

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In the Matter of the Application of	)	
US Magnesium, LLC for Determination of	)	
Long-Term Rates, Terms, and Conditions	)	Docket No. 21-035-53
Of Interruptible/DSM Electric Service	)	
Between it and Rocky Mountain Power	)	

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DIRECT TESTIMONY OF

BELA VASTAG

FOR THE

OFFICE OF CONSUMER SERVICES

APRIL 7, 2022

REDACTED VERSION

1   **Q.    WHAT IS YOUR NAME, BUSINESS ADDRESS AND OCCUPATION?**

2    A.    My name is Béla Vastag. My business address is 160 East 300 South Salt  
3       Lake City, Utah 84111. I am a Utility Analyst for the Utah Office of  
4       Consumer Services (OCS).

5   **Q.    WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6    A.    I will address the matter that is before the Utah Public Service Commission  
7       (PSC) in this proceeding which is the renewal of an Electric Service  
8       Agreement (ESA) between Rocky Mountain Power (RMP) and US  
9       Magnesium, LLC (US Mag). First, it should be clear that the OCS does not  
10       believe that its role in this docket is to negotiate a new ESA contract  
11       between RMP and US Mag. Therefore, the purpose of this testimony is  
12       primarily to provide the PSC with an overview of the issues that I  
13       recommend it should consider when evaluating and approving a new ESA  
14       for US Mag.

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16   **Overview of Issues to Consider for the Approval of a New US Mag ESA**

17   **Q.    DOES THE OCS BELIEVE THAT THE PSC HAS THE AUTHORITY TO**  
18       **ORDER NEW RATES AND TERMS FOR THE ESA BETWEEN RMP AND**  
19       **US MAG?**

20   A.    Yes, per Utah Code Section 54-4-4, the PSC may order new rates for US  
21       Mag if the PSC finds that the current rates are “unjust; unreasonable;  
22       discriminatory; preferential; in violation of any provisions of law; or are  
23       insufficient.” If the PSC makes such a finding, Section 54-4-4 further states

24 that “the commission shall determine the just, reasonable, or sufficient  
25 rates, fares, tolls, rentals, charges, ....., or contracts to be thereafter  
26 observed and in force.”

27 **Q. WHAT ISSUES SHOULD THE PSC CONSIDER IN DETERMINING**  
28 **WHETHER RATES FOR US MAG ARE “JUST, REASONABLE, OR**  
29 **SUFFICIENT”?**

30 A. The OCS views the following issues important to consider when  
31 establishing new rates for US Mag:

- 32 • The existing temperature curtailment mechanism does not  
33 provide clear value for other customers and needs to be better  
34 designed or possibly eliminated.
- 35 • Cost of Service Issues
  - 36 ○ ESA special contracts rates should cover all of the fixed
  - 37 costs to serve that customer and contribute to at least
  - 38 some portion of the system fixed costs.
  - 39 ○ Rates for US Mag should better reflect how US Mag is
  - 40 actually using RMP’s system.
  - 41 ○ The allocation of costs to US Mag should include an
  - 42 evaluation of the value US Mag can provide by reducing
  - 43 Utah’s contribution to PacifiCorp’s system peaks.

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- Other Issues

- Due to uncertainties caused by the evolving generation resource mix and with inter-jurisdictional allocation, the contract length for a new US Mag ESA should be limited to 2 years.
- Gradualism should be applied if US Mag's rates are increased above their current level.
- Neither US Mag's nor RMP's rate proposal should be approved without changes.
- RMP should harmonize its use of demand-side resources (i.e. identify how demand-side resources can provide value to the system and develop tariffs open to all customers who can provide the value rather than using special contracts and DSM programs open to select customers only).
- The PSC should provide parties guidance as to when and how special ESA contracts are in the public interest.

**US Mag's Existing Temperature Curtailment Mechanism is Flawed**

**Q. DOES THE OCS SEE A FLAW WITH THE TEMPERATURE CURTAILMENT MECHANISM OF US MAG'S CURRENT ESA?**

**A.** Yes. Per US Mag's ESA, RMP can call these curtailments when specified temperature thresholds are reached for days in six months of the year –

January, June, July, August, September and December. The problem is that almost every time RMP calls on US Mag to curtail under this mechanism of the ESA, US Mag chooses to “buy-through”, wherein US Mag pays for power based on a day-ahead index price (rather than the price in its ESA) and remains a load on RMP’s system.

