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**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

IN THE MATTER OF THE APPLICATION OF US MAGNESIUM LLC FOR DETERMINATION OF LONG-TERM ECONOMIC DEVELOPMENT RATES AND CONDITIONS OF INTERRUPTIBLE SERVICE	Docket No. 03-035-19
PACIFICORP, dba UTAH POWER & LIGHT CO.  vs.  US MAGNESIUM LLC	Docket No. 04-035-20

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**PREFILED DIRECT TESTIMONY OF ROGER J. SWENSON**

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US Magnesium LLC hereby submits the Prefiled Direct Testimony of Roger J. Swenson in each of Dockets 03-035-19 and 04-035-20.

DATED this 4<sup>th</sup> day of August, 2004.

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Gary A. Dodge, Attorney for US Mag

PREFILED DIRECT TESTIMONY

Of

ROGER J. SWENSON

On behalf of US Magnesium LLC

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IN THE MATTER OF THE APPLICATION OF US MAGNESIUM LLC FOR  
DETERMINATION OF LONG-TERM ECONOMIC DEVELOPMENT  
RATES AND CONDITIONS OF INTERRUPTIBLE SERVICE

Docket No. 03-035-19

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PACIFICORP, dba UTAH POWER & LIGHT CO. vs. US MAGNESIUM LLC

Docket No. 04-035-20

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August 4, 2004

**[WITH CONFIDENTIAL EXHIBITS]**

1 **Q. What did US Mag ask the Commission to do in its petition in Docket 03-035-**  
2 **19?**

3 A. US Mag asked the Commission to open a process that would lead to approval of a  
4 ten-year contract that would give US Mag's owner a clear perspective on one of  
5 the most important input costs to the process. US Mag asked that a proceeding be  
6 initiated early so as to give sufficient time for a reasoned analysis and a sound  
7 determination of the proper basis for developing a cost-based rate for interruptible  
8 service. US Mag asked for a rate and a contract that reflected, on a going-forward  
9 basis, considerations similar to those given in the initial Commission approval  
10 process in the 1960s that allowed the magnesium project to locate on the shores of  
11 the Great Salt Lake in the first place.

12 **Q. Why did US Mag ask for this kind of contract and rate?**

13 A. US Mag's short term contract, including the "experimental" rate and interruption  
14 scenario that was put in place based on the Commission's May 24, 2002 Order, is  
15 set to expire at the end of this year. US Mag cannot afford continued uncertainty  
16 over the pricing of electricity. A competitive manufacturing process simply  
17 cannot produce and sell its product if it does not know how much it will actually  
18 cost on a going forward basis to produce the product.

19 In addition, conditions are pretty much the same today as they were over  
20 30 years ago when US Mag's predecessor came to Utah after being given the 30-  
21 year special economic incentive contract necessary to construct and operate the  
22 magnesium project on the shores of the Great Salt Lake. US Mag faces daunting

1 economic pressures from foreign competition for markets. In order to survive that  
2 kind of competitive circumstance, US Mag must continue to improve its process,  
3 to make it more efficient and lower its overall production cost. In order to do this,  
4 it must invest capital in process improvements and upgrade its output while  
5 minimizing increases in fixed costs.

6 US Mag needs to have a long-term workable rate established in order to  
7 attract the capital required for this upgrade. US Mag needs a clear picture of what  
8 the electric rates will be going forward as it tries to attract needed investment to  
9 make its manufacturing process more economic.

10 **Q. Will you please provide a brief review of past orders and studies that are**  
11 **relevant to this case?**

12 A. Yes. The original Commission Order in Dockets 5639 and 5640, entered on April  
13 19, 1968, ordered PacifiCorp<sup>1</sup> to provide long-term interruptible electric service to  
14 US Magnesium at discounted prices and under terms and conditions designed to  
15 permit the facilities to be constructed and to operate on an economical basis.

16 Task force studies completed in 1992 and 1999 confirmed that it is in the  
17 public interest for PacifiCorp to provide interruptible service to US Mag, with  
18 rates designed to cover variable costs and make a contribution to fixed costs that  
19 otherwise will not occur. These studies also concluded that, but for the special  
20 economic incentive interruptible service rates, companies like US Magnesium

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<sup>1</sup> References in this testimony to PacifiCorp or US Magnesium are intended to also refer, as appropriate given the context, to their respective predecessors in interest.

