



US MAGNESIUM LLC

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Public Service Commission
Heber M. Wells Building 4th floor
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Salt Lake City, Utah 84114-6751

Re: Observations and Comments on DPU Report of US Magnesium LLC 2003 Interruption under Docket No. 01-035-38.

Date: August 19, 2004

Dear Commissioners:

I wish to offer US Magnesium's observations and comments on the DPU Report of US Magnesium's Interruptions during 2003-dated June 21, 2004.

Observations:

The report is the first of what was supposed to be several annual reports ordered by the Commission on May 24th, 2002 in Docket No. 01-035-38 that requires the DPU to annually evaluate interruptions of US Mag during the preceding year, in part to determine the adequacy of the terms of service and pricing to US Mag. Additionally, it was considered that such an evaluation could provide insight into the most effective methodology for evaluating interruptible terms and pricing in general. Annual reports are expected on or before October 31st of each year.¹ US Mag underwent periods of interruption in the summer of 2002 and 2003 and is undergoing interruptions currently in 2004. PacifiCorp provided no data on the 2002 interruptions and told task force members they failed to collect adequate information on the 2003 interruptions in time for the 2003 annual report. PacifiCorp eventually provided inadequate information on the 2003 interruptions many months later, thus delaying the 2003 report by eight months.

This uncooperative, and non-complying approach by PacifiCorp appears deliberate. PacifiCorp (Scottish Power) has stated their intent to eliminate the 30-year-old special incentive US Mag interruptible agreement, which they inherited from Utah Power and Light and it has stated that US Magnesium should be served as a firm load customer and given credits from the fully imbedded firm rates for interruptions. To that end it has continually been uncooperative in providing data and only provides data that it feels will allow it to support its position. This is not an uncommon tactic for PacifiCorp as the Committee and DPU staff can attest, after years of complaining about the difficulty of getting information in general rate cases.

¹ Reference 10/30/03 DPU Report on Status USM Interruption 2003 Report Section: Issue

The DPU is to be commended for their restraint in understating their frustration and their diligence in pursuit of at least some data that would enable conjecture about what possible range of estimated values could be utilized to evaluate the US Mag contract. The DPU was given the task of trying to conduct task force meetings with adversarial parties intent on defending their positions. PacifiCorp wishes to eliminate the US Mag contract, and US Mag is desperately trying to defend its value to ratepayers. The result is a report that does not give a true picture of actual costs to serve US Mag and the benefits US Mag brings to the system. However, we are closer to an answer than we were two years ago. Never the less, the information provided by PacifiCorp cannot be presumed to be correct because experience has shown that when conclusions are drawn that are not in keeping with PacifiCorp's agenda, it is quick to discredit its own data or criticize the interpretation of same.

COMMENTS:

The report accurately reflects the history of interruptions in 2003 and the increased costs to US Magnesium that added nearly \$3 million dollars in 2003 to the company's burdens.

Little attention was given by the report to the justification for the 6-hour daily interruptions imposed by the contract and no mention of the analysis provided by US Mag that showed the summer peaks could be predicted from weather data and thus avoid the use of daily 6-hour interruptions. We feel this is a shortcoming of the task force that should be addressed.

The taskforce has to date been wandering through a variety of analysis techniques attempting to determine the value of the US Mag contract. The review includes to date:

1. Revenue Requirement Impact.
2. Cost of Service Analysis
3. IRP Evaluations
4. Other Considerations for Valuation

These various methodologies used various complex models and started with suspect data that only PacifiCorp possessed; resulted in no concrete conclusions, but instead came up with a range of estimates about the real cost to serve US Mag which goes from Schedule 9 Average Tariff per MWH of \$32.37 to \$19.89 for Cool Keeper Method.

1. These estimates of values do not include the value US Mag performs during non-peak periods in purchasing power at prices in excess of market rates.
2. **These estimates of values provide no credits for being a better system reserve than PacifiCorp's spinning reserves, which PacifiCorp must maintain, operate, pay fuel cost, capital investment costs, and line losses. US Mag helps avoid all of the foregoing costs to other ratepayers by paying to build, maintain, and operate their facility and yet providing up to 100 MWH of immediate reserve in the event of shortages.**
3. These estimated values are contaminated at the outset by using the fallacious assumption that US Mag is a 24-hour firm service customer.

The entire process can be likened to measuring with micrometers, marking with chalk, and cutting with an ax.

Recommendations:

We believe the task force should stop being manipulated (unwillingly) and lead around by the nose by PacifiCorp.

PacifiCorp's FERC form I annual report is the best information to determine true costs as PacifiCorp can be prosecuted by the federal government for filing false data. In the case of US Mag, if we cannot get reliable data, we believe in avoiding using micrometers and start marking with chalk and cutting with a scalpel. Therefore:

1. Utilize the FERC Form I to determine the average cost of generation.
2. Use the Form I to determine line losses.

Note: Utilizing average generation costs and line losses gives a good indication of the major real costs to serve an interruptible customer who owns and operates its own substation and does not require distribution services, load following or other services.

3. Recognize the fact that US Mag is the largest Cool-Keeper on the system and give it the credit for being willing to take the bullet for everyone else in the face of blackouts. It has volunteered to be the last safe guard against blackouts in the area at the expense of massive production losses in order to justify its rate. This makes it the ultimate defense and the most valuable resource on the system. Give US Mag credit for building, maintaining and operating the least expensive (from a ratepayers view point) but most reliable, load resource on the system while insulating other ratepayers from these costs by keeping PacifiCorp from having to build, operate, fuel and maintain a similarly sized resource and passing it on to ratepayers.
4. Conduct a real evaluation of the use of weather data in determining system peaks.

Sincerely,

Lee R. Brown, Vice President,
US Magnesium LLC

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