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IDAHO PUBLIC
UTILITIES COMMISSION

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 AND A PRICE INCREASE OF $27.7 MILLION, OR APPROXIMATELY 13.7 PERCENT	)	**CASE NO. PAC-E-10-07**

DIRECT TESTIMONY OF

JAMES R. SMITH

(Economic Valuation of Monsanto Interruptible Products)

ON BEHALF OF

MONSANTO COMPANY

December 22, 2010

1 **Q** **Please state your name, employer and business address.**

2 A My name is James R. Smith. I am employed by Monsanto Company at the Soda

3 Springs Plant and my business address is P.O. Box 816, Soda Springs, Idaho 83276.

4 **Q** **Are you the same James R. Smith who previously filed testimony in this**

5 **proceeding?**

6 A Yes, I am. On November 1, 2010 I provided testimony as to the operation of

7 Monsanto's Soda Springs Plant, along with information on the current 2008 Electric

8 Service Agreement, loss of market share, and economic and other impacts concerning

9 the Soda Springs Plant.

10 **Q** **What is the purpose of your testimony?**

11 A The purpose of this testimony is to present additional facts relevant to the second

12 phase that will establish a rate for Monsanto's interruptible power in accordance with

13 the Commission's Order No. 32098 entered October 22, 2010.

14 **Q** **Have Monsanto's rates increased in recent years?**

15 A Yes. In 2006 Monsanto's rates increased 16.5% pursuant to Stipulation approved by

16 the Commission in Order No. 30197, Case No. PAC-E-06-09. Pursuant to Stipulation

17 approved by the Commission in Order No. 30482, Case No. PAC-E-07-05,

18 Monsanto's rates increased another 21.5% over three years, consisting of 13.5% in

19 2008, another 3% in 2009 and another 5% in 2010.

1 **Q Were the Company's valuation methodologies presented in these cases agreed to**
2 **by Monsanto or established by the Commission?**
3 A No. The valuation methodologies presented by the Company were not agreed to by
4 Monsanto nor adopted by the Commission in either of these cases. In fact, in Order
5 No. 30482 the Commission specifically acknowledges on p. 8 that: "the curtailment
6 valuation for Monsanto is based on a "black box" determination with no party
7 accepting a specific methodology for setting this valuation.

8 **Q For how long has Monsanto purchased interruptible power from PacifiCorp and**
9 **its predecessors?**
10 A Monsanto has been served as an interruptible customer for nearly 60 years from
11 PacifiCorp and its predecessors. While the terms of the various contracts providing
12 interruptible power have varied over the years, all have provided the Company the
13 right to interrupt Monsanto's load. Monsanto's long-term plans are to continue to take
14 service as an interruptible customer for our entire load, except for the 9 MW of firm
15 power.

16 **Q Over the last three years have the number of hours of curtailment also increased?**
17 A Yes. The hours of economic curtailments increased from 800 in 2008 to 830 in 2009,
18 and to 850 in 2010. When the operating reserves and system integrity hours are added
19 in, the total interruptible hours for 2010 were 1,050.

1 **Q Does Monsanto propose to change the number of hours or other terms and**
2 **conditions regarding Monsanto's load?**
3 A No. Monsanto proposes no change to the hours or other curtailment option terms.
4 Nor has the Company proposed any changes. I am unaware of any problems with the
5 current operation of the curtailment provisions contained in the contract. However,
6 Monsanto would be willing to consider any changes that would provide greater
7 benefits to the Company or reduce Monsanto's rates, provided that Monsanto's current
8 production is not diminished.

