanto pursuant to a single integrated contract. Instead, PacifiCorp proposes a "so-
16 called" firm tariff rate contract leaving Monsanto to attempt to negotiate a series of short-
17 term contracts to provide payment for whatever operating reserves, load balancing or
18 other curtailments PacifiCorp may decide to buy. Fourth, PacifiCorp proposes to
19 eliminate Monsanto as a system customer for revenue and cost allocation purposes.
20 Instead, Monsanto would be treated as a "situs" customer for revenue and cost allocation
21 purposes.

1 **Q DOES MONSANTO BELIEVE THAT CHANGES HAVE OCCURRED TO**
2 **JUSTIFY DEPARTURE FROM THE HISTORIC BASIS UPON WHICH**
3 **MONSANTO SPECIAL CONTRACTS HAVE BEEN APPROVED BY THE**
4 **COMMISSION?**

5 A No. There has been no material change in the location, size, load factor, or other
6 characteristics of Monsanto's electricity requirements since the No. 9 furnace came on
7 line in 1966. The manner in which Monsanto consumes electricity to produce
8 phosphorous remains unchanged. PacifiCorp's transmission and generation facilities that
9 have historically served the Monsanto load appear substantially unchanged since the last
10 contract was approved. PacifiCorp essentially proposes fundamental change in how it
11 wishes to conduct business by eliminating long-term special contracts at a known and
12 certain price and shifting these risks to the customers. It appears PacifiCorp's new-stated
13 policy is to eliminate all long-term interruptible contracts in favor of tariff based rates.
14 This is an effort to solve cost allocation problems that were well known and expressly
15 assumed by PacifiCorp stockholders at the time of the 1988 and 1999 mergers. This case
16 presents neither the right time or place to address those problems of PacifiCorp,
17 particularly since PacifiCorp has initiated the Multi-State Process specifically to a cost
18 allocation and many other related issues.

19 **Q WHAT IS THE BASIS OF YOUR STATEMENT THAT PACIFICORP WANTS**
20 **TO ELIMINATE ALL LONG-TERM INTERRUPTIBLE CONTRACTS?**

21 A In Docket PAC-E-00-06 ("SRP" Case) in response to IPUC Data Request No. 1.26, the
22 Company stated:

23 PacifiCorp intends to enter into no more long-term interruptible
24 service contracts. Rather, when market conditions justify such a

1 course, the company will purchase capacity or energy from
2 customers that can provide those products by load curtailment
3 designed on a short-term basis to meet specific needs.
4

5 A further response in IPUC Data Request No. 1.27 also expands on their response:

6 As indicated in Data Response 1.26, the Company, with or without
7 SRP, intends to discontinue the practice of offering interruptible
8 service as a retail purchase option. Customers will be provided
9 firm service at tariff or tariff-equivalent pricing.

10 **Q WHAT FUNDAMENTAL PROBLEM DO YOU HAVE WITH PACIFICORP'S**
11 **PROPOSAL TO INCREASE MONSANTO'S EXISTING RATE OF \$18.5 TO \$31.4**
12 **PER MWH?**

13 A PacifiCorp's proposal to increase Monsanto's rate to \$31.4 per MWH results in a 70%
14 increase! Monsanto's Soda Springs plant would be in a death spiral in my opinion. In
15 addition, this would cause rate shock and appears contrary to the principle of gradualism.

16 This substantial increase to Monsanto should be contrasted with rates of other
17 PacifiCorp customers which have been relatively stable as reflected by PacifiCorp
18 exhibits presented in the Multi-State Process case, Exhibit 207.

19 **Q ARE YOU AWARE OF OTHER INDUSTRIAL CUSTOMERS OF PACIFICORP**
20 **THAT HAVE EXPERIENCED SIMILAR DIFFICULTIES IN NEGOTIATING A**
21 **NEW SPECIAL CONTRACT?**

22 A Yes. Magnesium Corporation of America ("Magcorp") and Geneva Steel Corporation
23 ("Geneva") in Utah faced a similar situation. Neither was able to agree to new special
24 contract terms proposed by PacifiCorp. Both took their disputes to the Utah PSC for
25 resolution.

1 **Q HOW DID MAGCORP SECURE NEW SPECIAL CONTRACT TERMS?**

2 A In Docket No. 01-035-38, Magcorp requested that the Utah Public Service Commission
3 establish the rate, term, interruptibility and buy-through provisions to be included in a
4 Special Contract.

