Q. Please state your name and business address for the record.

A. My name is Andrea Coon. My business address is 160 E. 300 S. SLC, UT.

Q. For which party will you be offering testimony in this case?

A. I will be offering testimony on behalf of the Utah Division of Public Utilities.

Q. What is your position and duties with the Division of Public Utilities?

A. I am a Utility Analyst for the Division of Public Utilities. As such, my duties include investigating utility cases that come before the Public Service Commission. I primarily focus on cases involving PacifiCorp.

Q. Have you conducted an investigation and analysis of the testimony presented in this case?

A. I have. I will present my results below. I have generally organized my testimony in the following order: contract length, rates for given terms and conditions, and other contract issues.

Q. US Mag has proposed a ten-year contract. What is the Division's position on this matter?

A. The Division is extremely uncomfortable with the idea of such a long-term contract. In previous reports, Division personnel have suggested that for special contracts terms no longer than five years are appropriate, with five years being the longest acceptable term.[1] The Division believes that this is still a good policy to follow. Conditions that affect the costs associated with serving a customer as well as the values associated with any interruptible or other services that the customer provides can change rapidly. Over a term of more than five years, the risk that these changes could become adverse to

[1] See the "Report of the Special Contracts Task Force to the Utah PSC," December 17, 1999.

other ratepayers increases to an undesirable level. The Division, therefore, supports a contract term of no longer than five years.

Q. US Mag proposes that a new contract reflect considerations similar to those given in 1968. What is the Division's position on this matter?

A. The Division is in favor of a contract that would reflect US Mag's lower cost of service relative to the average large industrial customer (Schedule 9) as well as reflect any benefits that come from US Mag's ability to offer additional services such as reserves and/or interruptibility. That being said, the Division also recommends that the contract rate cover the costs associated with serving US Mag's load.

Q. US Mag has proposed that its beginning rate for service under a new contract remain at its current level of $21/MWH. What is the Division's position on this proposal?

A. The Division believes that a $21/MWH rate is insufficient to cover US Mag's cost of service under any scenario shown to Division personnel to date, including that set forth by Mr. Swenson in supplemental direct testimony. Therefore, the Division believes that the rate at which US Mag is provided electrical service should be higher than its current rate.

Q. Has the Division analyzed the available information and derived a cost compensatory rate?

A. Yes. The Division has examined several methods that could be used to find a cost compensatory rate for US Mag, given the proposed interruption schedule as well as the proposed reserve availability. US Mag has proposed changing the interruption schedule from that ordered for summer 2003-2004. In order to have a benchmark to follow, I have also calculated the rate for US Mag based upon the interruption in its current contract. After showing the various interruptible options, I will end with a rate for firm service to serve as illustration for the various reductions associated with interruptible service.

In order to determine the rate justified under current conditions of interruption, I examined the final PacifiCorp cost of service study for the last rate case (after application of the stipulated $65 million increase), Docket 02-035-02. Using the final COS, the cost associated with serving US Mag was approximately $14.57 million for the 498,000 MWhs of the test year ($29.25/MWH). To check for consistency, I compared it to the cost of service study that has been filed for PacifiCorp in the current rate case, docket 04-035-42. Using the 6.91% earned return information the COS in 04-035-42 shows a projected cost of $18,535,318 for the 635,700 MWhs of the forecasted test year or $29.16/MWH. (See Attachment 1) Comparing to the target return of 8.73% increases the projected cost of service to $19,669,879 or $30.94/MWH. (See Attachment 2) Actual data from 2003 showed that US Mag's load had increased as actual usage (not including interruption hours) was 572,571 MWH. Discussion with US Mag indicates that their expected load will increase to approximately 105 MW by the end of the test period, which is consistent with a higher number of MWH in the projected COS. Therefore, comparing the 2003 COS with the requested increase in the projected 2005-6 COS gives an increase of about 5.78% which is not inconsistent given the requested rate increase.