9 **Q Mr. Walje's rebuttal testimony on page 12, lines 9-13, states: "If Monsanto was**
10 **truly a non-firm customer as they claim and would like you to believe, Rocky**
11 **Mountain Power's dispatch office would be calling Monsanto each day to let**
12 **them know which hours of that day they could run their furnaces, because we**
13 **need the electric capacity for customers who do pay for firm service, which is**
14 **obviously not the case." Do you agree with that statement?**
15 A Absolutely not. Mr. Walje's testimony displays a total lack of understanding how the
16 Company actually curtails Monsanto's service, and it is apparent he has never
17 examined either the Company's or Monsanto's curtailment logs. In fact, the
18 Company's dispatch office calls Monsanto throughout the year stating exactly when,
19 what type, how large and how long they want to interrupt service to Monsanto.
20 Monsanto immediately responds to every request and have at all times fully complied
21 with the contract terms. Accordingly, the Company does in fact directly control when
22 Monsanto's furnaces run.

1 Q **Are Monsanto's furnaces available to interrupt throughout the entire calendar**
2 **year?**
3 A Yes, they are. Our records and theirs reflect interruptions in most months of the year
4 although they are mostly concentrated during the summer peak months.

5 Q **Do you maintain logs of the curtailment requests received from PacifiCorp?**
6 A Yes. Exhibit 252 is a copy of our operators' logs reflecting the curtailments in 2007
7 through 2010 by type, date, length and amount. These logs also reflect that Monsanto
8 typically curtails in a matter of seconds from when the request is received.

9 Q **Where are the curtailment options defined and what do they consist of?**
10 A Annual curtailments for system integrity, for operating reserves and for economic
11 reasons are set forth in Exhibits A and B to the 2008 Agreement, Exhibit 252. For
12 operating reserves the Company can curtail 95 MW for 188 hours. For system
13 integrity the Company can interrupt up to 162 MW for 12 hours. For economic
14 curtailment they can take up to 67 MWH for up to 850 hours.

15 Q **Does Monsanto have any right to direct the interruptions?**
16 A No.

1 **Q Does Monsanto ever curtail all three furnaces at the same time?**

2 A Yes, as I explained earlier 162 MW can be taken for system integrity. The most recent
3 System Integrity event was just this past September 15, 2010 when PacifiCorp
4 dispatchers requested that all three furnaces be interrupted.

5 Furthermore, economic curtailments and interruptions for operating reserves
6 can be taken simultaneously resulting in a reduction of 162 MW. For example, on
7 July 18, 2010, furnace #9 (67 MW) was called for economic curtailment from 8:30
8 AM to 11:30 PM (Mountain Time). At 4:58 PM that same day, PacifiCorp requested
9 an operating reserve interruption which meant that we shut down furnaces #7 and #8
10 (95 MW). As another example, on July 20, 2010, our furnace #9 was called for
11 economic curtailment from 9:30 AM to 11:30 PM, and two different operating reserve
12 interruptions occurred at 5:16 PM and 8:13 PM, again shutting down furnaces #7 and
13 #8. So even during an economic curtailment, operating reserves have priority and
14 PacifiCorp can call upon the 95 MW.

15 **Q Has PacifiCorp ever taken more than they are entitled to under the 2008**
16 **Agreement?**

17 A Yes. The most recent time was in 2008 when PacifiCorp requested more system
18 integrity hours to deal with emergency situations and we provided it to them. Soda
19 Springs Plant operators are told to comply with every request from PacifiCorp
20 dispatch personnel. I, along with counterparts from Rocky Mountain Power, review
21 voice tapes and records to determine if the curtailment followed the 2008 Agreement,
22 and decide how to categorize the event.

1 Q **Has PacifiCorp demonstrated through its own actions the importance of**
2 **Monsanto interruptibility?**
3 A Most certainly. PacifiCorp's own Integrated Resource Plans clearly demonstrate they
4 value and count on Monsanto interruptibility as a resource for planning purposes at
5 least through 2019. The increase in the total hours of interruption and flexibility in
6 recent contracts surely demonstrates importance to the Company. The fact that the
7 Company actually takes interruptions in most months and uses most if not all of the
8 total available hours of interruptions each year further evidences importance to the
9 Company.
10 Q **On page 12, lines 17-18, Mr. Walje states: "The Company has been working for**
11 **over two decades to bring Monsanto to full cost of service." Do you agree with**
12 **this statement?**
13 A Absolutely not. It is unimaginable that Mr. Walje could reach this conclusion and his
14 testimony indicates that either he has never reviewed or simply chose to ignore the
15 Company's filings and the Commission's Orders, at least back to 1990.

