

**Before the  
Public Utilities Commission  
of the State of Idaho**

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

Rebuttal Testimony of  
**Richard M. Anderson**

On Behalf of  
**Monsanto Company**

August 30, 2002

**energy strategies**

*Salt Lake City/Phoenix/Austin*

1 **I. INTRODUCTION**

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

3 A. Richard M. Anderson, 39 West Market Street, Suite 200, Salt Lake City, Utah  
4 84101.

5 **Q. ARE YOU THE SAME RICHARD ANDERSON THAT PREVIOUSLY**  
6 **FILED DIRECT TESTIMONY IN THIS PROCEEDING?**

7 A. Yes.

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 A. I will address the following issues; (1) the proposal of the Company contained  
10 in their rebuttal testimony that the contracts for firm service and interruptibility  
11 be coterminous in their duration, (2) the issue of whether the treatment of the  
12 Monsanto load should be situs or system based, and (3) the proper cost of  
13 replacement power should Monsanto exercise its buy-through option when  
14 interrupted for economic curtailment.

15 **II. DURATION OF SEPARATE CONTRACTS**

16 **Q. MR. GRISWOLD SUGGESTED IN HIS REBUTTAL TESTIMONY**  
17 **THAT THE TERMS OF THE PROPOSED SEPARATE CONTRACTS**  
18 **BE ALIGNED. DO YOU AGREE?**

1 A. Yes, I do agree. The separation of the terms of the proposed agreements  
2 would place substantial economic exposure on Monsanto. I presented this  
3 argument in my previously filed direct testimony. If the contracts have  
4 different duration terms, the years in which the contracts are no longer tandem  
5 would result in Monsanto incurring price uncertainty and risk.

6 **Q. HAS THE COMPANY PROVIDED ASSURANCES THAT THE**  
7 **DURATION OF THE PROPOSED CONTRACTS WILL BE**  
8 **ALIGNED?**

9 A. Mr. Griswold commits in his rebuttal testimony that both proposed contracts  
10 will have the same duration.

11 **Q. DOES THIS ASSURANCE PROVIDE MONSANTO WITH THE**  
12 **PRICE CERTAINTY AND STABILITY THEY SEEK IN THEIR**  
13 **ELECTRIC COSTS?**

14 A. No, the proposal made by Mr. Griswold provides no such assurances. While  
15 the Company will agree to link the duration of the proposed contracts (which  
16 is a necessary step in creating price certainty and stability) the proposed terms  
17 that govern the value of the contracts remain subject to adjustments. Mr.  
18 Griswold notes that the interruptible agreement would be subject to reopeners  
19 (Griswold Rebuttal, p. 9, line 8). In fact, the impetus to change the value of  
20 the interruptible contract may come from proceedings or task force  
21 investigations in jurisdictions other than Idaho. This places Monsanto in a  
22 most peculiar position whereby their contract value can be altered in forums

1 or proceedings in which they do not and cannot participate. Clearly such a  
2 proposal is unacceptable and would be unacceptable to any entity placed in a  
3 similar situation. It also undermines any attempt to provide price certainty  
4 and stability.

5 **Q. HOW DO YOU PROPOSE THAT THE PRICE CERTAINTY BE**  
6 **OBTAINED?**

7 A. In my direct testimony I argued that price certainty is obtainable through the  
8 more traditional pricing vehicle of a single contract. That position remains  
9 true. However, if the Company proposes to use separate contracts for firm  
10 service and interruptible options, price certainty and price stability will only  
11 be achieved if both contracts have the same duration and are not subject to  
12 reopening clauses. Monsanto will support the two contract approach but only  
13 under the conditions just stated.

14 **Q. ARE THERE ANY OTHER CONDITIONS RELATING TO THE**  
15 **CONTRACTS THAT YOU BELIEVE ARE CRITICAL?**

16 A. I would also suggest that each of the separate contracts, should the  
17 Commission approve a multi-contract structure, be subject to Commission  
18 review and approval. This condition would assure both parties of an impartial  
19 forum through which their concerns could be made.

20

1 **III. SITUS VERSUS SYSTEM TREATMENT OF THE MONSANTO LOAD**

2 **Q. IN MR. TAYLOR'S REBUTTAL TESTIMONY, HE ARGUES THAT A**  
3 **HYBRID APPROACH SHOULD BE ADOPTED REGARDING THE**  
4 **ALLOCATION OF COST AND REVENUES ASSOCIATED WITH**  
5 **THE MONSANTO CONTRACT. DO YOU AGREE WITH HIS**  
6 **CONCLUSION?**

7 A. No, I do not agree. The suggestion of Mr. Taylor is that the firm service  
8 contract be treated in a situs manner while the interruptible contracts are  
9 treated as a system power purchase. As I indicated in my direct testimony, the  
10 issue of allocation, and particularly the issue of allocation of cost and  
11 revenues from special contracts, is currently under investigation in a multi-  
12 state process. That is the proper forum for determination of how special  
13 contracts should be handled since the issue is not isolated to this docket but is  
14 a universal issue within the PacifiCorp system. I find it interesting that Mr.  
15 Griswold would suggest that forums other than this docket can be relied upon  
16 to set the value of interruptibility for Monsanto yet, when it comes to the  
17 question of proper allocation of the Monsanto contracts, the Company seems  
18 unwilling to defer the resolution of that issue to a separate forum (MSP  
19 process).

