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September 27, 2007

Jean Jewell, Secretary
Idaho Public Utilities Commission
472 W. Washington Street
Boise, Idaho 83702

Re: *PAC-E-07-5*

Dear Mrs. Jewel:

Enclosed please find for filing in the above matter Monsanto's pre-filed Direct Testimony and Exhibits as follows:

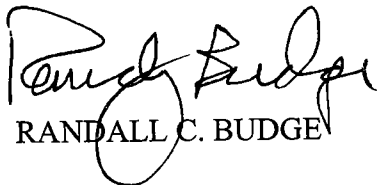
1. James R. Smith with exhibits 201 through 204.
2. Daniel R. Schettler with no exhibits.
3. Kathryn E. Iverson with exhibits 205 through 213.
4. Michael Gorman with exhibits 214 through 238.
5. Confidential Exhibit 213 (KEI-9) and Exhibit 217 (MPG-4) and Michael Gorman Confidential Testimony page 3, all submitted under seal and filed pursuant to Protective Agreement between PacifiCorp dba Rocky Mountain Power and IPUC Staff dated June 26, 2007.
6. Notice of Service.

September 27, 2007

Page 2

Please file the original Public Testimony and Exhibits. Please maintain the confidential filings under seal pursuant to the Protective Agreement. Copies of the same included with the testimony should be provided only to the Commission and those Staff members who have signed the Protective Agreement. This information is not being served upon any other parties excepting PacifiCorp/Rocky Mountain Power.

Sincerely,



RANDALL C. BUDGE

RCB:rr

Enclosures

cc. Service List

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Attorneys for Intervenor Monsanto Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
ROCKY MOUNTAIN POWER FOR APPROVAL)
OF CHANGES TO ITS ELECTRIC SERVICE)
SCHEDULES)
_____)

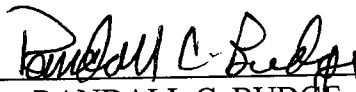
Case No. PAC-E-7-5

MONSANTO COMPANY'S NOTICE OF SERVICE

You will please take notice that MONSANTO COMPANY, by and through their attorneys of record, served the Direct Testimony and Exhibits of Daniel J. Schettler, James R. Smith, Kathryn E. Iverson and Michael Gorman upon the parties to this action by providing said documents to the following individuals in the manner specified in the attached Certificate of Service below.

DATED this 27th day of September, 2007.

RACINE, OLSON, NYE, BUDGE &
BAILEY, CHARTERED

By 
RANDALL C. BUDGE

CERTIFICATE OF MAILING

I HEREBY CERTIFY that on this 27th day of September, 2007, I served a true, correct and complete copy of the foregoing document, to each of the following, via the method so indicated:

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RANDALL C. BUDGE

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION RECEIVED

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IN THE MATTER OF THE APPLICATION OF)
ROCKY MOUNTAIN POWER FOR APPROVAL)
OF CHANGES TO ITS ELECTRIC SERVICE)
SCHEDULES)
_____)

Case No. PAC-E-07-05 IDAHO PUBLIC UTILITIES COMMISSION

**TESTIMONY OF
JAMES R. SMITH**

Direct Testimony of

JAMES R. SMITH

On Behalf of

Monsanto Company

September 28, 2007

**Table of Contents to the
Direct Testimony of James R. Smith**

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EXHIBITS

201	Phosphorus Manufacturing Process
202	Monsanto Curtailment History
203	Interruptible Events
204	Monsanto Rate Change Graph

1
2 **INTRODUCTION**
3

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

5
6 A My name is James R. Smith. I am employed by Monsanto Company at the Soda
7 Springs Plant and my business address is P.O. Box 816, Soda Springs, Idaho
8 83276.

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

11 A I graduated from Utah State University in 1986 with a B.S. in Accounting. I
12 began working for Monsanto in 1988 as an accountant at the Soda Springs plant
13 and have continued to work for Monsanto to date in various capacities. I am
14 currently the Purchasing Lead for the Soda Springs plant and Rock Springs,
15 Wyoming coke plant.