16 Q **Have you reviewed various applications and other papers filed by the Company**
17 **with the Commission as well as the various Orders of the Commission dealing**
18 **with Monsanto's cost of service from 1990 forward in order to rebut this**
19 **allegation by the Company that Monsanto has been under cost-of-service for over**
20 **two decades?**

1 A Yes, I have.

2 **Q Based on your review of the Company's filings and the Commission's Orders,**
3 **what do you conclude?**

4 A Up until recently cost of service studies were not utilized for the purpose of setting
5 Monsanto's rates. It was recognized by Monsanto and the Company that Monsanto
6 was served out of operating reserves with no plants built or needed to meet its
7 interruptible demand and service. Instead, Monsanto was priced based upon covering
8 the variable costs, transmission costs and making a reasonable contribution to fixed
9 costs. Only in recent years has cost-of-service methodology been looked to in
10 establishing Monsanto's rates.

11 In Docket No. PAC-E-01-16, where the Commission entered Final Order No.
12 29157 dated January 27, 2003, the Commission set a rate for Monsanto that was
13 deemed fair, just and reasonable, but did not adopt any specific cost-of-service study.
14 Since that time Monsanto's rates have continued to increase but all of those occurred
15 by reason of settlement stipulations approved by the Commission, and in particular no
16 methodology was agreed upon for the valuation of Monsanto's interruptibility. In
17 approving the various stipulations in prior years, the Commission found the rates to be
18 fair, just and reasonable.

19 **Q Please describe in greater detail the various Company filings and Commission**
20 **Orders that you believe support and establish the conclusions you discuss above**

1 **and undermine the credibility of Mr. Walje's testimony that Monsanto has been**
2 **under cost-of-service for more than twenty years.**
3 A I discuss each item in chronological order in Attachment A to my testimony.

4 **Q Mr. Clements' Supplemental Testimony at page 6 seemed to suggest that**
5 **Monsanto has had some type of preference for shorter term contracts with**
6 **PacifiCorp. Is that an accurate characterization?**
7 A No. Price certainty and stability has always been highly important to Monsanto
8 because of the large capital expenditures and long-term planning requirements for
9 permitting, developing and operating our phosphate ore mines. The Commission has
10 recognized the importance of price certainty and stability to Monsanto in Order No.
11 30482, stating at page 12:

12 "Affordable electricity at a price that is relatively stable and reliable is
13 important to Monsanto."

14 It is PacifiCorp, not Monsanto, that has sought shorter-term contracts,
15 particularly in recent years when the contracts have been for three years or less. Of
16 greatest concern to Monsanto is the fact that since our contracts are now tied to tariff
17 rate changes, PacifiCorp controls when rate changes occur and the associated pricing.
18 Furthermore, the Company's filing in this case suggests a continuing pattern of multi-
19 billion dollar capital investments over the next several years, indicating the Company
20 will be making frequent, if not annual, general rate case filings in order to place these
21 expenditures into rate base and earn a rate of return. Mr. Clements is mistaken in that
22 Monsanto does not desire a longer term agreement with the Company.

1 **Q Are you aware of longer term contracts PacifiCorp has entered into with other**
2 **interruptible customers?**
3 A Yes. In 2006, PacifiCorp signed a seven (7) year agreement with an interruptible
4 customer lasting until December 31, 2013, and in 2009 signed a five (5) year
5 agreement with another interruptible customer through December 31, 2014. Monsanto
6 has not had a contract greater than three years since the 1995 contract terminated at the
7 end of 2003.
8 In addition, these other interruptible contracts include provisions for handling
9 rate changes over the contract term that are not based on contentious cost of service
10 issues and suspect valuation methodologies. For example, both the rates and
11 interruptible valuation of the 5-year contract are adjusted each year by the same
12 percentage change, if any, as Utah rates in general change. This contract also includes
13 "highest" and "lowest" index adjustments that provide a "ceiling" and "floor" to price
14 changes. Those types of mechanisms would help Monsanto to have a longer term
15 contract while keeping their rate impact in line with the overall system increase for
16 Idaho.
17 While our rate may change frequently since it is now tied to tariff changes,
18 there is no reason the other contract terms should not remain in place long-term. This
19 would dispel any doubt that Monsanto's load will remain interruptible and used as a
20 demand side resource to the Company for years to come.