Using this interruption pattern as a beginning point, I then deducted the value associated with US Mag providing operating reserves to PacifiCorp at all other hours during the year. PacifiCorp's model showed this value to be $1.54/kw month, which translates to approximately $3.17/MWH based on a load of 85 MW and a five-year agreement. (See Confidential Attachment 3) Using the 2003 data provides a final rate to US Mag of $26.08/MWH ($29.25-3.17). Using the forecasted data provides a final rate to US Mag of $27.77/MWH ($30.94-3.17). This gives a range for this interruption pattern of $26.08 to 27.77/MWH.

Next, I derived a rate for US Mag based upon their proposed terms of interruption, which were 4 hours per day, Monday through Friday (no holidays), during the months of July and August. In order to derive this rate, I reran the final 2003 COS model, adding back in estimated hours during June and September. This gave an estimated cost of $15,351,154 when looking at the 7.03% earned return, (See Attachment 4) but it also increased the number of MWHs in the test year to an estimated 515,934**,** which would mean that the appropriate rate would be $29.75/MWH.[2]

Next I reran the forecasted 2005 COS using the new interruption assumptions.[3] This gave me an estimated cost of $20,724,664, (See Attachment 5) but it also increased the number of MWHs in the test year to an

[2] This number is meant to be an estimate only. Only the demand and energy factors were changed when the COS model was rerun.

[3] Again, this number is an estimate based on altered demand and energy factors only.

estimated 656,853, (See Attachment 6) which would mean that the appropriate rate would be $31.55/MWH. US Mag also proposed providing reserves to PacifiCorp. Based upon the PacifiCorp model, the additional discount associated with providing reserves for all by two months, four weekday hours, would be $1.57/KWm or $3.22/MWh**,** for a load of 85 MW and a five-year agreement. (See Confidential Attachment 7) In addition, US Mag proposed interruption during June and September only on days where the temperature reached or exceeded 100 degrees. The Division has not yet received the data requested that would allow for accurate valuation of this additional service.

Firm service to US Mag would enable US Mag to offer PacifiCorp reserves in all hours. The COS for 04-035-42 puts the forecasted cost for providing firm service to US Mag at $22,754,265 for 678,604 MWH or $33.53/MWH given the 6.91% earned rate of return. (See Attachments 8 and 9) The requested increase to an 8.73% rate of return would yield a cost of $24,266,304 or $35.76/MWH. (See Attachment 10) Subtracting the value for the reserves, derived as $1.65/KWm or $3.39/MWH (See Confidential Attachment 11) based on an 85 MW average load and a 5-year contract term provides US Mag with a rate of $30.53/MWH for firm service based upon the 6.91% earned rate of return.

Q. Both PacifiCorp and US Mag filed supplemental direct testimony on October 13th. Did this testimony contain any additional rate or pricing information or value producing offers?

A. Yes it did. I will begin by outlining what I understand to be the changes proposed in the testimony of Mr. Swenson. On page 2, lines 9-16, Mr. Swenson proposes interruptions in December and January, in addition to the previously proposed interruptions in June through September. He also altered the conditions under which US Mag would be interrupted in the aforementioned months by tying the interruption to the average mean historic temperature for the months of June, September, December, and January. Mr. Swenson believes that this would enable US Mag to “miss” 6 of the system coincident peaks (CPs) rather than the four under the current contract. Due to this new proposal, Mr. Swenson also changed the demand factor allocations for US Mag’s cost of service to reflect the two fewer CPs. Mr. Swenson then adjusted US Mag’s cost of service by pushing all of the demand costs associated with Gadsby and West Valley into the four summer months (June through September). He also adjusted the US Mag cost of service by adjusting the allocation of purchase power costs and sales revenues on a monthly basis rather than a yearly basis as is the current practice of PacifiCorp. I would like to briefly discuss each of these adjustments, with the caveat that I may add to this discussion upon receipt of further information or data from outstanding data requests or other sources.