16 **Q WHAT RESPONSIBILITIES DO YOU HAVE FOR PURCHASING?**

17 A I am responsible for all electricity and other purchases at the Soda Springs and
18 Rock Springs plants. During my employment at Monsanto I have been directly
19 involved in all electricity contract negotiations and all electrical contracts entered
20 into between Monsanto and PacifiCorp since 1988. I have also reviewed and am
21 familiar with previous electricity contracts serving the Soda Springs Plant and the
22 related submissions to the Idaho Public Utilities Commission and approval
23 Orders.

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

25 A The purpose of my testimony is to: (1) provide a history and information
26 concerning the operation of Monsanto's Soda Springs Plant; (2) review the

1 history of Monsanto's Special Contracts for Electric Service; (3) discuss the
2 background and status of the current 2007 Electric Service Agreement; (4) discuss
3 pricing methods proposed by PacifiCorp and adopted by the Commission in prior
4 contract approval proceedings; (5) review the history and function of Monsanto
5 interruptibility; (6) discuss past and present methods of valuing Monsanto
6 interruptibility; and (7) discuss economic and other impacts of the Monsanto Soda
7 Springs Plant.

8 **Q PLEASE INTRODUCE OTHER MONSANTO WITNESSES IN THIS**
9 **CASE.**

10 A 1. Daniel Schettler, Vice President of Procurement for Monsanto, will present
11 testimony regarding the production, sale and use of phosphorus in the world wide
12 market, the role and commitments made to the Soda Springs plant and factors
13 necessary for it to remain a competitive and viable facility. Mr. Schettler will also
14 present Monsanto's senior management perspective and will discuss operational
15 and economic factors relating to the 1000 hours of interruption of Monsanto's
16 load.

17 2. Kathryn Iverson of Brubaker & Associates, Inc. will critique and make
18 recommendations regarding PacifiCorp's proposed cost of service studies. Mrs.
19 Iverson will also present testimony valuing Monsanto interruptibility and will
20 make pricing recommendations.

21 3. Michael Gorman of Brubaker & Associates, Inc. will make recommendations
22 regarding adjustments to the Company's claimed revenue requirement and a fair
23 return on common equity and overall rate of return for Rocky Mountain Power.

1
2 **I. HISTORY AND OPERATIONS OF SODA SPRINGS PLANT**

3
4 **Q PLEASE PROVIDE A BRIEF HISTORY AND OVERVIEW OF THE**
5 **OPERATION OF MONSANTO'S SODA SPRINGS PLANT.**

6 A The Soda Springs plant began operations in 1952. Since opening it has operated
7 continuously and without any employee layoffs. The plant produces one product,
8 elemental phosphorus ("P4"), an essential building block for many products.

9 **Q DESCRIBE HOW PHOSPHORUS IS MANUFACTURED.**

10 A Phosphate ore is mined in the mountains east of Soda Springs and transported by
11 truck to the plant. The phosphate ore is calcined in a kiln and then combined with
12 coke, much of which is manufactured at our sister plant in Rock Springs,
13 Wyoming, and with quartzite, which we mine from a quarry west of the plant.
14 The mixture is placed in one of three electric furnaces and energized with
15 electricity, resulting in a chemical reaction liberating the phosphorus as a gas.
16 The phosphorus is filtered, condensed and then shipped to other locations.
17 Exhibit 201 depicts this capital intensive phosphorus manufacturing process.

18 **Q WHERE IS THE PHOSPHORUS SHIPPED AND HOW IS IT USED?**

19 A Most of the phosphorus is shipped by rail and by ship to Monsanto facilities in
20 Louisiana and Brazil. There it is converted to manufacture glyphosate, the active
21 ingredient in Roundup® herbicide. Additional amounts of phosphorus are sold to
22 other entities for use in a variety of products.

23 **Q DESCRIBE THE ELECTRICAL SERVICES AT THE SODA SPRINGS**
24 **PLANT.**

1 A Monsanto currently operates three electric furnaces totaling approximately 162
2 MW, all at the Soda Springs plant. Furnace No. 7 is approximately 46 MW,
3 Furnace No. 8 is approximately 49 MW, and Furnace No. 9 is approximately 67
4 MW, for a total of 162 MW. With approximately 20 MW of auxiliary load, of
5 which 9 MW is "firm" the total load is approximately 182 MW.

