

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Petition of US)
Magnesium LLC for Determination of)
Long-Term Economic Development) **Docket No. 03-035-19**
Rates and Conditions of Interruptible)
Service)

REBUTTAL TESTIMONY

OF

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NOVEMBER 5, 2004

1 the costs of the SCCTs to the four summer months only. I also agree with her that
2 there is no compelling reason to shift from annual to monthly allocations of purchased
3 power costs.

4 **Q. Do you agree with the top down cost of service approach employed by CCS**
5 **witness Phillip Hayet?**

6 A. Mr. Hayet's top down approach is also a valid alternative. As I discussed in my direct
7 testimony, an alternative special contract pricing approach is to determine an
8 equivalent price for firm service and then provide an offset, or a discount, to that price
9 for the system value of the interruptibility provisions of the contract.

10 **Q. While you agree that Mr. Hayet's approach is reasonable, do you agree with his**
11 **calculations?**

12 A. I agree with his calculations with just one exception. I have concern with his
13 characterization of the net power cost savings as an energy credit and then providing
14 an additional capacity credit to arrive at a net price. Mr. Hayet calculates a net power
15 cost benefit of nearly \$60 per MWh of interruption which he characterizes as an
16 energy benefit. What this characterization fails to recognize is that \$60 per MWh
17 change in net power costs is primarily a result of changes in purchased power and
18 wholesale sales. The cost of purchased power and wholesale sales costs include both
19 capacity and energy costs. Including a full capacity credit in addition to a credit for
20 the changes in net power costs is, in my view, a double count and overstates the
21 capacity value of the interruptions.

22 **Q. Mr. Swenson proposes several changes to the Company's cost of service study.**
23 **Do you agree with his proposed changes?**

1 A. He proposes three changes to the Company's cost of service study: First, changing
2 the demand allocation factors to reflect six months of interruptions for US Mag,
3 second, compressing the allocation of peaking resource costs to the summer period
4 only, and third, allocating the costs of purchased power costs and wholesale sales
5 revenues on a monthly basis rather than an annual basis.

6 **Q. Do you agree with his proposed changes?**

7 A. I agree with his first recommendation and disagree with the other two. Let me briefly
8 discuss them one at a time.

9 His proposal to change the demand allocation factors to reflect six months of
10 curtailments for US Mag is consistent with the Company proposal presented in my
11 supplemental testimony.

12 I disagree with his proposed treatment for the cost of simple cycle combustion
13 turbines. Mr. Swenson recommends that the costs of SCCTs be allocated with factors
14 that are calculated using class loads from only summer months. I don't oppose
15 matching the allocation of peaking resources more closely with their patterns of
16 operation or dispatch. In fact the allocation methodology used in the cost of service
17 study filed in the current general rate case (Docket 04-035-42) does just that. What I
18 do oppose is artificially compressing the allocation to only the four summer months
19 when US Mag is subject to interruption. Because US Mag is interrupted during the
20 hour of system peak in each of the summer months, this proposal would assign none
21 of the demand related costs of the SCCT's to them.

22 **Q. What were the implications of the seasonal cost of service allocations in the**
23 **current general rare case?**

1 A. The cost of some seasonal peaking resources were allocated more heavily to the
2 summer period while the costs of the Cholla power plant were allocated more heavily
3 to the winter period. As I indicated in my direct testimony, the cost of service results
4 for US Mag filed in the current general rate case (Docket 04-045-42), where seasonal
5 allocations are employed, are essentially the same as the US Mag cost of service
6 results used in this proceeding where seasonal allocations were not used.

7 **Q. You also indicated that you do not support Mr. Swenson's proposal for the**
8 **allocation of purchased power expenses. Why is that?**

9 A. Mr. Swenson proposes that we move to a higher level of granularity by allocating the
10 costs of purchased power costs and wholesale sales revenues on a monthly basis
11 rather than an annual basis. I don't necessarily oppose using greater levels of
12 granularity; the question always remains as to what level of granularity produces the
13 most accurate reflection of the costs to serve US Mag, or any other customer. In this
14 case, using monthly granularity provides a small benefit to US Magnesium. If we
15 were to go to an even more granular level and allocate purchased power costs on an
16 hourly basis, US Mag would be allocated those costs for all but 528 hours of the year,
17 which, in my opinion, would increase costs to US Mag.

18 **Q. Does this conclude your rebuttal testimony?**

19 A. Yes it does.