

Gary A. Dodge, #0897
Hatch, James & Dodge
10 West Broadway, Suite 400
Salt Lake City, UT 84101
Telephone: 801-363-6363
Facsimile: 801-363-6666
Email: gdodge@hjdllaw.com

Attorneys for US Magnesium LLC

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations	Docket No. 10-035-124
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------

PREFILED DIRECT TESTIMONY OF ROGER J. SWENSON

[REVENUE REQUIREMENT]

US Magnesium LLC hereby submits the Prefiled Direct Testimony of Roger J. Swenson on revenue requirement issues.

DATED this 26th day of May, 2011.

/s/ _____
Gary A. Dodge,
Attorney for UAE

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 26th day of May, 2011, on the following:

Dataraqeust@pacificorp.com

Mark C. Moench
Yvonne R. Hogle
Daniel E. Solander
Rocky Mountain Power
201 South Main Street, Suite 2300
Salt Lake City, Utah 84111
mark.moench@pacificorp.com
yvonne.hogle@pacificorp.com
daniel.solander@pacificorp.com

Paul J. Hickey
Hickey & Evans, LLP
P.O. Box 467
1800 Carey Avenue, Suite 700
Cheyenne, Wyoming 82003-0467
phickey@hickeyevans.com

Katherine A. McDowell
McDowell & Rackner, P.C.
520 SW 6th Avenue, Suite 830
Portland, OR 97204
Katherine@mcd-law.com

Patricia Schmid
Assistant Attorneys General
500 Heber M. Wells Building
160 East 300 South
Salt Lake City, UT 84111
pschmid@utah.gov

Paul Proctor
Assistant Attorney General
160 East 300 South, 5th Floor
Salt Lake City, UT 84111
pproctor@utah.gov

F. Robert Reeder
William J. Evans
Vicki M. Baldwin
Parsons Behle & Latimer
One Utah Center, Suite 1800
201 S Main St.
Salt Lake City, UT 84111
BobReeder@pblutah.com
BEvans@pblutah.com
VBaldwin@pblutah.com

Holly Rachel Smith, Esq.
Hitt Business Center
3803 Rectortown Road
Marshall, VA 20115
holly@raysmithlaw.com

Ryan L. Kelly, #9455
Kelly & Bramwell, P.C.
11576 South State St. Bldg. 1002
Draper, UT 84020
ryan@kellybramwell.com

Peter J. Mattheis
Eric J. Lacey
Brickfield, Burchette, Ritts & Stone, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007
pjm@bbrslaw.com
elacey@bbrslaw.com

Gerald H. Kinghorn
Jeremy R. Cook
Parsons Kinghorn Harris, P.C.
111 East Broadway, 11th Floor
Salt Lake City, UT 84111
ghk@pkhlawyers.com
jrc@pkhlawyers.com

Kurt J. Boehm, Esq.
BOEHM, KURTZ & LOWRY
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202
kboehm@BKLawfirm.com

Sharon M. Bertelsen
Ballard Spahr LLP
One Utah Center, Suite 800
201 South Main Street
Salt Lake City, Utah 84111
bertelsens@ballardspahr.com

Mike Legge
US Magnesium LLC
238 North 2200 West
Salt Lake City, Utah 84106
mlegge@usmagnesium.com

Roger Swenson
US Magnesium LLC
238 North 2200 West
Salt Lake City, UT 84114-6751
roger.swenson@prodigy.net

Stephen J. Baron
J. Kennedy & Associates
570 Colonial Park Drive, Suite 305
Roswell, GA 30075
sbaron@jkenn.com

Captain Shayla L. McNeill
Ms. Karen S. White
AFLOA/JACL-ULFSC
139 Barnes Ave, Suite 1
Tyndall AFB, FL 32403
Shayla.mcneill@tyndall.af.mil
Karen.white@tyndall.af.mil

Sophie Hayes
Sarah Wright
Utah Clean Energy
1014 2nd Avenue
Salt Lake City, UT 84111
sophie@utahcleanenergy.org
sarah@utahcleanenergy.org

Stephen F. Mecham
Callister Nebeker & McCullough
10 East South Temple Suite 900
Salt Lake City, Utah 84133
sfmecham@cnmlaw.com

Rob Dubuc
Western Resource Advocates
150 South 600 East, Suite 2A
Salt Lake City, UT 84102
rdubuc@westernresources.org

Steven S. Michel
Western Resource Advocates
409 E. Palace Ave. Unit 2
Santa Fe, NM 87501
smichel@westernresources.org

Nancy Kelly
Western Resource Advocates
9463 N. Swallow Rd.
Pocatello, ID 83201
nkelly@westernresources.org

Gloria D. Smith
Sierra Club
85 Second Street, Second floor
San Francisco, CA 94105
gloria.smith@sierraclub.org