1 would most likely not be attracted to Utah or continue to exist and provide  
2 economic benefits to the State.

3 The justification for the rates established over the years for service to US  
4 Mag has always gone further than simply a rate reduction based on economic  
5 development. It is certainly true that US Mag has always provided significant  
6 economic contributions to Tooele County and the State of Utah by providing  
7 numerous jobs, purchasing tens of millions of dollars of in-state goods and  
8 services and significantly contributing to tax base. In addition, however, as an  
9 interruptible load, US Mag has always made a significant contribution to the  
10 PacifiCorp system by taking power on an interruptible basis, contributing to  
11 system fixed cost recovery and providing reserve capacity, while not creating the  
12 same requirements to develop generation capacity that firm customers require. It  
13 is clear that US Mag's rates in the past have been based on a combination of  
14 economic need for lower cost service and the lower cost to serve the facility on an  
15 interruptible basis. US Mag submits that these considerations should continue to  
16 set the basis for developing the rate for service going forward.

17 **Q. Please describe the nature of the Commission's May 24, 2002 Order that set**  
18 **the current rates.**

19 A. The last Commission Order that approved service conditions and rates for service  
20 to US Mag included the following primary points:

21 1. A single contract was to be used to set the terms and conditions of service to  
22 US Mag;

- 1           2. The term for the experimental service arrangement was to be through
- 2           December 31,2004;
- 3           3. The price for the base service to US Mag was set at \$21/MWH;
- 4           4. The order defined specific conditions of the interruptible service; and
- 5           5. The order initiated a study headed up by the DPU to study the benefits of
- 6           interruptible service and to provide a report on the operational performance of
- 7           the US Mag interruptible service. In clarifying statements, the Commission
- 8           stated that the study should be used to develop measurement and estimation
- 9           tools and methodologies to determine specific values that can be obtained
- 10          from interruptible service.

11   **Q.    What did the DPU find in its investigation?**

12   A.    The DPU identified a range of values for the interruptible service conditions under  
13       which US Mag was served. The DPU found that the value provided by US Mag's  
14       ability to interrupt would justify a base rate of between \$17.81/MWH to  
15       \$30.85/MWH. This range includes all equivalent resource comparisons done by  
16       US Mag and PacifiCorp. It also includes the value calculated using the Cool  
17       Keeper program comparative value that provided a base rate in the analysis of  
18       \$19.89/MWH. All of the values are based on starting with the existing cost of  
19       service approach for firm service, which produces a rate of \$32.37, and reducing  
20       this cost by various derivations for the value of interruptibility.

21               US Magnesium maintains that using a cost of service analysis developed  
22       for firm service to determine the cost of service for an interruptible load such as

1 US Mag - which has never been a firm load - is inherently flawed. Nevertheless,  
2 the study still reveals meaningful information which shows that the value of  
3 interruptible loads is much higher than PacifiCorp is willing to give it credit for,  
4 and more comparable to the values that PacifiCorp is willing to credit its own  
5 resources and those of its affiliates.

6 **Q. What is the range if the equivalent resources and the IRP fixed sales**  
7 **valuation are excluded?**

8 A. The range tightens up to \$22.28 to \$25.55, since the value based on the West  
9 Valley peaking resource is excluded as well as the value based on the Cool Keeper  
10 projected cost from the IRP. Also, the PacifiCorp equivalent resource valuation  
11 methodology is not included, which produced the lowest interruption value  
12 determination and therefore the highest interruptible rates in the range.

13 **Q. Why was the PacifiCorp valuation so low in the report?**

14 A. PacifiCorp based the peaking valuation on the number of hours that a peaking  
15 plant was projected to operate at a 15% capacity factor or 1314 hours per year.  
16 For 500 hours of interruption (38% of the operating period of the peaking plant),  
17 PacifiCorp attributed just 38% of the fixed annual cost of a peaking resource to  
18 the value of 500 hours of operation. This is not how PacifiCorp values its own  
19 resources when requesting cost recovery, as evidenced by recent proceedings such  
20 as Current Creek, West Valley and Gadsby.

