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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 SUPPLEMENTAL TESTIMONY OF LEE R. BROWN**

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US Magnesium LLC hereby submits the Prefiled Supplemental Testimony of Lee R. Brown  
in each of Dockets 03-035-19 and 04-035-20.

DATED this 13<sup>th</sup> day of October, 2004.

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Gary A. Dodge,  
Attorneys for US Magnesium LLC

PREFILED SUPPLEMENTAL TESTIMONY

Of

LEE R. BROWN

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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October 13, 2004

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**Introduction**

**Q. Please provide your name, position and business address.**

A. My name is Lee R. Brown, I am Vice President of Contracts, Public and Government Affairs for US Magnesium LLC. (USM). I work at the corporate offices located at 238 North 2200 West, Salt Lake City, Utah, 84116-2921. I have worked for the USM and its predecessor companies since 1978. I have been responsible for numerous functions for the company over the years, including direct responsibility for negotiating and administering the electric power and natural gas agreements for the company since 1988.

**Q. Why are you filing supplemental testimony?**

A. Over the last sixteen years I negotiated several amendments to the original 1968 Power Agreement with Utah Power representatives and I was responsible for the negotiation of the 2002 Power agreement and QF Power Sales Agreement between USM and PacifiCorp which are currently in effect. I have considerable knowledge of the origins of the 1968 Power Agreement and the history of negotiations between the Magnesium Project and Utah Power, as I have reviewed historic files on negotiations between the parties and I have had extensive discussions with Walter McCormick and Jack Gallivan who were instrumental in negotiating the first power agreement in the late 1960s. Then, as now, the utility was solidly against providing the Magnesium Project with a power agreement at rates that enable the facility to succeed. After more than a year of contentious negotiations and hearings, the Commission ruled in 1968 that the rate the

1 Magnesium Project requested was just and reasonable and in the public interest.  
2 That rate was approximately 60% of the firm rate for large industrial customers  
3 (today's schedule 9).

4 The primary purpose of my testimony is to discuss historic and current  
5 facts that demonstrate that the rate and terms requested by USM now, as in the  
6 past, are just, reasonable and in the public interest. I will offer evidence that the  
7 rates given USM and its predecessors have always met this standard and that the  
8 rate we request today also meets that standard.

9 **Historic Facts**

10 ***1968 Contract***

11 **Q. Would you please provide some general background on USM and its**  
12 **relationship with the local electric utility?**

13 A. Certainly. USM operates facilities that produce magnesium and magnesium alloys in  
14 Tooele County, Utah, near the shores of the Great Salt Lake. USM is the second  
15 largest producer of pure magnesium and magnesium alloys outside the  
16 Commonwealth of Independent States and People's Republic of China and the only  
17 remaining producer of magnesium in the United States of America. I have explained  
18 the history of the USM facilities and Utah Power at length in prior dockets, including  
19 Docket 01-035-38. I will not repeat that history in exhaustive detail here, but I will  
20 provide a summary.

21 Electricity is a direct input into USM's electrolytic cells, making the process  
22 extremely electric-intensive. Electric purchases currently represent about 16% of

1 USM's total operating expenses. In 1968, USM's predecessor proposed to build  
2 facilities on the shores of the Great Salt Lake and be served by a local electric  
3 cooperative that was willing to offer interruptible power at rates that would make the  
4 project economically feasible. Utah Power refused to provide power at the needed  
5 rates, but also objected to the cooperative providing service. Following lengthy  
6 contested hearings, the Utah Public Service Commission directed Utah Power to  
7 provide interruptible service to the facilities at a cost-based rate that was about 60%  
8 of the firm service rate.

9 The Commission's 1968 Order discussed at length the importance of the  
10 magnesium facilities to the economic welfare of the State of Utah. The economic  
11 contributions anticipated by the Commission in 1968 have clearly materialized.  
12 In 1996, the Tooele County Economic Development Corporation, utilizing  
13 economic multiplier effects supplied by the University of Utah Bureau of  
14 Economics and Business Research, determined that the magnesium facilities  
15 contributed over \$120 million dollars to the State's economy each year and are  
16 responsible for the creation of over 4,000 jobs. The Commission in 1968 took a  
17 long-term view of the public interest. If the Commission had not taken such a  
18 long-term view, the contract would never have been approved, USM would not  
19 have located in this state, and 30 years' worth of economic contributions to the  
20 State of Utah would have been lost.