Bruce Plenk
Law Office of Bruce Plenk
2958 N St Augustine Pl
Tucson, AZ 85712
bplenk@igc.org

Janee Briesemeister
AARP
98 San Jacinto Blvd. Ste. 750
Austin, TX 78701
jbriesemeister@aarp.org

Alex M. Duarte
Qwest Law Department
310 SW Park Avenue, 11th Floor
Portland, OR 97205
Alex.Duarte@qwest.com

Sonya L. Martinez
Salt Lake Community Action Program
764 South 200 West
Salt Lake City, Utah 84101
smartinez@slcap.org

Betsy Wolf
Salt Lake Community Action Program
764 South 200 West
Salt Lake City, Utah 84101
bwolf@slcap.org

Randy N. Parker
Leland Hogan
Utah Farm Bureau Federation
9865 South State Street
Sandy, Utah 84070
rparker@fbfs.com
leland.hogan@fbfs.com

Arthur F. Sandack (Bar No. 2854)
8 East Broadway, Ste 411
Salt Lake City, Utah 84111
801-595-1300 office
asandack@msn.com

/s/ _____

BEFORE
THE PUBLIC SERVICE COMMISSION OF UTAH

Direct Testimony of Roger J. Swenson

on behalf of

US Magnesium LLC

Docket No. 10-035-124

[Revenue Requirement]

May 26, 2011

1 **Q. Can you please state your name and your current business address and**
2 **employer, your position and who you represent in this matter?**

3 A. My name is Roger Swenson. My current business address is 1592 East 3350
4 South, Salt Lake City, Utah 84106. My employer is E-Quant Consulting LLC and
5 I am a principal of that firm. I represent US Magnesium as an expert in this
6 matter.

7 **Q. Can you provide a brief summary of your education and business**
8 **experience?**

9 A. I received a degree in Physics from the University of Utah in 1984 and a Masters
10 degree in Industrial Engineering in 1990. I started working in the energy field for
11 a municipal electric utility as the Energy Management Coordinator. I then went to
12 work with Mountain Fuel Supply Company (now Questar Gas) as a Key Account
13 Rep and that work included time in the Rates and Regulatory department. I then
14 worked for a subsidiary of an alternative energy development company,
15 Bonneville Fuels as the Vice President of Energy Marketing. I have been
16 providing consulting for large industrial end user and also working with
17 renewable energy developers in various capacities for the past 10 years. In that
18 work I have provided testimony in various matters.

19 **Q. What is the basis for your testimony in this case?**

20 A. Rocky Mountain Power has proposed to increase rates for industrial customers by
21 a substantial amount in this proceeding. My testimony is in regards to proposing
22 adjustments that will reduce the revenue requirement in this case.

23 **Q. What is your first thought in looking at the revenue requirement issues in**
24 **this case?**

25 A. I want to give Rocky Mountain Power credit for trying to reduce rates by selling
26 some of its renewable energy resources to utilities willing to buy such power at a
27 premium.

28 **Q. Why do you believe RMP deserves praise for this?**

29 A. I believe it is exactly what should be done, to get the most value from these
30 resources as possible. Because Utah does not have a mandatory renewable
31 portfolio standard, renewable resources do not need to be held or used to serve
32 Utah customers. Utilities that have existing and growing renewable portfolios
33 requirements will pay far in excess of the replacement cost of energy for them. I
34 believe that Rocky Mountain Power has now roughly sold out 33% of the
35 available renewable energy through the test year period.

36 **Q. What can be learned from this experience going forward?**

37 A. One of the most important business strategies for any company is to measure the
38 results of initiatives that have been undertaken and do more of what works and do
39 less of what is not working. Clearly, selling renewable energy to utilities willing
40 to pay a premium is working and is reducing the Utah revenue requirement by
41 millions of dollars. I believe the Company should capitalize on this success going
42 forward by selling even more renewable energy, and for longer terms, to capture
43 high available prices

44 **Q. What do you want to see going forward?**

45 A. I want Rocky Mountain to sell even more of the output from the renewable
46 resources. I believe that the company should continue its efforts and contract to
47 sell the remaining renewable resources to outside entities in the test period.

48 **Q. Are you taking issue with the renewable energy sources that are in rates?**

49 A. No, these renewable resources were developed for good reasons, including
50 mitigating then-projected fuel price risk stemming from natural gas price
51 volatility and risks associated with potential CO2 taxes or costs for fossil fuel
52 plants. Today, however, circumstances have changed dramatically. Abundant
53 new natural gas resources have been tapped, causing natural gas prices to drop
54 significantly. It is highly likely that lower natural gas prices will persist for many
55 years. Also, as acknowledged in the Company's 2011 IRP in regards to
56 greenhouse gas regulations, there seems to be a lull in the pace at which any new
57 CO2 costs will be imposed. This provides the Company with a valuable
58 opportunity for the next 5-10 years to sell its renewable energy into the high-
59 priced markets.