**Q. WHY DO YOU SEE THE BUY-THROUGH OPTION AS A FLAW IN THE TEMPERATURE CURTAILMENT MECHANISM?**

A. US Mag receives discounted rates in its ESA because this curtailment mechanism is intended to provide a benefit to RMP’s system due to US Mag missing the system peaks in those six months. However, when US Mag buys-through instead of physically curtailing, it remains a load on the system and actually would not avoid a system peak. From an operations perspective, US Mag’s curtailment with buy-through may not provide a system benefit because RMP still has to find resources to serve US Mag’s load. RMP’s response to Division of Public Utilities’ (DPU) 4<sup>th</sup> discovery set provides additional detail as to why the buy-through feature may not provide a system benefit (RMP responses to DPU 4.1 to 4.5 are attached to this testimony). According to these responses, some of the issues RMP identifies with the buy-through feature include the following:

- PacifiCorp’s day-to-day operation of its system must continue to plan to serve US Mag’s entire load in case it opts to buy-through.

- Both US Mag's buy-through and non-buy-through energy are fully dependent on PacifiCorp's transmission system.
- US Mag's decision to buy-through is not actually associated with a discrete purchase of market energy.

**Q. DOES RMP'S CRITICISM OF THE TEMPERATURE CURTAILMENT/BUY-THROUGH MECHANISM EVALUATE ALL BENEFITS?**

A. No, RMP fails to acknowledge the inter-jurisdictional cost allocation benefit. This benefit of US Mag's current ESA is discussed later in this testimony.

**Q. WHAT OTHER ISSUES AFFECT THE TEMPERATURE CURTAILMENT AND BUY-THROUGH MECHANISM THAT INDICATE IT SHOULD BE REEXAMINED, REDESIGNED OR MAYBE EVEN ELIMINATED?**

A. The generation mix and operation of the electrical system in the West have changed quite a bit since the buy-through option was allowed in US Mag's ESA by the 2002 PSC Order in Docket No. 01-035-38. These changes are being driven by increased penetration of variable, non-dispatchable resources like wind and solar, retirements of fossil-fueled generators such as coal plants, increasing demand for electricity and potentially more frequent extreme weather events. These changes have led to two important issues directly impacting the potential benefits of US Mag's temperature curtailment mechanism:

1. The current WECC Western Assessment of Resource Adequacy (WARA), released December 2021, has found that the most strained times on the power system do not necessarily align with the system peak. The report concluded that only focusing on peak load hours is no longer adequate for resource adequacy planning. Because of the changing resource mix, variability is driving strain on the system.<sup>1</sup> The benefits of US Mag missing the system peaks are now less clear than when the temperature curtailment mechanism was adopted.
2. PacifiCorp's 2021 IRP continues to decrease its reliance on market purchases of power or front office transactions (FOTs). The IRP states "...planning to rely exclusively on markets and imports at the same levels [as historically] is becoming riskier as western resource mix evolves and there is greater reliance on variable and short-duration resources".<sup>2</sup> Given this decrease in liquidity, the assumption that US Mag's buy-through mechanism provides a benefit to RMP's system should be reexamined.

**Q. DO YOU BELIEVE THE TWO ISSUES LISTED ABOVE, THE WECC WARA AND REDUCED MARKET LIQUIDITY, NEED TO BE ADDRESSED IN US MAG'S CURRENT ESA RENEWAL?**

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<sup>1</sup> See [2021 Western Assessment Summary](#) (December 17, 2021) and [WARA Stakeholder Webinar Presentation](#) (February 1, 2022).

<sup>2</sup> PacifiCorp 2021 IRP, page 115.

134 A. No, these issues can't be fully addressed immediately. Since I recommend  
135 only a 2-year term for an ESA renewal (as I explain further below), these  
136 issues should be addressed in the subsequent contract terms for this  
137 agreement. However, these issues highlight ongoing changes to the  
138 electrical system that may require new thinking regarding system peaks,  
139 strained hours of the system, and how to provide appropriate incentives for  
140 curtailments and other demand-side solutions to lower costs and risks of  
141 system operations.