21 The USM contract was amended eight times during its initial 30-year term  
22 to address various issues that arose and to adjust the price to reflect changed

1 circumstances. Each time an amendment raised cost of service issues, the cost-  
2 based interruptible rate remained about 60% of the firm service rate, and each  
3 time the interruptible rate was determined to be just and reasonable and in the  
4 public interest. During this 30-year time frame the interruptible agreement was  
5 renewed during periods when the availability of power generation and the utility's  
6 projected resources and needs varied greatly.

7 Eventually, PacifiCorp and USM's predecessors agreed about the benefits  
8 that this type of contract can provide to the system, the utility, and other  
9 ratepayers. On many occasions, Utah Power supported the interruptible contract  
10 as in the public interest and as adequately covering the cost of serving the  
11 facilities. Indeed, the benefits were recognized time and again as more special  
12 contracts were negotiated and approved, e.g., Kennecott, Geneva, Nucor,  
13 WECCO and Praxair. The contracts, which varied in terms and conditions, were  
14 all approved by the Commission.

15 PacifiCorp's witnesses are quick to point out that things have changed  
16 since the 1960's when the original agreement was approved. They note that the  
17 utility is currently in need of new system resources. Richard Walje has stated that  
18 Utah's peak demand is growing at more than 5% per year, while the base load  
19 growth is under 3% per year. He has further pointed out that the Wasatch front is  
20 transmission constrained. USM agrees with PacifiCorp that things have changed.

21 Indeed, the potential value of interruptible load, which was once criticized as  
22 virtually non-existent, should now be considered more valuable than ever. This is

1 particularly true for USM, which represents nearly 100 MW of interruptible load  
2 located squarely within the Wasatch front power bubble that is within the  
3 transmission constraints.

4 ***Task force Studies and Reviews***

5 The Public Service Commission authorized studies in 1992, 1998 and  
6 2002 to review the value of interruptible and economic incentive contracts and to  
7 determine if they are in the public interest. The task forces in 1992 and 1998 each  
8 lasted nearly a year and the consensus of most task force members was that  
9 special interruptible contracts provide benefits to the system, other ratepayers and  
10 the State's economy. During the first two task force studies, PacifiCorp actively  
11 supported such contracts. Some regulatory participants questioned the value of  
12 interruptible contracts during time periods when there was excess generation and  
13 little need for interruption of special contract customers.

14 The task force discussions eventually focused on economic benefits that  
15 these types of contracts can provide to the State by attracting and retaining large  
16 employers who provide significant economic contributions to the State and  
17 separate regions within the State. This focus eventually caused most task force  
18 members to agree that interruptible and economic incentive contracts should be  
19 available, when the public interest so warrants. It was recommended that such  
20 contracts should generally cover the variable cost of service and provide some  
21 contribution to fixed costs. It was also generally recognized that these contracts  
22 should meet a "**but for**" test, meaning that 'but for' a special contract, a company

1 would not locate in Utah, would cease to exist, or would purchase power  
2 elsewhere, in each instance depriving Utahns and/or PacifiCorp ratepayers of  
3 economic contributions.

4 ***Foreign Control Results in Changes***

5 After Utah Power was merged with PacifiCorp in the late 1980's, Utah  
6 Power's special contracts were accepted and honored by PacifiCorp. In the late  
7 1990's, after PacifiCorp was acquired by ScottishPower, we witnessed a dramatic  
8 change in corporate philosophy, leading to an effort to eliminate special  
9 interruptible contracts. ScottishPower's executives appeared more interested in  
10 recovering their investment in PacifiCorp than in preserving the benefits to Utah's  
11 economy provided by special interruptible contracts. In 1999, I went to Portland,  
12 Oregon to meet with Allan Richardson, ScottishPower's newly-appointed CEO of  
13 PacifiCorp. I went with the CEOs of USM, Kennecott, Geneva and Nucor in an  
14 attempt to persuade Mr. Richardson of the value and importance to Utah of  
15 interruptible contracts and the companies who held such contracts. The meeting  
16 was unsuccessful. These same companies subsequently supported legislation that  
17 would have allowed them to leave the PacifiCorp system and purchase power  
18 from other utilities. PacifiCorp successfully lobbied against this legislative  
19 initiative, which became known as the "Big Four" legislation. These companies  
20 and others were left with no option but to continue to fight against the efforts of  
21 ScottishPower/PacifiCorp to eliminate their service arrangements.