First, the proposal that interruption be expanded to more than four months of the year is acceptable to the Division. If the additional months can be shown to provide value for US Mag, PacifiCorp, and other ratepayers, then the Division approves of the expansion. Due to a lack of hard data, however, the Division is unclear as to whether the proposal made by Mr. Swenson would provide value to all parties. The proposal would only allow for interruption on days for which the forecasted temperature in Utah is lower than the average temperature. I have seen no data to this point that indicates that following this pattern would truly allow US Mag to miss the peak. During winter months, Utah loads are less of a driving or determining force to PacifiCorp's CP; in the winter, Oregon's load tend to drive the CP. It is possible that a winter monthly coincident peak could come on a day in which temperatures in Utah were normal or above average, due to cold temperatures or storms in the northwest, however, I at present have no hard data to support such a scenario. Before the Division can fully contemplate supporting the proposal set forth by Mr. Swenson, more data will need to be presented, showing a correlation of peak and temperature in Utah for winter months. The same type of data would also need to be presented for the two additional summer months of June and September during which Mr. Swenson has proposed similar temperature determined interruption periods. The Division received work papers from Mr. Swenson on the afternoon of Thursday, October 21, and upon brief analysis has not found data sufficient to support this proposal.

Second, Mr. Swenson adjusted the cost allocation factor of the SCCT resources, namely Gadsby and West Valley, so that the entire demand charge is allocated to the four summer months in which US Mag would be interruptible. This does not match with what is actual usage of these plants.

Examination of actual generation totals from 2003 shows that only 36.56% of the total MWhs generated at Gadsby were in the four summer months, for West Valley only 39.78% of actual MWhs were generated in the four summer months. (See Attachment 12) Therefore, the Division cannot support this adjustment to cost allocation because we have seen no actual generation data to support putting 75% of costs associated with these plants into the four summer months. The 75% removal of costs comes from moving all demand charges into the summer months and allocating only energy costs to the other eight months.

Third, while the Division is willing to consider the idea of changing from yearly to monthly allocations as a way of improving the valuation of US Mag's interruptibility, US Mag has not provided any substantive data as yet to support such a change. The Division has briefly analyzed Mr. Swenson's recently obtained work papers and has found no evidence to substantiate the validity of the adjustment.

Q. Did Mr. Swenson's testimony contain any other offers of value?

A. Yes it did. Mr. Swenson argued that US Mag should be compensated for being a first off the system option in case of system integrity issues. He also proposes that US Mag should be compensated for this service in accordance with compensation being offered to other large customers in PacifiCorp's service territory. The Division agrees that US Mag should be treated similarly to PacifiCorp's other large industrial or commercial customers, but as yet we have not received the data requested that is necessary to verify the numerical value that Mr. Swenson assigned to the aforementioned option. Mr. Swenson’s work papers, provided in answer to DPU Data request 2.2 did not provide additional information on this issue.

Next, Mr. Swenson stated that US Mag is willing and capable of providing PacifiCorp with operating reserves during the hours in which the US Mag load is not interruptible. As mentioned above, the Division agrees that US Mag should be compensated for this service. The Division has not, however, had opportunity to fully investigate the value that Mr. Swenson placed on the service. Work papers obtained from Mr. Swenson on Thursday, October 21, do not contain any evidence to support this number. Further data requests will be filed prior to the filing of rebuttal testimony.