60 **Q. Does the 2011 IRP predict significant new renewable resources over the next
61 few years?**

62 A. No, not until 2018. What that says to me is that, given the existing state of the
63 natural gas market and the CO2 regulatory circumstances, the Company agrees it
64 is time to pull back a little and take more of a wait and see approach on new
65 renewable resource until circumstances change.

66 **Q. What else do you learn from the 2011 IRP?**

67 A. It clearly shows that, given what is known now and what is projected into the
68 future, the Company does not need to hold renewable resources in its supply mix
69 to serve Utah's energy needs. These are very valuable resources to entities with
70 stringent renewable standards and to entities that elect to have a higher degree of
71 renewable energy in their mix. A much higher percentage of these resources
72 should be sold into the market going forward compared to what has been done in
73 the past.

74 **Q. What percentage of the resources should PacifiCorp target to sell?**

75 A. I believe PacifiCorp should sell up to 100% of the renewable resources in the
76 existing resource mix.

77 **Q. Mr. Bird in his testimony mentions that the market for RECs was weak
78 because of uncertain regulatory treatment in the California market. Has
79 anything changed since his testimony was filed?**

80 A. Yes, the regulatory framework for out of state renewable energy deliveries to
81 California has been clarified under California's SBX 1-2.

82 **Q. Can you explain?**

83 **A.** This legislation divides renewable energy products into three buckets, the last two
84 of which have certain delivery maximum quantity percentages associated with
85 them. The first, and most valuable, bucket is "dynamic" renewable energy,
86 consisting of resources delivered as a dynamic schedule to a California ISO
87 delivery point. This type of out of state resource has no restrictions on quantities

88 of renewable power that can be used to meet the RPS standards that have been set
89 and will likely be the most valuable. The CAISO defines a dynamic schedule as:

90 *A telemetered reading or value which is updated in Real-Time and*
91 *which is used as a schedule in the CAISO Energy Management System*
92 *calculation of Area Control Error and the integrated value of which is*
93 *treated as a schedule for interchange accounting purposes.*

94

95 MRTU Tariff, Appendix A, Master Definitions Supplement

96 The second bucket of out of state renewable delivery products is for
97 “shaped” renewable power that cannot be dynamically transferred, thus requiring
98 load shaping or offsetting generation at times to match system transmission and
99 delivery needs. In 2016, up to 35% of renewable energy can come from these
100 sources.

101 The last bucket is for unbundled RECs or “TRECs” as called out in the
102 California legislation that are sold separately from the associated renewable
103 energy. This is the most limited source of out of state renewable resource that will
104 be counted towards RPS mandated quantities Only 15% of the RPS requirements
105 can be satisfied with TRECs after 2016; up to 25% can come from this bucket
106 prior to 2016.

107 **Q. Do you believe PacifiCorp has the capability to make both dynamic and**
108 **shaped deliveries to California ISO delivery points?**

109 A. Yes, absolutely. Indeed, I am confident that no other entity in the WECC area has
110 as much capability as does PacifiCorp to provide dynamic scheduling of
111 renewable resources to California. PacifiCorp has a significant transmission
112 delivery system, as well as rights on other systems, and it has great experience

113 dealing with dynamic generation and experience with the resources it owns or has
114 control over.

115 **Q. Are you suggesting that PacifiCorp should never use renewable energy in its**
116 **own system in the future?**

117 A. Not at all. There may come a time when these resources will be needed for Utah
118 load. For now, however, this valuable renewable energy resource is not needed to
119 meet Utah's load, and can be sold in valuable long-term blocks. I recommend
120 that 50% of the available renewable resources should be sold for 10-year terms,
121 with the remainder for terms of up to 5 year. This will maximize PacifiCorp's
122 returns, with minimal risks to Utah.

123 **Q. Why would you suggest 10 years for 50% of the renewable production to be**
124 **sold?**

125 A. Ten year contracts will be the most valuable to the California utilities, as it is my
126 understanding that this may give them the ability to bank some of the renewable
127 purchases for future periods if they exceed current requirements. Moreover, it
128 appears likely that no CO2 tax or cost will become effective prior to 2020.

129 **Q. Would your suggestion put Rocky Mountain customers at risk if the natural**
130 **gas markets change or CO2 taxes or costs are imposed sooner?**

131 A. There will always be a risk, but I do not believe it is significant. We are fortunate
132 to have enormous quantities of renewable energy nearby in Utah, Wyoming and
133 Idaho. It is highly likely that sufficient energy will be available to meet Utah's
134 needs, and at prices that are significantly lower than prices for renewable energy.