21 **Q. Is PacifiCorp's approach a reasonable way to determine the value of**  
22 **interruptibility?**

1 A. No. It suggests that the value of the ability to interrupt has the same value for the  
2 hour from 1313 to 1314 that it does for the hour from 100 to 101. The load  
3 duration curves that I have seen indicate otherwise. They indicate that PacifiCorp  
4 has a major problem with a severe summer peak caused by air conditioning loads.  
5 The very few hours required to avoid system peak indicate that the value of  
6 interruptible hours diminishes at some point.

7 **Q. What else is indicative of the flawed valuation approach of the PacifiCorp**  
8 **method?**

9 A. Using PacifiCorp's approach, the values reflected in the IRP for a 1% interruptible  
10 resource would be much different than are shown in the report. The report states  
11 that a 1% load factor resource using the IRP model has a value of \$12.48/MWH.  
12 Using PacifiCorp's equivalent peaking plant logic, roughly 100 hours of peaker  
13 valuation would be worth 7.6% of the peaking plant's fixed cost value, or only  
14 about \$.30/MWH. The PacifiCorp logic is clearly incorrect, unless the IRP  
15 severely overestimates the value attributable to DSM.

16 **Q. How did you calculate the value of interruptibility based on equivalent**  
17 **resources?**

18 A. I used actual, verifiable data from the West Valley peaking plant to derive the  
19 actual cost to have the plant available to help meet peaking needs of the utility.  
20 The report I provided to the interruptible task force is included as an attachment to  
21 that report (and this testimony) and shows that the value of interruptibility from  
22 this evaluation method is between \$12.94/MWH to \$14.56/MWH. These values



1 are much closer to those used in the IRP for DSM resources.

2 **Q. What else did the Division's report recommend?**

3 A. The Division also found that, on a going forward basis, US Mag should continue  
4 to receive an interruptible rate because of the potential benefits to Utah ratepayers  
5 from such interruptibility.

6 Finally, the report acknowledges that other possibilities exist for US Mag  
7 to provide additional value that would further reduce its cost of service, such as  
8 providing reserves to PacifiCorp, as was done in the Idaho approach to setting  
9 rates for Monsanto. A copy of the full report is attached to this filing as Exhibit  
10 1.1.

11 **Q. What is your general reaction to the report and task force?**

12 A. In general, we find the report helpful and enlightening and we appreciate the effort  
13 that went into extracting the data and converting the data into a report. We are  
14 disappointed, however, that it does not move more toward developing an  
15 interruptible cost of service methodology that identifies appropriate cost allocation  
16 factors to derive a rate for interruptible service based on cost of service principles,  
17 rather than starting from the firm cost of service and deducting estimated values.  
18 While we may now have a basic range of values for interruptible service, we still  
19 have no clear set of allocation factors to apply to a customer or customer class to  
20 derive an interruptible rate.

21 Firm cost of service methodologies and cost allocation factors do not  
22 adequately take into account some important attributes of interruptible service in

1 general and for US Mag specifically that should be considered in setting  
2 interruptible rates for customers or classes of customers. The report  
3 recommendations suggest that a COS model should be used in the future to  
4 benchmark value. Obviously, if it is to be used in that manner, the COS approach  
5 should be as accurate as possible. Unfortunately, the task force simply did not  
6 investigate and derive appropriate interruptible cost allocation factors.

7 The report also does not address the number of hours of interruption that  
8 may be required in order to miss a summer peak event, even though this issue was  
9 extensively discussed and fairly contentious. There was clear evidence that the  
10 specified hours of interruption for US Mag were sufficient to avoid the peak, but  
11 little analysis was done as to the margin of excess interruption hours. The key  
12 focus of the report was directed to pricing and not specific conditions of service.

13 We are encouraged that the report recognizes value if the US Mag load can  
14 be treated as reserves, and recommends that this value should be considered. We  
15 believe that this value can and should be recognized in this case.

16 **Q. Can US Mag provide reserves?**

17 A. Yes. US Mag can and has been called on to drop load if conditions exist that  
18 require a quick reduction in load, such as the loss of a major generation station in  
19 an unplanned outage or a disturbance in the system that causes imbalances and  
20 jeopardizes the stability of the system. Generally, there must be an ability to drop  
21 load within approximately ten minutes to qualify as a resource that can provide  
22 reserves. US Mag can drop load quickly, and has been called on in the past to

1 provide this type of resource for PacifiCorp. For example, PacifiCorp called US  
2 Magnesium on June 24, 2004, and instructed it to be ready to drop load if  
3 conditions required.