6 **Q HOW MUCH ELECTRICITY DOES MONSANTO CONSUME AT THE**
7 **SODA SPRINGS PLANT?**

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

10 **Q ARE THERE OTHER ELECTRIC FURNACES USED TO**
11 **MANUFACTURE PHOSPHORUS?**

12 A Not in the United States, Monsanto's first six electric furnaces to manufacture
13 phosphorus were built and operated in Columbia, Tennessee. That plant closed in
14 1986 when it became uncompetitive to operate, primarily due to rising electricity
15 costs. At the Soda Springs plant Monsanto initially constructed Furnace Nos. 7
16 and 8, which began operating in 1952. Furnace No. 9 was constructed and
17 became operational in 1966 and was the last and largest electric furnace
18 constructed in North America. At that time there were 31 electric phosphorus
19 furnaces in operation in North America. With the closure of the FMC-Astaris
20 Plant in Pocatello in 2001, Monsanto's three electric furnaces are the only ones
21 remaining in operation in the U.S. I have pictures of the FMC furnaces being
22 dismantled in my office to remind me of the importance of remaining

1 competitive. Outside of North America there are furnaces operating in the
2 Netherlands and in China.

3 **Q WHAT WERE THE PRINCIPAL FACTORS RESULTING IN THE**
4 **CLOSURE OF THE OTHER FURNACES IN NORTH AMERICA?**

5 A I am aware of three major factors which contributed to the closures of these other
6 furnaces. First, the rising cost of electricity, which is the largest single cost
7 component in the production of phosphorus. Second, competition from new
8 technology called purified wet acid ("PWA") which competes head-to-head with
9 many end products produced from phosphorus. Third, the elimination of tri-
10 sodium phosphate ("TSP") from laundry detergent. Mr. Schettler will further
11 discuss the P4 global market and competition.

12 **Q ISN'T IT INEVITABLE THAT THE SODA SPRINGS PLANT WILL**
13 **ALSO BECOME NON-COMPETITIVE AND BE SHUT DOWN?**

14 A I strongly believe that the Soda Springs plant can remain competitive and stay in
15 business for the long term. Monsanto has developed specific products and
16 businesses that make our phosphorus more viable and marketable. We have 40
17 plus years of phosphate ore reserves that can be feasibly mined. We have a highly
18 educated and trained work force, committed to the successful long-term operation
19 of the plant. We have practices and experience which enable us to produce P4 in
20 the safest and most environmentally responsible manner in the world. We have
21 and will continue to make the necessary capital expenditures to modernize the
22 operations and meet the latest environmental restrictions.

1 **Q WITH RISING ELECTRICITY COSTS, WHAT IS NEEDED FOR THE**
2 **MONSANTO SODA SPRINGS PLANT TO REMAIN COMPETITIVE?**

3 **A**In my opinion the plant must have affordable electricity at a price that is relatively
4 stable and reliable. While Monsanto's demand on the electrical market has been
5 stable and consistent for many, many years, we are highly concerned about the
6 costly new assets PacifiCorp is constructing to meet the load growth, and the
7 demand for "green" resources in other states. To offset these rising costs
8 allocated to Idaho and Monsanto, Monsanto must be able to achieve
9 commensurate value for the benefits its interruptibility provides to the system.
10 This most important consideration was recognized by the Commission in Order
11 No. 30197 in Case No. PAC-E-06-09 approving the current Agreement stating at
12 page 9:

13 "The Commission also recognizes that the value of interruptible
14 products furnished by Monsanto as well as Monsanto's cost of
15 service will be important considerations in establishing the net rate
16 to Monsanto in the future. Consequently, we expect the parties to
17 address interruptible product valuation in the context of a general
18 rate case when Monsanto's cost of service is determined."
19

20 The interruptible credit should provide Monsanto with a natural hedge
21 which, if appropriately priced, should provide a level of price stability and
22 reasonable net power costs. Simply put, as the cost of electricity goes up, so
23 should the value of the credit derived from the interruption of the Monsanto load.