142 **Q. WHAT DO YOU RECOMMEND FOR THE CURRENT ESA RENEWAL**  
143 **WITH RESPECT TO THE TEMPERATURE CURTAILMENT**  
144 **MECHANISM?**

145 A. The OCS would prefer to see the temperature trigger for curtailment and  
146 the buy-through option redesigned or changed to different mechanisms,  
147 ones that are more aligned with times the system is strained and that will  
148 more definitively provide system benefits. However, if it is not possible to  
149 revamp these features due to the time constraints of implementing a new  
150 contract, the current mechanisms in US Mag's contract could remain in a  
151 short-term contract renewal but should be amended or at least re-evaluated  
152 before any additional renewal or extension.

153 **Q. DOES THE OCS SEE A DIFFERENT APPROACH THAT COULD BE**  
154 **TAKEN IN PLACE OF US MAG'S CURRENT TEMPERATURE**  
155 **CURTAILMENT FEATURE?**



156 A. Yes, US Mag's curtailment value, or value as an interruptible load or a  
157 demand side management (DSM) resource, could be fully addressed by  
158 rate credits it receives from its Operating Reserves Interruptible Agreement  
159 (ORIA) with RMP. Or as discussed below, RMP could develop an  
160 interruptible tariff that US Mag could use.

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162 **Cost of Service (COS) Issues with US Mag's Current ESA**

163 **Q. DO US MAG'S CURRENT RATES COVER ITS COST OF SERVICE?**

164 A. It is not clear that US Mag is covering its COS. In order to show that US  
165 Mag is covering its costs, one must zero out its loads in RMP's general rate  
166 case cost of service model for 6 of the 12 coincident peaks (CP). This  
167 assumes that US Mag's temperature curtailment mechanism causes US  
168 Mag's load at the time of these system peaks to be zero. However, as  
169 discussed above, US Mag almost always exercises its buy-through option  
170 and would still be a load on the system at the time of those 6 monthly CPs.

171 **Q. WHAT HAPPENS TO US MAG'S COS IF ONE ASSUMES US MAG IS ON**  
172 **THE SYSTEM FOR ALL 12 CPS?**

173 A. When assuming that US Mag is a load on the system for all 12 CPs, US  
174 Mag's current rates need to be increased by more than [REDACTED] to cover its  
175 COS. Using the 12 CP analysis shows that US Mag is currently not covering

176 approximately [REDACTED] of its assigned fixed costs.<sup>3</sup> By running this 12  
177 CP analysis, the PSC can understand the potential subsidy that other  
178 ratepayers may be providing US Mag and help the PSC to better determine  
179 just and reasonable rates for US Mag.

180 **Q. ARE OTHER SPECIAL CONTRACT ESA'S DESIGNED TO COVER**  
181 **LESS THAN 12 CPS?**

182 A. No, not that I am aware of. I understand that [REDACTED] rates are  
183 calculated on a 12 CP basis.

184 **Q. DOES US MAG'S 6 CP TREATMENT IMPACT INTER-JURISDICTIONAL**  
185 **COST ALLOCATION?**

186 A. Yes. According to US Mag's response to DPU discovery request 1.3, this  
187 treatment reduces costs allocated to Utah by approximately \$6 million. US  
188 Mag used RMP's jurisdictional allocation model (JAM) to calculate this value  
189 by comparing the treatment of US Mag's contract on a 12 CP basis versus  
190 a 6 CP basis.

191 **Q. ARE THE JURISDICTIONAL BENEFITS FROM THIS TREATMENT OF**  
192 **THE US MAG CONTRACT LIKELY TO CONTINUE?**

193 A. The continuation of the current inter-jurisdictional treatment is uncertain.  
194 The 2020 PacifiCorp Inter-Jurisdictional Allocation Protocol is in place  
195 through the end of 2023. The stakeholders from all of PacifiCorp's states

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<sup>3</sup> RMP 2020 general rate case cost of service and revenue requirement model, adjusted for 12 CPs and provided by RMP in response to US Mag DR 1.2 ("COS UT GRC 2020 – Final Rev Req.xlsx").