22 PacifiCorp demanded that USM, and presumably other companies with



1 special contracts, accept firm Schedule 9-based service contracts. PacifiCorp  
2 offered to consider entering into side agreements to purchase interruption or other  
3 services. USM's predecessor objected to ScottishPower's efforts, knowing that  
4 they would drive the company out of business. Ultimately, Magcorp was able to  
5 resist the utility's efforts and convince the Commission to continue to authorize  
6 an interruptible special contract like those that had governed in the past.

7 In 2002, ScottishPower contended for the first time in USM's history that  
8 interruptible contracts should be valued based on the same methodology used to  
9 allocate firm service costs. USM and others objected to that approach. The  
10 Commission formed yet a third task force to examine the best means of evaluating  
11 special interruptible contracts.

### 12 Today's Facts

13 **Q. What resulted from the 2002 task force?**

14 A. The task force was charged with developing an appropriate cost of service  
15 approach for interruptible customers such as USM. The task force met many  
16 times but was not able to agree or even reach a general consensus on the best  
17 approach. Meanwhile, other special interruptible contracts have been  
18 renegotiated, with various outcomes. Monsanto appears to have an interruptible  
19 special contract base rate lower than the base rate PacifiCorp is now offering  
20 USM, while the Nucor, Kennecott and Praxair contracts and side agreements have  
21 not been fully disclosed, despite data requests for the same.

22 The latest taskforce report was filed by the Division of Public Utilities on

1 June 21, 2004, and corrections to the report were filed on August 31, 2004. The  
2 participants did not reach a consensus on approach or value. The report  
3 acknowledges the problem of relying upon a firm cost of service model to  
4 evaluate special contract interruptible customers. After nearly two years of study,  
5 the DPU task force was able to offer only a wide range of possible methodologies  
6 and values for interruptible service.

7 The rate requested by USM is well within the range of values specified in  
8 the task force report. The specified range includes an interruptible rate as low as  
9 \$19 per MWH, based on the costs of the Cool Keeper DSM program. It also  
10 includes a firm rate calculated under the cost of service model of \$29.25/MWH.  
11 The report acknowledges that other factors, such as reserves, are not included in  
12 any of the stated values. USM submitted its observations and comments on the  
13 report on August 19, 2004; a copy of those comments is attached as USM Exhibit  
14 2S.1.

15 USM's current contract expires on December 31, 2004. USM is asking for  
16 a continuation of the same base rate, subject to adjustment to reflect Schedule 9  
17 rate changes in rate cases filed after the effective date of the new contract (but not  
18 above the rate paid by other special contract customers). USM has asked for a  
19 refinement to its interruptibility to reduce market exposure on days when  
20 interruption is clearly not needed to avoid the system peak. USM has offered to  
21 provide spinning reserve, which PacifiCorp acknowledges is worth millions of  
22 dollars per year. Given the value of these reserves, the terms proposed by USM

1 will effectively provide a higher value/rate to PacifiCorp than the current contract.

2 On August 4, 2004 Richard Walje, Executive Vice President of  
3 PacifiCorp announced PacifiCorp was petitioning the Utah Public Service  
4 Commission for a \$111 million dollar increase in rates. He went on to assure  
5 ratepayers that, even with a \$111 million rate increase (along with the other  
6 increases that ScottishPower has received since it took over in the late 1990's),  
7 Utah tariff rates would still be “lower than what Utah customers were paying in  
8 1985.” This analysis ignores rate decreases resulting from the Utah  
9 Power/PacifiCorp merger in 1989.

10 USM was paying \$19.12 WH in 1988. This was the year before the  
11 PacifiCorp merger with Utah Power that resulted in rate decreases to general tariff  
12 customers of over 20%. USM did not receive the merger-based rate reductions.  
13 USM has been paying 25% more than it paid in 1988 for the last two years.  
14 USM's rates were \$18 per MWH in 2001. The base rate was raised to \$21 in  
15 2002, for an initial increase of about 17%. USM was also put at risk of market  
16 purchases during more than 500 peak summer hours when it can be interrupted.  
17 USM's total cost of purchased power has averaged about \$24 per MWH, for an  
18 increase from the 2001 level of about 33%.

19 PacifiCorp's prefiled testimony in this docket suggests that USM's base  
20 rate should be increased to about \$29 per MWH. If that request were granted,  
21 USM's rates would increase by about another 30%, for a total increase of over  
22 60% in just three years. Even an increase in the base rate to \$24 per MWH (with

1 no significant change to terms of interruptibility) would produce an incremental  
2 increase of over 14% and a 50% cumulative increase since 2001. Those kinds of  
3 rate increases would be staggering to any company. For a company struggling to  
4 emerge from bankruptcy and survive in a cutthroat competitive world marketplace  
5 for magnesium products they could prove fatal, particularly given that the cost of  
6 electricity represents such a significant portion of USM's operating expenses.