4 US Mag is in effect already providing this resource, but this value is not  
5 considered in the analysis done by the Division. It is not clearly stated in the  
6 current contract terms and conditions that this is a specific requirement and  
7 condition of service, but it takes place in reality and should be specified and  
8 valued in the next service agreement conditions, and its value should be  
9 considered in establishing the base rate.

10 **Q. What is the value of such reserves?**

11 A. PacifiCorp has suggested the value that could be attributed to this type of resource  
12 depends on how much load could be relied upon to be off line within 10 minutes,  
13 with the load coming back up within the hour. US Mag might face problems with  
14 contiguous hours of total loss of load, but the full US Mag load could be dropped  
15 for non-contiguous hours. Also, US Mag could drop 50% of its load in one hour  
16 and the other 50% the next hour if contiguous hours are needed, so that at least  
17 50% of its load could be considered under conditions that may last longer than 1  
18 hour.

19 PacifiCorp has suggested that a full load reserve type requirement is worth  
20 \$4.00/MWH. Even if we assume only 50% is available for reserves, the value  
21 should be at least \$2.00/MWH. I estimate that US Mag's ability to drop 100% of  
22 its load for non-contiguous hours or 50% for contiguous hours should be worth

1           \$3.00/MWH.

2       **Q.    Given the value of reserves that US Mag provides, together with the value**  
3       **range provided in the Division report, what is the appropriate range of base**  
4       **power prices for US Mag?**

5       A.    Including a reserve value of \$3.00/MWH, the Division's range of base costs for  
6       serving US Mag on an interruptible basis using the alternatives that were not  
7       based on equivalent resources and excluding the IRP fixed sales approach would  
8       be \$19.28/MWH to \$22.55/MWH. The average base rate using this data gives an  
9       average base price for interruptible service of \$20.97/MWH. See Exhibit 1.2.

10      **Q.    How does this range of values derived from a cost of service approach plus**  
11      **reserves compare to the equivalent resource cost comparisons?**

12      A.    Very favorably. The calculated base rates derived from a cost of service approach  
13      as adjusted for reserve value is 19.28/MWH to \$20.55/MWH. The value that was  
14      determined using the actual West Valley data produced a base rate of  
15      \$19.43/MWH. It is meaningful that actual verifiable data produces answers in the  
16      same range as the cost of service approach.

17      **Q.    What pricing conditions do you propose going forward in the ten-year**  
18      **service arrangement that US Mag has requested?**

19      A.    US Mag prefers - and needs - a rate near the lower end of this range to be  
20      competitive. However, assuming the other terms proposed in this testimony are  
21      acceptable, US Mag is willing to compromise and to accept an initial rate near the  
22      middle of this range. US Mag is also willing to accept rate increases which are

1 given to Schedule 9 firm customers in rate cases filed after the contract takes  
2 effect to insure that inflation factors are captured during the term of the  
3 agreement. Such increases, however should not be allowed to increase US Mag's  
4 rate above the lowest-priced special contract customer in the State of Utah or  
5 Idaho, unless mutually agreed to by the parties and approved by the Commission.  
6 This is necessary to provide potential investors the assurance that pricing will  
7 continue in a pattern similar to the facilities' previous 33-year energy contract,  
8 which recognized the energy intensity of this industry. This approach is  
9 reasonable since the Division's report is only able to narrow the appropriate rate  
10 to a range. With periodic general rate case increases, the base price will move  
11 through the specified range.

12 **Q. You suggest that future Schedule 9-based rate increases will cause US Mag's**  
13 **rate to move up the Division's range of rates. Doesn't the cost of serving US**  
14 **Magnesium increase in proportion to the cost of serving firm Schedule 9**  
15 **customers?**

16 **A.** No. Some of the costs to serve US Mag will increase in the same manner as firm  
17 customers, but the major driver of increasing rates in the next few years will likely  
18 be the new resources that will be coming on line to meet the projected growth in  
19 peak demand. As US Mag is an interruptible customer, it will not be contributing  
20 to peak demand growth, so its actual cost of service, if treated appropriately, will  
21 not increase nearly as quickly as the cost of serving firm customers. Nevertheless,  
22 US Mag is willing to accept rate increases based on the average general rate case

1 increases to Schedule 9, with the specified conditions, and it will thus effectively  
2 move higher through the Division's indicated pricing range over time, assuring  
3 that positive contributions to system costs are maintained during the entire term of  
4 the agreement.