Finally, Mr. Swenson requests that US Mag be compensated for market exposure that US Mag faces due to the buy-through clause of both current and proposed agreements. This request appears to the Division to be an attempt for US Mag to pass on a cost that is only born by US Mag due to its choice to buy through rather than physically interrupt its power supply during periods of contracted interruption. The Division does not agree with the argument that by choosing to buy through during interruption, US Mag is somehow benefiting any party other than itself. Indeed, we suspect that there are hidden costs that other ratepayers bear due to the buy through. For example, because US Mag can choose to buy through during periods when physical interruption is preferable, PacifiCorp may still need to plan for US Mag’s load. The Division’s understanding of the buy through is that it was meant to be a device that US Mag could use in order to claim to be interruptible, but since long term or frequent interruption of the US Mag load has been presented to be impossible due to technical/economic constraints, not be physically interrupted. Therefore, unless US Mag can present solid evidence that buy through rather than physical interruption provides a benefit to either PacifiCorp or to other ratepayers, the Division does not believe that any part of the cost associated with buy through should be born by any party other than the apparent beneficiary, US Mag.

Q. **Supplemental direct testimony was also received from PacifiCorp. Did this testimony also make new proposals?**

A. Yes it did. For PacifiCorp's new proposals, I will begin with the testimony filed by Mr. Taylor. The first new proposal made by PacifiCorp is that the interruption periods for US Magnesium change from 4 months with 6 hours per day to 6 months with 4 hours per day. This change would keep the number of hours of US Mag's interruption period approximately the same, while allowing for an additional rate credit of $3.31/MWh when comparing to the rate derived above for the current interruption conditions. The Division has verified PacifiCorp's numbers with its own COS run. The value associated with the additional two months of interruption appears to be consistent with those reached for the other interruption period options. Furthermore, the Division feels that this option would be a good way for US Mag to increase the value of its interruption period without significantly increasing the number of hours in which it would be subject to interruption. As to operating reserves for this option, software difficulties that will not be solved until next week have prevented me from independently verifying PacifiCorp's figures. This being the case, I will use PacifiCorp's $2.94 figure to arrive at an approximate rate to be updated in later testimony filings.

Second, Mr. Taylor proposes that on days during July and August for which the forecasted temperature is at least 100 degrees, that US Mag be physically interrupted rather than allowed to buy through. For this added service, US Mag will be given an additional credit of $.16/MWh. I will address this issue in further detail below.

Third, Mr. Taylor proposes that in the interest of greater simplicity, two-agreements be made with US Mag, one for the power supply and one for the reserve purchase. The Division is not opposed to this type of arrangement. We would recommend, however, that the Commission order that the Reserve agreement be filed as it would be were it part of the supply agreement so that it can be examined by regulators

Q. Did PacifiCorp file any other supplemental testimony?

A. Yes. Mr. Griswold also filed supplemental testimony. In this new testimony, Mr. Griswold addresses several issues that the Division would also like to address at this time. First, Mr. Griswold proposes a change in the manner in which the US Mag security deposit held by PacifiCorp would be calculated. At the present time, it is a flat dollar amount. Going forward, PacifiCorp proposes to change it to an annually adjusted rate that would take into account US Mag's actual electrical usage. This proposal seems reasonable in that it will protect ratepayers while not being unduly burdensome or prejudicial to industrials in that it is flexible and based upon usage. When applying this formula to projected 2005 usage, US Mag's deposit would decrease from the current $665,000 to approximately $411,000. (See Confidential Attachment 13) The main risk that would then accrue would be the cost associated with PacifiCorp being prevented from exercising its prompt shutoff option in case of non-payment.

Next, Mr. Griswold clarifies the reasoning for the 4-hour physical interruption on very hot days (at or above 100). He also explains that crediting the value of the operating reserves that PacifiCorp does not have to carry if US Mag's load is physically interrupted derives the credit to US Mag for this service. The Division has examined the data supporting this proposal and agrees that it is reasonable based on expected value.

Q. Based upon the new proposals acceptable to the Division, does the Division have a recommendation as to the rates and conditions under which the new interruptible contract for US Mag should operate?

A. Yes. The Division recommends that the Commission order the following rates and conditions for a five-year agreement between PacifiCorp and US Mag:

Interruption period: 4 hours per day on all non-holiday weekdays (M-F) during the months of January, May, June, July, August, September, and December. The hours of interruption should be arranged so that the period has the best probability of covering the PacifiCorp coincident system peaks.