1 **Q Do you find other troubling inconsistencies with Mr. Clements' Supplemental**
2 **Testimony?**
3 A Yes. On page 4, lines 11-15, Mr. Clements suggests that the Company follows a
4 "customer indifference" approach and seeks to pay industrial customers for
5 interruptible products the same price the Company would pay to acquire those same
6 products from other sources, "such as the market or its own resources." This seems to
7 suggest that the Company would treat the demand side resource such as Monsanto
8 equally to constructing its own peaker plant or acquiring a new windmill. Despite
9 paying lip service to this purported "customer indifference" approach, Mr. Clements
10 seems to ignore what it costs the Company to acquire its own new resources,
11 advocating on page 19 for a type of energy market price resulting from the Front
12 Office and GRID models, while discarding the peaker resource approach. It seems
13 rather obvious that the Company's honest preference is to build and own its own
14 resources in order to benefit from the opportunity to earn a favorably high rate of
15 return on common equity.
16 Mr. Clements has also asserted that absent a Commission decision or
17 stipulation between the two parties by December 31, 2010, Monsanto will receive a
18 bill beginning January 1, 2011 at 100% firm rates. The Commission has ruled in its
19 Order No. 32098 that Monsanto's interruptible credit will continue at its present level
20 "until the matter is decided by the Commission" and that "all other service terms in the
21 2008 Agreement shall remain unchanged." (p. 5)

1 **Q Do you have any further comments to make on the Company's valuation of**

2 **Monsanto's interruptibility?**

3 A Yes. Monsanto has always been willing to work with the Company in structuring the

4 curtailment hours and terms of Monsanto's interruptibility in a manner that maximizes

5 the benefit to the Company and enhances value to Monsanto. It is very disappointing

6 and frustrating for Monsanto to learn in this case that PacifiCorp now seeks approval

7 to de-value Monsanto's interruptibility by over 60%. At the same time the Company

8 is trying to diminish the value of Monsanto as a demand response resource, it

9 continues to build new wind generation, gas peaker plants and other resources at

10 increasingly higher prices and demanding full recovery of both capital and operating

11 costs. Surely if the Company honestly is "customer indifferent" it should have no

12 problem valuing Monsanto curtailment the same as its own resources. To do

13 otherwise is simply disingenuous.

14 **Q. Does this conclude your testimony?**

15 A. Yes.

Chronology of Cases

1. Case No. UPL-E-90-1

In Case No. UPL-E-90-1, David L. Taylor filed testimony dated April 30, 1990, where he stated on page 1: "I am also responsible for the development of preparation of the Company's cost-of-service studies." On page 15 to Mr. Taylor's testimony in response to a question regarding how special contract customers have been treated in the cost-of-service study, he provided the following answer beginning at line 18: "The non-firm portion of special contract loads including those in UP&L's other jurisdictions are not allocated any cost directly in the embedded cost-of-service study." Mr. Taylor's testimony makes it clear that Monsanto could not have been under cost-of-service at that time because it was not even included in their cost-of-service studies.