24 **Q PLEASE EXPLAIN WHY MONSANTO INTERRUPTIBILITY IS**
25 **UNIQUE?**

1 A Monsanto is unlike any other interruptible customer on the PacifiCorp system.
2 The value of Monsanto interruptibility to the PacifiCorp system is unique
3 because of its magnitude, providing 1000 hours and up to 162 MW of
4 curtailments. Additionally, Monsanto interruptions can be made available in a
5 matter of seconds, far quicker than any of PacifiCorp's peaker resources. As
6 will be discussed in greater detail below, under the current Agreement,
7 Monsanto's three furnaces can be interrupted separately as well as collectively in
8 any combination. Interruptions can occur within seconds to meet system
9 emergencies and provide operating reserves, even though two hours notice is
10 required to interrupt for economic reasons. The benefit of these products to the
11 PacifiCorp system is undisputed, even though the price or credit received by
12 Monsanto for these curtailment products has and continues to be a matter of
13 substantial disagreement.

14 AVOIDED generation, transmission and environmental costs are all factors
15 to consider in establishing a proper value for the ability to interrupt the Monsanto
16 load. It is also noteworthy that Monsanto operates its furnaces seven days a week,
17 24 hours a day, 365 days a year, excepting maintenance and repair. This high
18 load factor provides significant advantage to the utility during their off-peak
19 hours, providing a base load to service with its coal generation assets. Monsanto
20 takes service at transmission levels avoiding the usual distribution and customer
21 service costs.

22 **Q HOW HAS MONSANTO'S INTERRUPTIBILITY BEEN VALUED IN**
23 **THE PAST?**

1 A There has been no specific methodology established and accepted by the
2 Commission. How interruptibility has been valued has changed over time.

3 Q PLEASE EXPLAIN.

4 A Prior to the 2003 Contract, the parties always reached an agreement through
5 negotiations establishing the value of interruptibility which was jointly presented
6 to the Commission and approved. The value established in the 2003 Contract was
7 established by the Commission in contested case No. PAC-E-01-16, Final Order
8 No. 29157 dated January 27, 2003. In that case Monsanto had offered up to 1000
9 hours of interruptibility. Monsanto proposed to value interruptibility based upon
10 the avoided cost of a combustion turbine (CT) or "peaker plant". The Company
11 proposed a lost revenue adjustment and recommended a "Black Scholes" pricing
12 model which values economic curtailment based upon projected market prices.
13 Monsanto challenged the Black Scholes pricing model, asserting that the results
14 were illogical. This was because PacifiCorp's pricing model purported to show
15 that economic interruptions greater than 500 hours provided no more value. In
16 fact the model showed a negative value, in essence showing Monsanto would
17 have to pay PacifiCorp for economic curtailment greater than 500 hours. Under
18 those circumstances Monsanto obviously would not offer more hours of
19 interruptions and reduced its offer to 500 hours of economic curtailment with a
20 total of 800 hours. The Commission did not accept either Monsanto's or
21 PacifiCorp's valuation methods and limited total interruptions to 800 hours,
22 consisting of 500 hours of economic interruptions at 67 MW, 288 hours of

1 operating reserve interruptions at 95 MW and 12 hours of system emergency
2 interruptions at 162 MW

3 Regarding Monsanto's peaker proposal the Commission stated at page 12
4 in Final Order 29157:

5 "The peaking resource methodology used by Monsanto results in a
6 wide range of credit values that are dependent upon the type of
7 resource selected, the hours and magnitude of interruption assumed
8 and the amount of energy consumed annually. While we find
9 merit in the adjustments included by Monsanto for reserve margin
10 and transmission losses, we are concerned that the resulting credit
11 values on based on hours and magnitude of interruption that are
12 beyond those deemed appropriate by the Commission in this
13 Order. Moreover, the total peaker costs used by Monsanto
14 (Exhibit No. 246) is considerably higher than the total peaker costs
15 used by Staff for the same peaking resource. (Exhibit No. 101)

16 Therefore, we cannot find the avoided peaker resource to be
17 the definitive methodology for valuing the interruptibility credit."
18

19 In rejecting the Company's proposal the Commission stated on page 11-12:

20 "In assessing the reasonableness of the values produced by the
21 Company's Black-Scholes model, we note, as pointed out by
22 Monsanto, that the model purports to provide neither value to
23 Monsanto nor the Company for the additional or second 500 hours
24 of economic curtailment offered by Monsanto. Exhibit 244 The
25 Commission was disappointed that the Company appeared to be
26 aware of this apparent anomaly yet failed to disclose it to the
27 parties and the Commission. It also does not help in assessing the
28 reasonableness of the model that the economic curtailment option
29 offered by Monsanto was not available in the market and that there
30 are no counter-parties willing to sell this product. The record, we
31 find, cannot support a use of the Black Scholes model as a
32 definitive methodology for valuing the interruptibility credit.
33 Rather, as in most economic forecasts, it serves only to establish a
34 point in an estimated range of reasonableness."
35