5 **Q WHAT WAS THE RESULT OF THE MAGCORP CASE IN UTAH?**

6 A Exhibit 208 is two Orders in the Magcorp case entered on May 24, 2002, and on July 2,
7 2002, by the Utah Commission. By these Orders the Utah Commission: (1) established a
8 single interruptible contract for Magcorp; (2) established a rate of \$21 per MWH; (3) set
9 the contract term through 12/31/2004; (4) defined interruption terms of up to 6 hours/day
10 Monday through Friday during summer peaks; (5) required 2 hours advance notice of
11 interruptions; (6) provided Magcorp a right to buy through interruptions based on a
12 published index; and (7) deferred interjurisdictional allocation issues to the Multi-State
13 Proceedings.

14 These decisions should be used as a precedent for the Commission to adopt a
15 single interruptible contract, establishing a contract term, defining interruptibility and
16 defer interjurisdictional issues to the Multi-State Proceedings.

17 **Q WHAT IS THE STATUS OF GENEVA'S SPECIAL CONTRACT DISPUTE?**

18 A Geneva has filed an Application with the Utah Commission, Docket No. 02-035-05,
19 seeking to establish interruptible contract terms. Geneva's Application is attached as
20 Exhibit 209, with an expedited hearing requested in August, 2002.

1 **Q HOW DOES MONSANTO’S CURTAILMENT PROPOSAL DIFFER AND OFFER**
2 **GREATER FLEXIBILITY AND BENEFIT TO THE PACIFICORP SYSTEM?**

3 A Monsanto’s curtailment proposal is detailed in the testimony of Daniel R. Schettler. Our
4 curtailment proposal is unique when compared to Magcorp or any other large industrial
5 load. This is because of the size of the curtailment, the fact that it can be utilized in
6 incremental blocks ranging from 46 MW to 166 MW, and because Monsanto can be
7 curtailed almost instantaneously, upon little advance notice. Magcorp, like most other
8 industrial customers, has operational constraints requiring two hours advance notice
9 before shutdown.

10 **Q PLEASE DESCRIBE THE PRICING METHODS PROPOSED BY PACIFICORP**
11 **AND ADOPTED BY THE COMMISSION FOR THE MOST RECENT 1992 AND**
12 **1995 CONTRACTS.**

13 A Monsanto’s previous special contracts have been priced based upon a rate that would
14 pay PacifiCorp’s variable energy costs plus make a reasonable contribution to fixed costs.
15 The Commission has repeatedly accepted this as the appropriate method for pricing
16 electric service to Monsanto. When the Commission approved the 1992 Contract on
17 Order No. 24220 the following finding was made at p. 5:

18 The rates for interruptible service, set forth in the Agreement, will
19 cover UP&L’s variable energy costs, transmission costs and make a
20 contribution to fixed costs over the term of the contract.

21 ***

22 Based upon the foregoing, we hereby find that the rates for both
23 interruptible and firm service set forth in the Power Supply Agreement
24 are fair, just and reasonable.
25

1 Similarly, when the 1995 Contract was approved in Order No. 26282, the Commission
2 found “fair, just and reasonable” the new contract which provided both firm and
3 interruptible service, with interruptible service priced based on an amount which covered
4 variable costs and made a reasonable contribution to fixed costs.

5 **Q HAVE THE NON-FIRM REVENUES FROM MONSANTO’S SPECIAL**
6 **CONTRACTS BEEN INCLUDED IN PACIFICORP’S COST-OF-SERVICE**
7 **STUDIES FOR IDAHO JURISDICTIONAL CUSTOMERS?**

8 A No. Monsanto’s non-firm load has always been treated as a system customer of
9 PacifiCorp and its predecessor, Utah Power. This is in recognition of the substantial
10 benefits Monsanto interruptible provides to the entire system in the form of load
11 balancing and operating reserves. Accordingly, non-firm revenues and costs from the
12 Special Contract are not allocated directly to the Idaho jurisdiction. The revenues
13 collected from the non-firm service are treated as revenue credits and are used to offset
14 the revenue requirements for all firm customers.

15 **Q HOW DOES MONSANTO PROPOSE THE COMMISSION RESOLVE THE**
16 **CONTRACT DISPUTE WITH PACIFICORP?**

17 A Monsanto respectfully requests that the Commission establish the rate Monsanto should
18 pay for firm and interruptible service under a single integrated special contract, that the
19 term of the contract be established and that interruption rights be defined. The exact
20 proposal of Monsanto on each of these issues is set forth in the testimony of Daniel R.
21 Schettler. Monsanto does not believe it is necessary or appropriate for the Commission to

1 change Monsanto's current status as a system customer for cost and revenue allocation
2 purposes. PacifiCorp has chosen to address those issues in the Multi-State Process case
3 which is the proper forum.

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

5 **A** Yes.

6