7 **Q. Isn't PacifiCorp simply trying to raise USM's rate to cover its cost of service?**

8 A. So it claims, but its proposed rate is unreasonable and its approach to determining  
9 cost of service is erroneous. Its proposed rate is unreasonable because, even if  
10 PacifiCorp's cost of service approach were reasonable for interruptible service, a  
11 customer should not be subjected to such dramatic rate increases over such a short  
12 period of time. Its cost of service approach is erroneous because it is unworkable  
13 and inaccurate in measuring a realistic cost of serving an interruptible customer  
14 like USM.

15 To estimate the cost to serve USM, PacifiCorp relies upon a firm cost of  
16 service-based approach that is flawed for a number of reasons. Early in the  
17 interruptible task force meetings, the parties (including PacifiCorp) generally  
18 acknowledged that a firm cost of service methodology is a poor tool for  
19 determining the value of interruptibility. Notwithstanding that consensus, the task  
20 force was never able to agree upon the best approach to determine the value of  
21 interruptibility or the corresponding cost of service for an interruptible customer.  
22 Both time and resource constraints apparently got in the way of developing a

1 useful ground-up cost of service methodology for interruptible service, as I  
2 believe this Commission expected. PacifiCorp has now resorted to using the  
3 admittedly-flawed firm cost of service approach.

4 PacifiCorp's firm embedded cost of service approach allocates generation  
5 costs on a "12 CP" basis, and then gives USM "credit" for interruptibility by  
6 removing its load from peak calculations for specified months. Regardless of  
7 whether this approach is reasonable for allocating costs among firm customer  
8 classes, it is patently unreasonable for allocating costs to interruptible customers.  
9 This approach yields approximately the same value for a customer that avoids  
10 system peaks in shoulder months (e.g., March, April, October and November) as it  
11 does for USM for avoiding system peaks in the peak summer months (e.g., June -  
12 September). Obviously, shaving summer peaks is far more valuable than shaving  
13 shoulder peaks, but PacifiCorp's approach simply ignores this value.

14 After deriving a flawed starting value, PacifiCorp estimates the value of  
15 resources that USM can offer, such as reserves, through a short-term market  
16 approach. This approach is similar to the one used by PacifiCorp in developing an  
17 interruptible tariff a few summers ago. Not one customer signed up for that tariff.

18 PacifiCorp's short-term market approach simply does not reflect realistic long-  
19 term values.

20 **Q. How do you propose that the Commission should evaluate cost of service for an**  
21 **interruptible customer?**

22 **A.** Roger Swenson's testimony addresses the technical response to that question.

1           However, I think that the following factors should be emphasized in evaluating  
2           the best approach for determining the cost of interruptible service:

3                       Electric service to USM's facilities has always been interruptible. There  
4           has thus been no legitimate reason or requirement for PacifiCorp to construct  
5           generation resources to meet the electric requirements of USM's facilities.

6                       Historically, the cost to serve interruptible customers such as USM has  
7           been determined by identifying and valuing specific low cost generation resources  
8           available to serve USM and insuring that the rate made some contribution to  
9           system fixed costs. This methodology insured there would be no subsidization  
10          and provided some degree of interruptibility for system integrity in return for the  
11          preferred rate.

12                      USM's current rate covers the average variable cost of service and makes a  
13          significant contribution towards the fixed costs of the system. In my view, this  
14          satisfies the intent of the tests suggested in previous task force reports.

15                      The recent task force report prepared by the DPU identifies a range of  
16          possible cost of service methodologies and results, without identifying a preferred  
17          approach. The rate requested by USM falls within this range of cost of service  
18          results.

19                      USM's facilities provide a large ready source of demand side management  
20          during peak hours, similar to the cool keeper program being promoted by the  
21          utility. The rate requested by USM is higher than the rate that would be justified  
22          by comparing the costs of the cool keeper and similar DSM programs, or to the

1 cost that PacifiCorp is willing to pay itself and its affiliates for the Gadsby, West  
2 Valley, Currant Creek and Lake Side projects.