36 Ultimately the Commission exercised judgment in establishing an appropriate
37 value for interruptibility stating as follows in arriving at the credit value on page
38 12 of the Order:

1 “As noted by Staff witness Schunke and acknowledged by
2 Monsanto, the ‘cost of service for firm load customers is an
3 imprecise science and establishing the cost of service for an
4 interruptible load is even more difficult, requiring considerable
5 judgment.’ As a result of inconsistencies in both methods used to
6 derive the value of the interruptibility credit, we find that a credit
7 value of 7.48 mills/kWh representing the mid-point of a range
8 established by the two methodologies is reasonable. In fact, the
9 record does not support any finding that is more precise or exact.”

10
11 The price under the current 2007 Agreement was reached by agreement
12 negotiated by the parties, submitted to the Commission and approved by the
13 Commission. As discussed below, the 2007 Agreement for the first time will
14 have both firm and interruptible rates based on tariff schedules subject to
15 adjustment in general rate cases. Accordingly, the Commission will again be
16 required to value various mechanisms for establishing Monsanto’s interruptible
17 credit and exercise sound judgment in establishing a net rate to Monsanto in the
18 future. This was recognized by the Commission when the 2007 Contract was
19 approved in Case No. PAC-E-06-09, Order No. 30197, where the Commission
20 stated:

21 “The transition of Monsanto from contract to tariff standard
22 customer, we find, will facilitate future rate adjustments and
23 should serve to keep Monsanto’s rate better aligned with its cost of
24 service. We appreciate that in moving to a tariff-based rate
25 Monsanto has given up some of the certainty provided in a
26 contract-based rate structure. In doing so, however, we note that
27 Monsanto was the last of PacifiCorp’s contract customers to make
28 the transition. While tariff rates may present Monsanto with new
29 challenges, we perceive the regulatory result to be positive and one
30 of greater equity. Under the submitted agreement Monsanto’s
31 future rates after January 1, 2008, will be adjusted using the same
32 process as all other customers.”

1 **III. HISTORY OF MONSANTO'S ELECTRICAL CONTRACTS**

2 **Q PLEASE PROVIDE A BRIEF HISTORY OF THE ELECTRIC SERVICE**
3 **CONTRACTS SUPPLYING THE SODA SPRINGS PLANT.**

4 **A** Monsanto has been a special contract customer of PacifiCorp and its predecessor
5 Utah Power & Light Company since 1951. The 1951 contract was for a term of
6 10 years and supplied 54 MW of interruptible and 6 MW of firm power. After
7 No. 9 Furnace became operational, an additional contract was entered into in 1965
8 to supply an additional 71 MW for 10 years. This contract was also interruptible
9 for economic and emergency reasons. These contracts continued to be extended
10 until replaced by a single contract in 1991 which supplied 154 MW interruptible
11 and 9 MW of firm power. The 1991 contract provided that the power supplied to
12 Monsanto could be interrupted for both emergency and economic purposes. The
13 1991 contract was replaced by the 1995 contract providing for 206 MW of
14 interruptible and 9 MW of firm power. This contract allowed Monsanto to be
15 interrupted for system emergency purposes but not for economic reasons. This is
16 the first and only contract that did not provide for economic interruptions. The
17 rates and terms of all special contracts up to this point were arrived at by
18 agreement negotiated between the parties and approved by the Commission.

19 After PacifiCorp was acquired by Scottish Power in 1999, the parties were
20 unable to arrive in agreement by negotiations as in the past. In fact, Monsanto
21 and PacifiCorp became engaged in litigation in U.S. District Court for the District
22 of Idaho, Case No. CIV-01-0607-E-BLW to establish a termination date for the
23 1995 contract. By reason of the District Court's decision in favor of Monsanto's

1 position, affirmed by the Ninth Circuit Court of Appeals, and Commission Order
2 No. 29918, December 31, 2002 was established as the termination date of the
3 prior 1995 contract. The rates and terms of the 2003 Contract were established by
4 the Commission in Order Nos. 28918, 29157 and 29206 as a result of contested
5 proceedings in Case No. PAC-E-01-16.