2. Case No. UPL-E-92-2

Next is Order No. 24220 issued by the Commission in Case No. UP&L-E-92-2. This case was filed by Utah Power & Light Company for approval of a Power Supply Agreement entered into July 3, 1991, with Monsanto. The Order states at page 2: "According to the Application, demand charges are not assigned to Monsanto's interruptible service because the Company provides that service to Monsanto out of its operating reserves (i.e., generation plant is not built to meet an interruptible demand)." The Application states that the prices for interruptible service under the proposed Agreement are expected to cover the Company's variable energy costs, transmission costs, and make a contribution to fixed costs over the terms of the contract . . .". The findings of the Commission in Order No. 24220 are set forth in page 5 as follows:

> The rates for interruptible service, set forth in the Agreement, will cover UP&L's variable energy costs, transmission costs and make a contribution to fixed costs over the term of the contract. Furthermore, the Company's most recent cost-of-service study revealed that Monsanto's firm rates provided a rate of return <u>at or above the jurisdictional rate of return for UP&L's Idaho customers</u>. Based on the foregoing, we hereby find that the rate for both interruptible and firm service set forth in the Power Supply Agreement are fair, just and reasonable. (emphasis added)

Quite obviously, at the time of this 1992 Order, Monsanto was paying rates that were above what was reflected in the Company's cost-of-service study, not below as claimed by Mr. Walje.

3. Case No. UPL-E-95-4

The next case was in 1995 when the Company filed Case No. UPL-E-95-4, an Application seeking approval of a Power Supply Agreement with Monsanto dated November 1, 1995. The Application included an attached Technical Assessment Package. Under Section 8 dealing with "Revenue and Cost Comparisons", pages 5-7, the Company made the following statements:

> "Since PacifiCorp has served Monsanto for over 40 years, no incremental resources need to be acquired to continue serving the customer. The Company presents this analysis as an upper bound for contribution to fixed costs." (p. 5)

> "These contributions serve to reduce the revenue requirements otherwise borne by the Company's other customers; thus, these customers will enjoy an economic benefit flowing from the new agreement." (p. 6)

> "Other customers served by PacifiCorp will benefit from Monsanto's continued contribution to fixed costs."

The Commission approved the 1995 Contract and no indication was given in the Company's filing or in the approval Order that Monsanto was paying anything less than cost-of-service or that the rates set were anything but fair, just and reasonable. As such there is certainly no basis for Mr. Walje to claim in 1995 that Monsanto was under cost-of-service.

4. Case No. PAC-E-06-09

In Case No. PAC-E-06-09 the Commission issued Order No. 30199 on December 18, 2006, approving a Settlement Agreement which provided for Monsanto's rates to increase 16.5 percent. The Commission found these rates to be fair, just and reasonable in approving the Stipulation. Again, in this 2006 case Monsanto's established rates by Settlement Stipulation again were found to be fair, just and reasonable, and there is no indication given in the Stipulation or the Order to the contrary.

1 **5. Case No. PAC-E-07-05**

2 In Case No. PAC-E-07-05 the Commission entered Order No. 30482, again approving
3 a Stipulated Settlement Agreement which provided for Monsanto's rates to increase 13.5
4 percent in 2008, 3 percent in 2009 and 5 percent in 2010, a total of 21.5 percent, as contrasted
5 with a 6.2 percent overall average increase for all customers. Again, there was no agreement
6 concerning cost-of-service and no acceptance of any methodology. In fact, page 8 of the
7 Order stated: "The curtailment for Monsanto is based on a "black box" determination with no
8 party accepting any specific methodology for setting this valuation." The Commission stated
9 on page 12 of the Order: "The interruptible products, we find, provide operational benefits to
10 PacifiCorp. We find the products to be priced at a level commensurate with the value they
11 represent today." (Emphasis added.)

12 **6. Docket No. PAC-E-08-07**

13 Mr. Walje's testimony again asserts that there was some cost-of-service methodology
14 established in the most-recent 2009 rate case finding Monsanto's rates to be under cost-of-
15 service. This again is inaccurate. In Order No. 30783 entered April 16, 2008, a Settlement
16 Stipulation was approved providing for an increase of the rates to all other parties, but
17 excluding Monsanto and Agrium. Nowhere in Order 30783 was any cost-of-service
18 established for Monsanto because Monsanto's rates had just increased in Case No. PAC-E-07-
19 05 (Order No. 30482) discussed above, and they were not subject to further adjustment prior
20 to January 1, 2011 as recognized by the Commission in Order No. 30783 at page 9.