3 USM does not expect anyone to subsidize its electric rates. It does,  
4 however, expect to be treated fairly. It also expects that cost principles similar to  
5 those used to justify construction of the facility in the first place will continue to  
6 be used.

7 USM has appealed to the Utah Court of Appeals a Commission ruling that  
8 set the rate for interruptible service to Magcorp in the first few months of 2002 at  
9 \$21 per MWH. The briefs filed in that case demonstrate that USM and the  
10 Commission respectfully disagree over a controlling legal issue dealing with the  
11 doctrine against retroactive ratemaking. USM wholeheartedly agrees, however,  
12 with the factual argument made by the Commission in that case that \$21 was (and  
13 is) a “just and reasonable” rate for interruptible service to USM, after properly  
14 taking into consideration all relevant factors, including “the benefits that will be  
15 obtained under the contract . . . , the costs or expenses resulting from the contract  
16 . . . , and the appropriate sharing of risks, among the various interests.” [*US*  
17 *Magnesium LLC v. Public Service Commission of Utah*, Case No. 2004 0082-A,  
18 Brief of Public Service Commission at 24]. A \$21 rate was just and reasonable in  
19 light of the relevant considerations in 2002, and it remains a just and reasonable  
20 rate today, taking into account those same considerations. Also, USM has offered  
21 significant additional value to justify this rate by providing system reserves.

22 The Commission properly can and should take economic impacts into

1 consideration in making the subjective judgments necessary in the rate-setting  
2 process. Utah statutes permit the Commission to take economic considerations  
3 into account and USM believes that the Commission should take such matters into  
4 consideration in setting rates, both for USM and for other Utah industries and  
5 businesses.

6 **Q. Please describe the financial and competitive circumstances currently facing**  
7 **USM.**

8 A. USM purchased the facilities from the Magcorp bankruptcy estate in 2002. It has  
9 struggled since that time to become profitable. We have consistently indicated  
10 that USM's continued survival is dependent upon several critical factors,  
11 including (i) expanding facilities to reduce per-unit production costs; (ii)  
12 combating subsidized foreign magnesium products; and (iii) stabilizing long-term  
13 energy costs. As discussed in more detail below, we have taken significant steps  
14 towards achieving the first two of these critical milestones. This docket  
15 represents a significant part our attempt to achieve the third.

16 USM recently announced that it is expanding its facilities by constructing  
17 a third pot line to increase nameplate capacity to 50,000 metric tons. While this is  
18 a necessary first step, USM must further expand its capability to 59,000 – 73,000  
19 metric tons. Our ability to finance and complete such expansion is dependent,  
20 among other things, on our ability to obtain a long-term, stable and economically  
21 viable electric contract.

22 Foreign competition is brutal in the magnesium markets, sometimes as a



1 result of unlawful subsidization by foreign governments. In February, USM filed  
2 a petition with the U.S. International Trade Commission contending that Russia  
3 and China were selling magnesium at less than fair market value. The Commerce  
4 Department recently issued a preliminary determination supporting our position.  
5 While it will be several months before the trade cases are completed, we are  
6 encouraged by this finding and optimistic that foreign competitors will be required  
7 to compete in this country on a fair and lawful basis. Stemming the tide of  
8 unlawfully subsidized foreign products remains critical to USM's long-term  
9 viability. Controlling and stabilizing long-term electric rates is also critical.

10 **Q. Is it in the public interest for USM to continue in operations?**

11 A. I believe the answer is self evident. The economic viability of Utah industry  
12 should be of significant concern to all state agencies, including the Public Service  
13 Commission. USM pays high wages to more than 400 current employees and has  
14 a significant impact on the Utah economy. The economic health and vitality of  
15 Tooele County and the State of Utah would be seriously and adversely affected if  
16 USM were to go out of business.

17 An additional fairness issue applies today. The decision faced by the  
18 Commission in 1968 was whether it was in the public interest of the State of Utah  
19 for Utah Power to sell interruptible power to USM at a steep discount to firm rates  
20 in order to allow the project to be built. The question was answered affirmatively.  
21 Since then, tens of millions of dollars have been invested in the facilities based on  
22 the reasonable expectation that similar interruptible power arrangements using

1 similar economics would continue into the future. Perhaps one could reasonably  
2 have disagreed with the decision made in 1968 that the public interest supported  
3 steeply discounted interruptible rates in order to allow the facility to be built.

4 Given that the decision was made, however, and USM and its predecessors made  
5 significant investments in reliance, it would be unjust to change the rules mid-  
6 stream and force USM out of business by discontinuing the type or pricing of  
7 service that was necessary to justify the investment in the first place.