6 The 2003 Contract contained unique features which included 800 hours of
7 interruption options. These consisted of 288 hours of operating reserves, 12 hours
8 of system integrity interruptions and 500 hours of economic interruptions.
9 Monsanto was provided with the option of buying through interruptions at
10 replacement energy costs at an adjusted index price. As a result of taking both
11 firm and interruptible service, the overall net rate to Monsanto, after excluding
12 any economic curtailment buy-through, averaged 22.97 mills per kWh. While the
13 800 hours of interruption has a negative affect on Monsanto's production and
14 increases the phosphorus cost per pound, the resulting overall rate enabled
15 Monsanto's Soda Springs plant to continue to operate competitively.

16 **IV. REVIEW OF MONSANTO'S CURRENT 2007**
17 **ELECTRIC SERVICE AGREEMENT**

18 **Q PLEASE DESCRIBE THE CURRENT CONTRACT.**

19 **A** The current contract became effective January 1, 2007. After Mid-American
20 Energy Corporation's acquisition of PacifiCorp from Scottish Power closed in
21 March 2006, the parties entered into a new Electric Service Agreement on May
22 18, 2006 (2007 Agreement) which became effective January 1, 2007. The 2007
23 Contract was approved by Commission Order No. 30197 entered December 18,
24 2006, in Case No. PAC-E-06-09. That case arose out of PacifiCorp's Application

1 in Case No. PAC-E-06-04 seeking to revise rates in electric tariff schedules 10
2 (irrigation), 400 (Monsanto Company) and 401 (Nu-West Industries). As a result
3 of the stipulations entered into with these three parties, tariff schedules were
4 revised resulting in a net increase in base rates of \$8.25 million (5.1 percent for
5 retail customers), with rates increasing \$6.8 million (16.5 percent for Monsanto),
6 \$150,000 (4 percent for Nu-West), and \$1.7 million (5 percent for irrigation).

7 **Q PLEASE DESCRIBE THE LENGTH OF THE CURRENT 2007**
8 **AGREEMENT.**

9 A The 2007 Agreement became effective January 1, 2007, with an initial duration
10 lasting through December 31, 2009. The Agreement will automatically renew for
11 successive one-year terms unless and until either party gives not less than 180
12 days notice of termination.

13 **A PLEASE DESCRIBE THE BASIC TERMS OF THE 2007 AGREEMENT.**

14 The 2007 Agreement contains three significant changes from the 2003
15 Agreement:

16 (1) the firm rate was increased 16.5% - \$6.8 million;

17 (2) the hours of interruptions were increased 25%, from 800 hours to
18 1000 hours;

19 (3) a new price adjustment mechanism was added with rates based upon
20 tariff rate changes after January 1, 2008.

21 **Q DID MONSANTO AGREE UPON ANY METHOD TO ESTABLISH THE**
22 **VALUE OF THE INTERRUPTIBLE SERVICE FOR PURPOSES OF THE**
23 **2007 CONTRACT?**

1 A No. While PacifiCorp presented various cost-of-service studies and other
2 methodologies, none were agreed to or accepted. We simply negotiated a net
3 price which both parties concurred was fair, just and reasonable under the
4 circumstances. At that time Monsanto (and we thought PacifiCorp) believed that
5 the new rate increase coupled with the additional hours of interruptions,
6 effectively brought Monsanto to a rate that was fair, just and reasonable, at or near
7 true cost of service and fairly valuing interruptibility as of January 1, 2007. Had
8 that not been the case the parties would not have reached a mutually acceptable
9 agreement. Otherwise the parties would not have achieved the benefit of their
10 bargain, or were not negotiating in good faith.

11 **Q PLEASE DESCRIBE HOW FUTURE PRICE ADJUSTMENTS WILL**
12 **OCCUR.**

13 A Pursuant to Section 2.2 of the Agreement, the prices specified in Section 4.1 of
14 the Agreement and in Idaho Electric Service Schedule No. 400 are subject to
15 adjustment resulting from any general rate case or other filing by PacifiCorp after
16 January 1, 2008, effective on the Commission authorized date.