20

1 **IV. ECONOMIC COST OF BUY-THROUGH OPTION**

2 **Q. HAS THE COMPANY PRESENTED A CONTRACT STRUCTURE**  
3 **THAT WOULD ALLOW MONSANTO THE OPTION OF A ‘BUY-**  
4 **THROUGH’ WHEN ECONOMIC INTERRUPTIONS ARE TAKEN?**

5 A. Yes, Mr. Griswold presents such an option in his discussion of the general  
6 commercial structure of the Company’s proposed contracts (Griswold  
7 Rebuttal, p. 8, lines 20-22). The buy-through option is proposed as part of the  
8 economic curtailment agreement.

9 **Q. HOW DOES THE COMPANY PROPOSE PRICING POWER**  
10 **OBTAINED FOR MONSANTO AS A RESULT OF ENACTING THE**  
11 **BUY-THROUGH OPTION?**

12 A. The proposal is to price the buy-through provision at the Palo Verde market  
13 hub. The replacement power price will be set by the Palo Verde Firm On-  
14 Peak Price multiplied by a monthly factor (percentages ranging from 110% to  
15 130%) representing the monthly hourly shaping (Griswold Rebuttal, Exhibit  
16 No. 10 (BWG-R2), p.4).

17 **Q. DO YOU AGREE WITH THIS PRICING PROPOSAL?**

18 A. No, I do not agree. The Palo Verde Index is traditionally the more expensive  
19 index in the western grid. The Company has not offered pricing from the  
20 Mid-C or the COB index which, under most circumstances will be priced  
21 lower than Palo Verde. The fact that the Monsanto load resides on the eastern

1 side of the PacifiCorp system does not imply that under all hours and all  
2 circumstances power obtained on behalf of Monsanto will be done so through  
3 a purchase at the Palo Verde hub. By setting the price at the Palo Verde  
4 market hub, the Company has created a potential arbitrage condition whereby  
5 they are able to obtain power within the western system at a price that is less  
6 than that prevailing at the Palo Verde hub, yet resell the power to Monsanto at  
7 a higher price. Additionally, the utilizing of any single index may not be  
8 reliable due to a lack of liquidity prevailing at the market hub.

9 **Q. IS THERE A DIFFERENT APPROACH YOU WOULD SUGGEST**  
10 **FOR PRICING THE REPLACEMENT POWER?**

11 A. Yes. The 1992 Contract between PacifiCorp and Monsanto also contained a  
12 provision for buy-through and a standard for pricing the replacement power if  
13 the buy-through option was enacted. Pricing for replacement power was  
14 defined in Section 3.7 of the 1992 Contract as follows;

- 15 (i) When the Power Company has a market for  
16 surplus sales, Monsanto shall have the option to  
17 purchase power and energy at the surplus sales  
18 price, or  
19 (ii) if sufficient power and energy is available to  
20 meet both Monsanto's requirements and the surplus  
21 sales market requirement, Monsanto shall have the  
22 option to purchase the lowest cost energy available  
23 to the Power Company to supply both markets. In  
24 this event, cost of energy to Monsanto shall equal  
25 the cost of energy to Power Company, plus  
26 transmission losses if purchases from sources other  
27 than Power Company are utilized to supply  
28 Monsanto.  
29

1       **Q.     ARE THESE CONDITIONS CONTAINED IN THE 1992 CONTRACT**  
2       **SUPPORTED BY MONSANTO IN THIS PROCEEDING?**

3       A.     Yes, Monsanto would support the valuing of replacement power under a buy-  
4       through provision as indicated in the above statement. These conditions  
5       mirror the buy-through provisions of the PacifiCorp/Monsanto contracts that  
6       existed up to the 1995 Contract. This would provide Monsanto with the  
7       lowest cost replacement power at the time of curtailment.

8       **Q.     ARE THE 1992 TERMS FOR PRICING OF REPLACEMENT POWER**  
9       **USEFUL IN THIS PROCEEDING?**

10      A.     Yes since they provide the lowest cost power to Monsanto and do not create  
11      economic harm to the Company. It is surprising the Company would not  
12      simply adopt these terms in their draft proposal instead of insisting on the use  
13      of the Palo Verde hub market prices. In fact, Mr. Taylor advocates the 1992  
14      contract as a comparable document to the Company's proposed draft contracts  
15      in this proceeding, citing specifically the terms of interruptibility (Taylor  
16      Rebuttal, p. 19, lines 16-20). If the 1992 contract contains terms of  
17      interruptibility comparable to what the Company is now offering as stated by  
18      Mr. Taylor, the two conditions stated above as to pricing replacement power  
19      should be utilized in the new contract.

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

21      A.     Yes.