

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

D. DOUGLAS LARSON

NOVEMBER 5, 2004

1 **Q. Please state your name.**

2 A. My name is D. Douglas Larson

3 **Q. Did you previously offer testimony in this proceeding?**

4 A. Yes, I filed testimony in the Company's direct case.

5 **Purpose of Testimony**

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. The purpose of my testimony is to refute the assertion made by US Magnesium
8 LLC (USM) witness Lee R. Brown that it would be "unjust" for the Commission
9 to discontinue the discounted prices that were approved in 1968. In so doing, I
10 will reiterate PacifiCorp's position that cost-based rates are necessary in order to
11 ensure fair and equitable treatment for all of our customers. We are in no position
12 to offer discounted electric service to USM, or any other single customer, at the
13 expense of our remaining customers.

14 **Q. Why does Mr. Brown believe that it would be "unjust" for the Commission
15 to discontinue the discounted prices that USM and its predecessor
16 companies have enjoyed since 1968?**

17 A. Mr. Brown argues that tens of millions of dollars have been invested in the
18 magnesium facilities over the years based on an expectation that discounted prices
19 would continue. Therefore, he argues that it would be unjust to "change the
20 rules" now and force USM out of business by discontinuing those prices.

21 **Q. Would PacifiCorp like to see USM forced out of business?**

22 A. No. As I made very clear in my direct testimony, USM is an important and
23 valued customer of PacifiCorp, and we want to make every reasonable effort to

1 help them remain competitive. To that end, we are continuing to work with them
2 to determine the services that they can offer to our customers and to credit them
3 with full value for these services. However, we continue to believe that the
4 \$21/MWH rate proposed by Mr. Brown is not cost-based and does not cover the
5 costs that are required to serve USM. It is unreasonable to expect PacifiCorp to
6 favor USM at the expense of other electric customers.

7 **Q. Do you believe that a Commission decision to adopt a cost-based rate for**
8 **USM would be unjust or unfair?**

9 A. No. While I will not repeat all of my earlier arguments in favor of implementing
10 cost-based rates for USM, I believe it is important to explain why the
11 Commission has no “moral obligation” to continue to provide discounted rates to
12 USM. Mr. Brown attempts to paint a portrait of a company that has invested
13 millions of dollars over the years in reliance upon a Commission-approved
14 pricing scheme that was necessary to justify these investments. However, Mr.
15 Brown has chosen to tell only half of the story. The 1968 contract for USM’s
16 predecessor was approved by the Commission on the basis that the price reflected
17 the cost of providing the service. The Commission was not approving a contract
18 at prices that were below the cost of service and USM has no reason to expect a
19 different treatment in this case.

20 **Q. Do you agree with Mr. Brown that the public interest is best served by**
21 **providing a special interruptible contract that will allow USM to remain in**
22 **business?**

1 A. No. It is not the proper role of the Public Service Commission or PacifiCorp to
2 find ways to allow USM to remain in business. It is in the public interest for both
3 the Commission and the Company to work with USM to find ways in which it can
4 provide services to Utah electric customers and to give USM credit for the full
5 value of those services. USM should pay the full and fair cost of receiving
6 electric service. At that point its future financial viability is properly in the hands
7 of its owners and managers—not the Commission or PacifiCorp.

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

9 A. Yes.