17 **A ARE PRICE ADJUSTMENTS MANDATORY UNDER THE CURRENT**
18 **AGREEMENT?**

19 A No. Like other customers, adjustments to Monsanto's tariff rate schedule are
20 subject to the exercise of sound discretion by the Commission. However, I
21 respectfully suggest the Commission resist any urge to change the new contract
22 rates that just went into effect January 1, 2007. By entering into the new contract
23 Monsanto already just received a substantial increase. Given the new contract,

1 its complexity and the increased interruptibility benefits to the system, little or no
2 increase to Monsanto is appropriate.

3 **Q IS THIS THE FIRST TIME MONSANTO'S RATES HAVE BEEN**
4 **SUBJECT TO TARIFF RATE ADJUSTMENTS?**

5 A Yes.

6 **Q WHY DID MONSANTO AGREE TO CHANGE TO TARIFF BASED**
7 **RATES AFTER SOME FIFTY PLUS YEARS AS A SPECIAL CONTRACT**
8 **CUSTOMER?**

9 A Subjecting Monsanto to tariff rate adjustments after more than fifty years as a
10 special contract customer represents a substantial departure from all past
11 contracts. This was a considerable concession made by Monsanto in order to
12 establish a new and improved business relationship with the new PacifiCorp,
13 which disliked special contracts and prefers to have all customers on tariff based
14 rates. More importantly, Monsanto was mindful of the desires of the Commission
15 Staff and PacifiCorp to align the timing of the Monsanto rate changes with that of
16 other customers and to overcome perceived problems with cost of service studies
17 and the allocation of costs and revenues on an inter-jurisdictional basis.

18 **Q WHAT DID MONSANTO GIVE UP BY MOVING TO TARIFF BASED**
19 **RATES?**

20 A Monsanto gave up price certainty and stability for a known contract term which it
21 had enjoyed previously. By moving to tariff based rates, Monsanto has given up
22 control over the frequency and amount of pricing changes. PacifiCorp now solely
23 controls when rate changes are filed and the Commission now ultimately controls

1 the amount of price changes. Monsanto has no opportunity to negotiate a tariff
2 rate, but each time a new rate adjustment case is filed Monsanto must now fully
3 participate at considerable time and expense to assess, evaluate and try to protect
4 electricity price changes.

5 Price certainty and stability remain very important to Monsanto's business
6 which is very capital intensive and competitive. In recent years Monsanto has
7 spent and is committed to spend millions of dollars on necessary projects at the
8 Soda Springs plant. We are working on permitting a new mine and developing
9 the infrastructure needed to safely operate it, which takes capital. Without some
10 stability in knowing what the cost of production will be, or if the operation will be
11 profitable, it makes committing new capital dollars to the Soda Springs plant very
12 difficult. Mr. Schettler will discuss this problem as one of Monsanto's senior
13 level managers.

14 **Q WHY DID MONSANTO RAISE THE HOURS OF INTERRUPTION**
15 **FROM 800 TO 1000 HOURS?**

16 **A** Monsanto reluctantly agreed to raise the hours of interruption from 800 to 1000
17 hours, a 25 percent increase from the previous 2003 Contract. Both parties
18 continue to place considerable value on the size, timing and dependability of
19 Monsanto interruptions. The agreed-upon interruptible credit was a matter of
20 compromise necessary to achieve the agreement both parties strongly sought. The
21 value agreed upon was not based upon any agreed upon methodology.

1 Q SINCE THE SCOTTISH POWER MERGER IN 1999 AND CONTINUING
2 THROUGH THE MID-AMERICAN MERGER IN 2006 HOW HAVE
3 MONSANTO'S RATES INCREASED AS COMPARED WITH OTHER
4 IDAHO CUSTOMERS?