5 **Q. What do you propose as the initial US Mag rate?**

6 A. Even though a lower initial base rate can clearly be justified, US Mag is willing to  
7 start at the \$21/Mwh price that it is currently paying, if new service conditions are  
8 adopted that reduce US Mag's market exposure somewhat.

9 **Q. How do you propose to reduce US Mag's market exposure?**

10 A. For the months of June and September, interruption should be limited to days in  
11 which the temperature is forecasted to reach a specified level. Peak loading  
12 circumstances occur during days with extremely high temperatures. We propose  
13 that US Mag should be interrupted for no more than four hours on non-holiday  
14 weekdays in June and September only when the temperature forecast is for 100  
15 degrees or more at the Salt Lake International Airport. The interruption period  
16 should continue to include all non-holiday weekdays in the months of July and  
17 August, but for four hours rather than the six hours used for the experimental  
18 period.

19 **Q. Why do you think it is appropriate to reduce US Mag's hours of market  
20 exposure?**

21 A. It is extremely disruptive and costly for US Mag to face many hours of  
22 interruption. Such disruption and cost should be required only if it is clearly

1 shown to be necessary to avoid system peaks. As I testified at length in the 2001  
2 docket, I am confident that a six-hour window is not necessary to predict system  
3 peaks. There was no sound basis for the eight-hour window proposed by  
4 PacifiCorp. I supported a two-hour window. Presumably as a compromise for the  
5 experimental period, the Commission adopted a six-hour window. That window  
6 has proved to be more than adequate to avoid system peaks. I am confident that a  
7 much narrower window will still permit PacifiCorp to avoid system peaks. While  
8 I continue to support the use of a two-hour window, I propose a four-hour window  
9 as a reasonable compromise. FERC Form 1 information since 1997 shows that  
10 peaks have only occurred in a four-hour period. Exhibit 1.3 shows the reported  
11 peak hours since 1997. Finally, as indicated above, US Mag is not demanding a  
12 rate at the low end of the range of values identified in the Division's report, in  
13 exchange for a requested reduction in market exposure. Alternatively, any  
14 increase in market exposure above my suggested terms of interruption should  
15 result in a lower starting rate. On balance, I believe my proposal is just,  
16 reasonable and in the public interest.

17 **Q. Can you provide any support for your proposed \$21 initial rate with your**  
18 **requested terms of interruptibility?**

19 A. Yes. The Division's report determined a price for a two-month, six-hour market  
20 exposure period of \$23.35/MWH. If the hours of interruptibility are reduced to  
21 four hours, the value will be reduced roughly proportionately. The report  
22 calculated the cost allocation value of the market price paid by US Mag for a two-

1 month market exposure during the test period of \$531,516. Under a four-hour  
2 interruption scenario, the value of the market exposure would decrease to roughly  
3 66.7% of the \$531,516 value, or \$354,334. The reduced value is the difference,  
4 \$177,172, which, when spread over the volume used in the cost of service study of  
5 498,097 MWH, would add \$.36/MWH to the base rate calculation to reflect the  
6 reduced market value exposure. The base rate would thus increase to  
7 \$23.71/MWH for a two-month, four-hour weekday interruption condition. After  
8 subtracting the value of the reserve component of the US Mag service as  
9 discussed above, the contract base price would be \$20.71/MWH. (\$23.71/MWH-  
10 \$3.00/MWH) I propose to leave the rate at \$21 as it now stands as a compromise,  
11 and to use that rate as the starting point subject to periodic rate increases over the  
12 ten-year term of the agreement. Exhibit 1.4 illustrates the specific derivation of  
13 these calculations.

14 **Q. Why do you think your proposal is a good solution?**

15 A. It is a good solution from US Mag's perspective because it provides a long-term  
16 stable rate with reasonable conditions of interruption. It is a good solution from a  
17 regulatory perspective because it falls within the range of values identified in the  
18 Division's report, and it also satisfies the test specified in previous studies by  
19 ensuring a reasonable contribution to fixed cost coverage.