135 Moreover, with the potential for increased transmission out of Wyoming by 2018
136 when the Gateway transmission line is expected to come on line, we should be
137 able to replace all of what I am proposing to be sold with other renewable
138 resources, if needed. I have no doubt that the Company can find more than 2,000
139 MWs of Wyoming wind generation that could be ready with a few years' notice
140 and could all begin operating on the date the Gateway system is energized. Given
141 the significant potential resource base at the ready, we now have an option that
142 will give us the ability to respond quickly if the dynamics of the market or the
143 value of renewable resources changes significantly to Utah ratepayers.

144 **Q. What about customers who may want a higher percentage of renewable**
145 **energy in the resource mix?**

146 A. There are several options that can accomplish that result. The Blue Sky program
147 currently gives customers such an option. Moreover, I suggest that we instigate
148 programs to allow customers who want a higher percentage of renewable energy
149 in their supply mix to do so, while covering the corresponding cost. There is no
150 reason not to give a greener fuel supply to those customers who want or need it,
151 so long as they pay the costs.

152 **Q. PacifiCorp provides service in several states, and some such states have**
153 **imposed renewable standards. How would you deal with those states?**

154 A. I think the same principle should apply as to Utah customers who want or need a
155 greener supply portfolio. Those states should pay the higher costs for the

156 renewable resources, while Utah's share of renewable resources should be
157 deployed to the place where they will obtain the highest value.

158 **Q How should your suggestions be reflected in the revenue requirement phase**
159 **of this proceeding?**

160 A. A revenue requirement adjustment should be made to reflect the forecasted
161 difference in revenue from selling all remaining available renewable resources
162 that are not committed at a reasonable price. I suggest using pricing from a recent
163 contract entered into by RMP, as called out in Exhibit SAB-2 (conf) for 2012.

164 **Q. Are you suggesting that PacifiCorp be at risk for these dollars?**

165 A. No, these revenues will flow through the EBA balancing account. I expect that
166 the 70/30 sharing mechanism and potential payment lag will give PacifiCorp
167 sufficient incentive to move quickly to make these sales.

168 **Q. The test period in this docket begins in July. Is it possible for the company to**
169 **move that quickly?**

170 A. Yes, new renewable RFPs are issued regularly. Renewable RFPs are currently
171 pending from PG&E, SCE and SDG&E. Moreover, I believe from my experience
172 that SCPPA is constantly searching for alternatives and, since the new legislation
173 pulls the public utilities into the new renewable standards, entities like LADWP
174 will also have a strong appetite for new renewable contracts.

175 **Q. Do you think PacifiCorp would have a good shot at winning RFPs with these**
176 **utilities?**

177 A. Yes. PacifiCorp could present resources with no development risk or delay. Few
178 potential responders will have operating renewable energy plants available to bid.
179 Also, PacifiCorp has significant experience with RFPs and should be able to
180 easily deal with credit and other issues that may be problematic for other bidders.
181 I believe no other utility in the west is in a better position to answer and win RFPs
182 in short order than PacifiCorp.

183 **Q. When would PacifiCorp have to respond to the pending RFPs?**

184 A. PacifiCorp would need to respond soon, even before this case is finalized. They
185 would need to provide letters of interest within the next month or so.

186 **Q. Shouldn't your proposal be studied further before action is taken?**

187 A. No, further study is not warranted. With the potential for hundreds of millions of
188 dollars in savings to ratepayers and limited risk, taking further time to study the
189 issue would likely result in significant lost opportunities. Moreover, the 2011 IRP
190 confirms that this course of action should be taken without additional analysis,
191 given the hundreds of millions of dollars of opportunity that will otherwise be
192 lost.

193 **Q. Please describe your proposed revenue requirement adjustment.**

194 A. The adjustment that I propose is to reduce the revenue requirement by
195 \$60,871,755. That number was derived by assuming that all renewable energy
196 that is in the Grid model for the test year is sold and I have taken the difference
197 between that model with the total renewable energy sale and the run without the
198 full renewable energy sale. That provided a total revenue requirement reduction of

199 \$213,473,243. I then took 67% of that amount to come up with \$142,936,069 that
200 represents the remaining estimated sales potential value to the system. I then
201 multiplied that amount by the Utah allocation factor of 42.587% to come up with
202 \$60,871,755. This calculation is shown in USM Exhibit RR 1.1. A Top Sheet
203 explaining this adjustment is attached in USM Exhibit RR 1.2.

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

205 A. PacifiCorp should continue on the path it has already undertaken to sell valuable
206 renewable energy resources to the highest priced markets. However, it is time for
207 a significant step forward, by selling much more of the valuable renewable
208 resources on a longer-term basis to utilities willing to pay premium prices, while
209 purchasing any replacement energy needed for Utah load from other lower-cost
210 resources or increasing generation if more economic.

211 **Q. Does that conclude your direct testimony in this matter?**

212 A. Yes it does