5 A Monsanto's rates have gone up significantly and more frequently than other
6 customers. When PacifiCorp and Scottish Power's merger was approved in Order
7 No. 28213 issued November 15, 1999, in Case No. PAC-E-99-01, all customers
8 except Monsanto received a \$6.4 million merger credit allocated among
9 PacifiCorp's retail customers, \$1.6 million per year for the years 2000 through
10 2003. Next, on June 7, 2002, the Commission entered Order No. 29034 in Case
11 No. PAC-E-02-1 approving a proposed Settlement Agreement which resulted in a
12 34% decrease for general service customers, 28.1% decrease for residential
13 customers, 28% decrease for irrigation customers, and a maximum of 4% increase
14 for Schedules 6, 9, 10 and 13. Monsanto, as a Special Contract customer, did not
15 share in these decreases. Moving forward, on January 1, 2003, pursuant to Order
16 No. 29157 in Case No. PAC-E-01-16, Monsanto's firm rates increased January 1,
17 2003, 24.1%, plus Monsanto provided 800 hours of interruptions, while other
18 customers' rates remained unchanged.

19 Despite these significant and disproportionate increases to Monsanto,
20 PacifiCorp's current filing proposes to raise Monsanto's firm price another 24.1%
21 and net rates 32.9% (increasing the net price of \$25.55 per MWH to \$33.96 per
22 MWH) as contrasted with a 10.3% overall price increase for other Idaho
23 ratepayers. PacifiCorp's filing and news releases indicated Monsanto's rate were

1 proposed to increase 21.4%, which is correct as to firm rates. However, I
2 calculate that our net rate will increase from \$25.55 per MWH to \$33.96 per
3 MWH, or 32.9%.

4 **Q HAVE YOU PREPARED AN EXHIBIT TO REFLECT RECENT**
5 **CHANGES IN MONSANTO'S PRICES AS COMPARED WITH OTHER**
6 **CUSTOMERS?**

7 A Yes. I have prepared Exhibit 204 to reflect changes in Monsanto's rates since
8 1995 as compared to the rates of other customers based on information PacifiCorp
9 has produced in this case in response to discovery requests. Exhibit 204 page 1
10 is a graph reflecting rate changes since 1995. Page 2 of this exhibit reflects the
11 changes on a percentage basis. Both are prepared based upon PacifiCorp's
12 response to Monsanto Data Request 7.1, Exhibit 204 page 3. As can be seen from
13 Exhibit 204, Monsanto's rates have dramatically and disproportionately increased
14 since 2003 compared to other customers. If PacifiCorp's proposed increase is
15 approved, Monsanto's net rates will have increased an incredible 83.57% since
16 2003.

17 Quite frankly, I cannot understand or accept how PacifiCorp can now
18 justify disproportionately increasing Monsanto's firm rates an additional 24.1%
19 and net rate an additional 32.9% on the back of the recent increases. This
20 certainly constitutes rate shock and does not meet the test of fair, just and
21 reasonable rates under these circumstances.

22 **V. HISTORY OF INTERRUPTIONS**

1 **Q HAVE YOU PREPARED AN EXHIBIT REFLECTING THE HISTORY**
2 **OF CURTAILMENTS AT THE SODA SPRINGS PLANT?**

3 A Yes. Exhibit 202 reflects the Soda Springs plant curtailment history from 1986 to
4 date. It was prepared by me and is based upon the daily logs maintained by our
5 operators.

6 **Q PLEASE DESCRIBE EXHIBIT 202 AND 203.**

7 A Exhibit 202 reflects from 1986 through September 24, 2007 date the total annual
8 curtailments in KWH by type. It also shows by year the total amounts paid by
9 Monsanto to buy-through curtailments. Exhibit 203 reflects the curtailments by
10 month and year from 1992 through September 24, 2007. It shows that
11 curtailments are taken every month of the year, although most are taken in the
12 summer and winter peak months. While the types and amounts of curtailments
13 have varied over the years based on the different contracts and PacifiCorp's
14 needs, all of our special contracts since 1952 have contained provisions allowing
15 PacifiCorp (and its predecessor Utah Power) to interrupt Monsanto's load. As
16 shown in Exhibit 202 there were no operating reserve or economic curtailments
17 only under the 1995 contract because there was surplus energy in the market at
18 that time and PacifiCorp had no need for it.

19 **Q DO YOU EXPECT PACIFICORP TO USE ALL OF THE HOURS OF**
20 **INTERRUPTIONS AVAILABLE THIS YEAR?**

21 A Yes. PacifiCorp representatives have indicated to me that all hours of economic
22 interruptions will be utilized.