20 **Q. Can you show that your proposed rate will produce a contribution to fixed**  
21 **costs?**

22 A. Yes, it can be demonstrated in a couple of ways. First, a Net Power Cost (NPC)



1 model provided in a data response in the last avoided cost docket shows that the  
2 average net power cost to serve all customers is \$11.48/MWH, based on fuel costs  
3 and purchases. If that number is grossed up to account for losses at an assumed  
4 6% basis, then the variable cost of power including losses is \$12.17/MWH.  
5 Assuming a variable power production cost of about \$2.00/MWH, the variable  
6 cost to serve US Mag is roughly \$14.17/MWH, leaving roughly \$7.00/MWH as a  
7 contribution to fixed cost at the \$21.00/MWH base rate. See exhibit 1.5.

8 An alternative way to look at the variable cost of providing service to US  
9 Mag comes from the full cost of service analysis for US Mag provided by  
10 PacifiCorp in June of this year. Under the section “unit costs – target” the energy  
11 related costs and the demand (fixed) related costs are broken out. The energy  
12 related costs in the study are listed at \$17.20/MWH. Therefore, even under the  
13 full firm cost of service analysis, a \$21 rate provides full variable cost recovery  
14 and a includes a contribution to fixed costs..

15 **Q. How do you respond to the contract payment / security issues that PacifiCorp**  
16 **has raised in Docket 04-035-20?**

17 A. PacifiCorp’s filing makes two claims concerning payment issues. The first is that  
18 US Mag should make payments of \$4,361.46 per month in order to pay the  
19 \$48,000 remaining balance due as a result of the Commission’s order establishing  
20 a \$21.00/MWH rate for the period January 1, 2002 through June 24, 2002. The  
21 second claim is that US Mag has failed to pay for power that was delivered to it  
22 for several days in June 2002 and parts of July 2002.

1 **Q. What is your response to the first claim relating to the \$4,361.46 payments?**

2 A. If PacifiCorp prevails in the pending appeal of the Commission's ruling on this  
3 issue, US Mag has agreed that it will owe a balance of approximately \$48,000 as  
4 suggested by Mr. Brooks. Mr. Brooks, however, fails to acknowledge that  
5 PacifiCorp has entered into an agreement with US Mag, approved by the US  
6 Bankruptcy Court overseeing the Magcorp bankruptcy in New York, which  
7 specifies if and when such a payment must be paid. It is thus wholly inappropriate  
8 for Mr. Brooks to request a Commission order for US Mag to pay this payment in  
9 a manner which conflicts with the stipulated method and timing under the  
10 agreement approved by the Bankruptcy Court.

11 It should also be noted that the remaining \$48,000 payment is only about  
12 7.5% of the total \$624,000 cost difference at issue in the Commission's order. I  
13 believe that the Commission's order contemplated that the full \$624,000 at issue  
14 should be paid over twelve months, permitting gradual payment pain to make up  
15 the difference. In fact, over 92% of the balance was paid immediately, by offset.  
16 The remaining 7.5%, by agreement, will be paid within 10 days of a final decision  
17 in the appeal process. Given the relative insignificance of the remaining balance,  
18 PacifiCorp's request seems somewhat petty. Given its stipulation as to when and  
19 how the payment must be made, the request is inappropriate and disingenuous.  
20 US Mag will pay the \$48,000 remaining balance if and when it becomes due  
21 under the stipulation entered into by PacifiCorp, US Mag and Magcorp following  
22 resolution of the pending appeal. US Mag is not trying to avoid its obligation; it

1 is living up to the agreement it signed. We expect PacifiCorp to do the same. The  
2 Commission should never have been asked to get involved in this minor contract  
3 dispute that has already been resolved by stipulation.

4 **Q. What about the claim that US Mag failed to pay for power that it received in**  
5 **2002?**

6 A. That claim is totally without merit. US Mag has paid for all power it has received,  
7 twice per month, since it purchased the Magcorp assets. It did so even though  
8 there was a long period after its acquisition in which no contract for service had  
9 been signed or approved by the Commission. US Mag purchased the assets in late  
10 June. It made payments in July on roughly the dates that monies were due under  
11 the Magcorp contract (which was no longer applicable). PacifiCorp refuses to  
12 credit these payments properly, in an attempt to increase its security against a  
13 potential US Mag default. In an effort to do so, Mr. Brooks has essentially  
14 attempted to color-code payments and credits in a manner designed to paint a  
15 negative picture.

