

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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

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SUPPLEMENTAL TESTIMONY

OF

DAVID L. TAYLOR

October 13, 2004

1 **Q. Are you the same David L. Taylor that filed direct testimony in this case?**

2 A. Yes I am.

3 **Q. What is the purpose of your supplemental testimony?**

4 A. In settlement discussions with US Magnesium, the Company has proposed that  
5 current curtailment structure be changed from four months to six months. My  
6 supplemental testimony covers the reasons behind the proposed change in the  
7 curtailment period and the cost of service impacts of that change.

8 **Q. Please identify Exhibit No. UP&L (DLT-1S) and explain what it shows.**

9 A. Exhibit No. UP&L (DLT-1S) is the US Magnesium unit cost summary from  
10 PacifiCorp's year end March 2003 Class Cost of Service Study for the State of Utah,  
11 as modified to reflect the proposed six months of curtailment. This shows a 2003 cost  
12 of service for US Magnesium, based on their adjusted test period usage, of \$12.9  
13 million or \$25.94 per MWH.

14 **Q. Please explain in more detail the proposed change in the curtailment period?**

15 A. Under the current contract US Magnesium is subject to curtailment six hours a day,  
16 five days a week, during four months (June through September) of the year. The  
17 Company has proposed to US Magnesium that the curtailment period be extended to  
18 include the months of December and January while at the same time reducing the  
19 daily curtailment period from six hours to four hours per day. The curtailment period  
20 in the summer is scheduled between 2:00 PM and 6:00 PM. Because the system has a  
21 dual morning and evening peak in the winter, the curtailment period during December  
22 and January would be separated into two periods, 8:00 to 10:00 AM and 5:00 to 7:00  
23 PM.

1 **Q. Are there any other refinements to the economic curtailments periods?**

2 A. Yes. The current contract allows US Magnesium the opportunity to buy through the  
3 curtailment periods if they choose. PacifiCorp's proposal still allows US Magnesium  
4 to buy through the curtailment periods except for days in July and August when the  
5 temperature is forecasted to exceed 100 degrees.

6 **Q. How does the proposed change in the curtailment period help US Magnesium?**

7 A. It provides several benefits to US Magnesium while allowing the Company to receive  
8 offsetting commercial value. First, by changing the curtailment period from six hours  
9 a day, four months of the year to four hours a day six months of the year, US  
10 Magnesium will experience approximately the same number of curtailment hours, but  
11 will have a lower cost basis for their service. Under the Company proposal, US  
12 Magnesium will be curtailed, and therefore their loads will be removed during the  
13 system peak hours, for six months of the year. Removing their load from system peak  
14 for the additional two months (December and January) produces a cost of service for  
15 US Magnesium that is three dollars per MWH lower than the \$29 per MWH cost of  
16 service that was presented in my direct testimony.

17 Second, under normal market conditions, they will have a reduced exposure to  
18 high market prices when they buy through a curtailment. In the summer months we  
19 have reduced the curtailment hours from six to four hours when the Palo Verde price  
20 is historically the highest. During the winter months, Palo Verde is historically lower.  
21 Also, by having the curtailment periods set up in two hour blocks, US Magnesium, as  
22 they have previously testified, can physically curtail for up to two hours and avoid  
23 market purchases. Lastly, US Magnesium's proposed QF agreement is a non-firm

1 agreement where they have the option of selling their 36MW of power to the  
2 Company at the stipulated non-firm price or using the power to offset their own load,  
3 thereby having yet another option to reduce their market price exposure.

4 **Q. Are there concurrent benefits to the State of Utah?**

5 A. Yes. Total Company system peak, and Utah's contribution to system peak, will be  
6 reduced two additional months of the year as well. This lowers Utah's revenue  
7 requirement because it lowers Utah's allocation of generation and transmission costs.

8 **Q. Does the Company propose any other modifications to the prices and obligations  
9 in the US Magnesium contract?**

10 A. Yes. The Company proposes an additional \$0.16 per MWH discount off of the cost  
11 of service rate to reflect the incremental value of the physical curtailment requirement  
12 (no buy through option) when the temperature is above 100 degrees. This brings the  
13 proposed price for the retail service portion of the US Magnesium contract to \$25.78  
14 ( $\$25.94 - \$0.16 = \$25.78$ ) per MWH.

15 The Company also proposes to purchase 85 MW of Contingency Non-Spin  
16 Operating Reserves from US Magnesium through a separate agreement during the  
17 hours US Magnesium is not subject to curtailment. Mr. Bruce Griswold discusses  
18 these two provisions in greater detail in his supplemental testimony along with other  
19 proposed changes to the agreement structure, terms and conditions.

20 **Q. How does the Company propose to treat the different provisions of the contract  
21 for jurisdictional allocation?**

22 A. The Company proposes to have two agreements, a power sales agreement for the  
23 electric service to US Magnesium and an operating reserve agreement for the

1 purchase of contingency Non-Spin Operating Reserves from US Magnesium.  
2 Consistent with the MSP Revised Protocol, the retail service to US Magnesium will  
3 be included as part of the Utah revenue requirement. The US Magnesium loads,  
4 reflecting the curtailments, will be part of the Utah state loads for allocation purposes,  
5 and the \$25.78 per MWH of revenue will be included in present revenues. Any loads,  
6 net power costs, and pass through revenues associated with US Magnesium buying  
7 through the curtailment period will be normalized out of Utah results of operations.

8 The payment made to US Magnesium through the separate agreement for  
9 Non-Spinning Reserves will be treated as a wholesale purchased power expense and  
10 included in the Company's normalized net power costs. As such, the payment will be  
11 allocated across all jurisdictions along with other net power costs.

12 **Q. Does this conclude your supplemental testimony?**

13 A. Yes it does.