BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

SURREBUTTAL TESTIMONY

OF

D. DOUGLAS LARSON

November 12, 2004

Q. Please state your name.

A. My name is D. Douglas Larson

Q. Did you previously offer testimony in this proceeding?

A. Yes, I have previously filed both direct and rebuttal testimony in this case.

Purpose of Testimony

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to issues raised in the rebuttal testimony of US Magnesium LLC (USM) witness Lee R. Brown. Mr. Brown offers his opinion on what he characterizes as "important facts being overlooked by the other parties" and lists these "facts" in chronological order beginning with events that took place in 1998. I would like to review a few additional facts that have been overlooked by Mr. Brown, facts that date to the original 1968 Commission order. I will show that the magnesium operation that was granted an interruptible electric service contract by the 1968 order (the Magnesium Project) is significantly different from the magnesium operation that seeks to continue that interruptible service in this proceeding (USM). Because of the changes that have occurred in the the magnesium operation as the facility has changed ownership over the years, there is no meaningful link between the current contract negotiation and the terms of 1968 order.

Utilization of On-site Generation

Q. In what sense has the operation of the magnesium facility changed since 1968?

A. The change I am referring to is in the utilization of the on-site electric generation capability at the facility.

Q. How was the on-site generation capability initially utilized in 1968?

A. The 1968 Commission order clearly indicates that the on-site generation capability at the Magnesium Project would be used to provide the degree of electric service reliability need for the magnesium production process to operate economically. In fact, the 3.1 mill interruptible rate ordered by the Commission was predicated on there being no guarantee of availability. In other words, PacifiCorp would be able to physically interrupt service to the project as provided under the terms of the contract, and the on-site generation would be available to maintain continuity of service. In 1968, the Magnesium Project took electric service subject to the risk of significant physical interruption and received a rate commensurate with that level of service. Any additional degree of service reliability desired by the project was supplied at its own cost through its own back-up generation capability that was available..

Q. How does the current utilization of on-site generation differ from approach described in the 1968 order?

A. The owners of the Magnesium Project, including USM, have now decided that it is in their economic interest to sell the output of the on-site generators into the market rather than holding these facilities in reserve to provide service continuity in the event of physical interruption.

Q. Did the decision to sell the on-site generation into the marketplace reflect a reduced level of concern for maintaining service continuity?

A. Apparently not. Mr. Swenson has indicated on several occasions in this proceeding that physical interruptions are extremely disruptive and costly for USM to face.

Q. Since USM has effectively sold its back-up generation capability, how does the company maintain service continuity while continuing to operate under an interruptible contract?

A. Rather than subject itself to physical interruptions of electric service, USM has the option to "buy-through" the interruption at market prices. Thus, in this proceeding USM seeks to enter into an "interruptible" contract that would allow them to determine when they would be physically interrupted.

Q. In light of the previous discussion, please contrast the 1968 Commission-approved interruptible contract with the contract proposed by USM in this proceeding.

A. The 1968 contract provided the Magnesium Project with interruptible rates with no guarantee of availability. Then as now, physical interruption of project operations was costly and disruptive. In 1968, in order to obtain the benefit of lower interruptible rates while ensuring process continuity, the Magnesium Project provided on-site generation at its own expense and held this generating capacity in reserve to maintain service availability during interruptions. Now, in 2004, USM seeks a contract with interruptible rates, but with protections against physical interruption. Rather than incurring the expense of maintaining on-site generating reserves to ensure service availability, USM now proposes to sell the output of these generators. . In essence, USM is proposing that this Commission

approve an economic incentive contract with provisions that the owners of the 1968 Magnesium Project could never have envisioned. USM wants a contract with interruptible rates and protection against physical interruption with no requirement to maintain on-site, back-up generation.

Conclusion

Q. What do you conclude from the foregoing discussion of the application of on-site generating resources?

A. The manner in which the role of on-site generation has been shifted from ensuring service availability for the Magnesium Project to providing a revenue stream for USM demonstrates the incongruity of Mr. Brown's argument that this Commission has some kind of obligation to continue the interruptible rates approved in 1968. In 1968, the Magnesium Project paid a price in order to obtain interruptible rates while continuing to operate economically. That price was the cost of maintaining on-site back-up generation. In 2004, USM seeks to have interruptible rates with protection against physical interruption and without the cost of back-up generation. USM and its recent predecessors no longer operate in the manner that the Commission felt was necessary to justify interruptible rates in 1968. USM should be granted rates in this proceeding that fairly reflect its current cost of service and the full value of the benefits that it can provide to PacifiCorp's system; not rates based on operating circumstances that may have existed in the past.

Q. Does this conclude your surrebuttal testimony?

A. Yes.