16 **Q. Can you elaborate?**

17 A. Yes. Mr. Brooks' testimony claims that US Mag has never paid for power taken  
18 during the period June 24, 2002 through June 30, 2002. That claim is not  
19 credible, given that a \$485,000 payment was paid by US Mag on July 9, 2002, and  
20 US Mag owned a June QF revenue credit at the time worth \$200,422.15. Rather  
21 than applying these payments and credits (and certain other credit adjustments  
22 later made by PacifiCorp) to the then-outstanding balance, Mr. Brooks unilaterally

1 elected to hold these payments, credits and adjustments as security against future  
2 amounts that would become due. In other words, Mr. Brooks decided to pad the  
3 utility's security position rather than apply these amounts against the outstanding  
4 balance. We do not believe that Mr. Brooks had or has the authority to do so  
5 without customer or Commission approval.

6 **Q. When the new agreement was signed by both Parties and presented to the**  
7 **Commission for approval in 2003 was there any mention of this alleged**  
8 **shortfall in payments for June and July of 2002?**

9 A. No, the new agreement simply increased the deposit amount to \$665,000 to  
10 address payment risk issues. There was no mention of disputed or missed  
11 payments when that agreement was brought to the Commission for approval.

12 **Q. What is your proposed solution to the two issues raised by Mr. Brooks?**

13 A. On the first issue, nothing should be done by the Commission. Rather, let the  
14 appeals court do its job and then let the bankruptcy stipulation control when and if  
15 payments will be paid. On the second issue, if PacifiCorp wants to increase  
16 payments or security in an effort to ensure that there is never a risk of an  
17 outstanding balance at any given point in time, it should make its case for the  
18 same directly. Frankly, US Mag may be willing to let it do so, but only if US  
19 Mag's security deposit is reduced to more appropriately match the contract service  
20 termination conditions.

21 The new service agreement should contain specific language that calls out  
22 the number of days of advance notice required before PacifiCorp can shut off

1 power supplies if timely payment is not made by US Mag for electric service. US  
2 Mag proposes a seven-day advance notice requirement, with a corresponding  
3 security deposit requirement of \$280,000. That way, PacifiCorp will never be  
4 exposed to a risk of non-payment and US Mag will not be required to provide  
5 unnecessary security deposits that compete with important working capital  
6 requirements.

7 **Q. Can you summarize your testimony?**

8 A. I propose a new ten-year interruptible service arrangement for US Mag with a  
9 starting base rate of \$21.00/MWH. The base rate should be subject to periodic  
10 adjustment at the time and in the amount of any average schedule 9 rate  
11 adjustment stemming from a general rate case filed after the effective date of the  
12 new contract, to capture factors of inflation. These increases should be subject to  
13 the condition that they will not place US Mag's rates above the lowest priced  
14 special contract customer in the State of Utah or Idaho unless mutually agreed to  
15 by the parties and approved by the Commission.

16 The interruption period should be a four-hour period during all non-  
17 holiday weekdays in July and August. For June and September, the four-hour  
18 interruption period should apply only on non-holiday weekdays that are forecasted  
19 to reach 100 degrees or higher. The base rate is a compromise derived from the  
20 efforts of the interruptible task force as headed up by the Division and discussions  
21 with PacifiCorp regarding the value of reserves that US Mag can and does  
22 provide.

1                   These compromise rates and terms should give US Mag a reasonable  
2                   opportunity to continue in business by attracting needed investment and  
3                   expanding the facilities, and should enable it to continue to provide significant  
4                   system benefits to the PacifiCorp power system and significant economic benefits  
5                   to the State of Utah.

6                   The new service agreement should include a seven-day advance notice  
7                   requirement before shutting off power for non-payment. The security deposit held  
8                   by PacifiCorp should be \$280,000, to reflect the value of seven days of power  
9                   usage.

10   **Q.    Does that conclude your direct testimony?**

11   **A.    Yes it does.**

12

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email or US Mail, postage prepaid, this 4<sup>th</sup> day of August, 2004, on the following:

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