Buy through option: Option should be available during all interruptible hours except on days during July and August for which the forecasted temperature from a predetermined source is at or above 100 degrees.

System integrity: US Mag should be considered a first off the system resource and paid for this service at a rate commensurate with that paid to other large industrial customers for the same service. The Division has issued a data response for information needed to assess what is paid to other customers for this service and will address the issue in rebuttal.

Operating reserves: US Mag should provide operating reserves to PacifiCorp in the amount of its full load during all high load hours in which US Mag is not subject to interruption. If two separate agreements are written for electrical supply and operating reserves, the contract length for operating reserves is also recommended to be no longer than five years.

The rate per MWh for the aforementioned terms and conditions would be as follows:

COS for outlined interruption period:	25.94
Discount for physical curtailment:	(.16)
Discount for system integrity:	**not yet determined**
Payment for operating reserves:	**(2.64)**
Approximate Rate per MWh	23.14 (minus system integrity)

Q. US Mag frequently refers to the Division's report on the 2003 US Mag interruption. Was it the Division's intent that this report be used in this manner?

A. Although the Division surely knew that the report would be used in this manner, it by no means agrees with all of the conclusions reached by US Mag in reading and interpreting this report. The numbers in the report cannot be considered anything more than an estimate, given the overlapping data sets that had to be used. The report made use of test year measurements, based upon a fiscal year ending March 31, 2003, and calendar year measurements, based upon calendar year 2003. The imperfect match between these data sets made exact measurements impossible. The Division still believes that the report is a valuable illustrative tool, however.

Q. Both Mr. Swenson and Mr. Brown point to the Cool Keeper rate in the Division's report as an example of why the $21 rate is actually higher than cost compensatory. Does the Division agree with this use of the report?

A. No. As the report suggests several times, the numbers contained in the report depend on certain operational characteristics. The Cool Keeper number, for example, is based upon a resource that can be physically curtailed by PacifiCorp at the touch of a button (no notice for interruptions). It also assumes perfect foresight in that it assumes that the resource could be used for only the most expensive hours of the summer. US Mag does not exactly fit within these parameters.

Q. Due to the length of its proposed contract, US Mag has offered to accept an adjustment mechanism that would adjust US Mag's rate on a yearly basis to match the average changes in the rate for schedule 9. Does the Division agree with this mechanism?

A. The Division does agree with this mechanism in that it helps to mitigate risks associated with mid-term contracts. Assuming that the rates ordered for US Mag are cost compensatory, the Division feels that this mechanism would help keep US Mag's rates within or near a cost compensatory range over a five-year term.

Q. US Mag proposes that its rates be capped to go no higher than rates of any other Utah or Idaho special contract customer. What is the Division's position on such a rate restriction?

A. The Division unequivocally opposes inclusion of such a restriction. The Division believes that a special contract customer's rates should be based on the cost of serving that customer and the value that that customer brings to the system. Different customers will have different costs and provide different value to the system. To restrict US Mag's rate to that of another special contract customer on PacifiCorp's system, whether in Utah or Idaho or elsewhere, when that other customer may have lower costs or offer higher value, could potentially mean subsidizing US Mag through artificially low rates. Furthermore, the Division believes that the entity that should be making final decisions regarding rates for US Mag or any other Utah customer is the Utah Public Service Commission. By including such a restriction, some of these ratemaking abilities and responsibilities would be subject to the orders of an unrelated entity, the Idaho PSC. It would mean that rates for Utah customers could be based upon whatever factors that the Idaho PSC found important, whether or not the Utah PSC would make a similar decision. It could also ask the Utah PSC to ignore cost in their ratemaking decisions because US Mag's rates could be artificially constrained by factors other than US Mag's cost of service. Therefore, the Division opposes the inclusion of such a restriction in any special contract under any foreseeable circumstances.

Q. Does this conclude your direct testimony?

A. Yes it does.