8 **Q. Would you please summarize why you believe USM's proposed rates and**  
9 **terms are just, reasonable and in the public interest?**

10 A. The Public Service Commission has a responsibility to be just and reasonable to  
11 other ratepayers, the utility and USM as it considers USM's request. PacifiCorp is  
12 not being just and reasonable to USM when it demands rate increases that far  
13 exceed the increases required of other customers.

14 USM is the last remaining primary producer of magnesium in the United  
15 States. It was given a special interruptible contract in 1968 in order to bring jobs,  
16 taxes and economic benefits to Utah. USM has provided many hundreds of  
17 millions of dollars in economic benefits to the State of Utah and has met all of the  
18 requirements imposed on special interruptible contracts by commission task  
19 forces and orders.

20 USM must continue to receive a power rate similar to the rate it has  
21 received over the last 33 years in order to compete with foreign competitors and to  
22 enable it to provide economic benefits to the State of Utah. Such a contract will

1 provide system benefits in the form of a reliable 100 MW peak shaving resource  
2 that is capitalized, operated, maintained and fueled by USM. Its potential as an  
3 emergency backup resource and reserve resource brings additional benefits that  
4 ratepayers will not be asked to shoulder, by allowing the avoidance of  
5 construction of a similar resource.

6 The public interest is best served by providing a special interruptible  
7 contract that will allow USM to remain in business. Such a contract will not  
8 require subsidization by other ratepayers and will provide a contribution to fixed  
9 costs, while providing needed peaking resources along the Wasatch Front.

10 The rate increase demanded by PacifiCorp is not reasonable and not  
11 justified in light of the increases required of other ratepayers, and would  
12 significantly affect the ability of USM to expand and remain competitive with  
13 foreign producers.

14 **Q. What is your understanding of the current status of discussions relating to**  
15 **PacifiCorp's Complaint in Docket 04-035-20?**

16 A. USM has demonstrated that there is no dispute over the amount of money owed  
17 and there can be no legitimate claim that power was used but not paid for. Rather,  
18 the dispute is over which payments should be credited to which service and how  
19 much security PacifiCorp should hold. PacifiCorp holds a significant deposit  
20 from USM. In addition, USM makes prepayments for the power that it plans to  
21 use. USM also provides QF power for which it is paid on a month-delayed basis.  
22 Finally, USM can be shut down on very short notice if it fails to make a required

1 payment. In combination, these factors provide ample protection against any  
2 potential default or bankruptcy.

3 USM is willing to prepay the additional money requested by PacifiCorp,  
4 assuming the level of its deposit is reduced correspondingly. It is not reasonable  
5 for PacifiCorp to demand all of the existing protections and also seek further  
6 prepayments. Ratepayers and PacifiCorp are more than adequately protected  
7 against any possible default.

8 **Q. Do you have any final comments?**

9 A. Yes. As explained above, since their inception the USM facilities have required and  
10 received reasonable interruptible service and rates. USM has not requested, and is  
11 not now requesting, a subsidy from PacifiCorp or any other customers. However, it  
12 has become abundantly clear that determining an interruptible customer's proper  
13 share of "costs" is more art than science. In selecting an approach to be used to  
14 calculate cost of service for USM, a number of historic and current facts and factors  
15 should be taken into consideration, including the history of the relationship, the  
16 manner in which costs have been measured and rates have been established  
17 historically, the impact of significant rate increases on USM, and the significant  
18 economic contributions that USM has made and can continue to make to this State.

19 USM believes that the rates and terms it has requested are reasonable. The  
20 current \$21 rate falls within a reasonable range of cost of service results as reported  
21 by the DPU task force report. The rate will move upward within that reasonable  
22 range over time if it is tied to future Schedule 9 rate increases, but not above the rate

1           paid by any other special contract customer. USM's proposed terms of interruption  
2           will provide assurances that system peaks will be avoided. USM has offered  
3           significant additional value to PacifiCorp and other ratepayers by offering to provide  
4           spinning reserves.

5                       Even if the Commission disagrees with any of USM's arguments, I urge the  
6           Commission to err on the side of caution and gradualism. An industry like USM  
7           struggling to compete in a tough world market will find it very difficult to survive  
8           any significant increase in its cost for a primary production input.

9   **Q.   Does that conclude your testimony?**

10  **A.   Yes it does.**

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 \_\_\_\_\_ day of October, 2004, on the following:

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