196 are currently meeting to evaluate and negotiate terms for a successor  
197 agreement. It would be inappropriate to speculate on the outcome of any  
198 specific terms, especially this early in the process. This is another  
199 uncertainty that supports my recommendation for a short contract term for  
200 a US Mag ESA renewal.

201

202 **Other Issues to Consider**

203 **Q. WHAT ESA RENEWAL CONTRACT LENGTH DO YOU RECOMMEND**  
204 **TO MINIMIZE RISKS ASSOCIATED WITH THE UNCERTAINTIES YOU**  
205 **HAVE IDENTIFIED?**

206 A. I recommend a two-year contract length. This gives time for additional study  
207 and evaluation of how to revamp the design of curtailment mechanisms to  
208 provide definitive value during this time of changing operations of the  
209 electrical system and also matches with the time frame of the inter-  
210 jurisdictional allocation processes.

211 **Q. IF THE PSC GENERALLY AGREES WITH RMP'S PROPOSAL FROM**  
212 **ITS RESPONSE TESTIMONY, SHOULD US MAG RECEIVE THE**  
213 **INCREASE IN RATES THAT RMP PROPOSES?**

214 A. No. Gradualism should be applied when developing new rates for US Mag.  
215 RMP's proposal in its response testimony gives US Mag approximately a  
216 10% increase over current rates. Rates for US Mag should increase in  
217 smaller increments.

218 **Q. IN YOUR OPINION, IS RMP'S PROPOSAL IN THE PUBLIC INTEREST?**

219 A. No. While RMP's proposal reduces the subsidy provided by other  
220 ratepayers to US Mag, addresses the buy-through problem, provides for a  
221 short 2-year contract term and is much more straightforward and less time  
222 consuming to administer, RMP's proposal is lacking because it unfairly  
223 provides it significant additional revenue between rate cases, doesn't  
224 address the need for an interruptible tariff (instead of the special contract  
225 approach for a DSM product) and is a rate shock to US Mag.

226 **Q. IN YOUR OPINION, IS US MAG'S PROPOSAL IN THE PUBLIC**  
227 **INTEREST?**

228 A. No. While US Mag's proposal attempts to honor the long standing approach  
229 to provide some curtailment benefits for the system, US Mag's proposal is  
230 lacking because it maintains and increases the complexity of the existing  
231 problematic temperature curtailment/buy-through mechanism, does not  
232 address the changing operations of the power system, does not provide a  
233 path toward covering its fixed costs and proposes a lengthy 10-year contract  
234 term.

235 **Q. DO YOU SEE ANY ADDITIONAL AND BROADER ISSUES REGARDING**  
236 **THE CURTAILMENT PROVISIONS IN US MAG'S CURRENT ESA?**

237 A. Yes. Even if the curtailment provisions were clearly providing benefits to  
238 customers, I would remain concerned that a program with potential system  
239 benefits is offered to only one customer via a special contract. If a  
240 curtailment program is truly beneficial to the PacifiCorp system and other

241 customers, then it should be open for participation to all large customers  
242 who can curtail under those circumstances.

243 **Q. DOES THE OCS HAVE A VIEW ON HOW SPECIAL CONTRACTS**  
244 **SHOULD BE APPROACHED?**

245 A. The OCS has always believed that special contracts should be reserved for  
246 customers who have truly unique circumstances to warrant provisions  
247 outside the generally available tariffs. Clearly, the regulatory process (and  
248 involved agencies) does not have insight into the specific circumstances of  
249 each customer. Further, it is not clear that RMP would know every detail.  
250 Finally, since special contracts are usually filed under confidential cover,  
251 other customers may not be in a position to know whether they are similarly  
252 situated to a special contract customer. If there were a similarly situated  
253 customer, the special contract may constitute unfair discriminatory  
254 treatment. Therefore, the OCS has a preference toward tariffed service,  
255 even if the qualified set of customers is somewhat narrow. In the  
256 alternative, the OCS believes that making some elements of a special  
257 contract public (such as the topic headings, at a minimum) would improve  
258 transparency and assist other customers to know if they might also qualify  
259 for similar provisions.

260 **Q. GENERALLY SPEAKING, DOES THE OCS BELIEVE IT IS**  
261 **APPROPRIATE FOR RMP TO PROVIDE SPECIAL DEMAND-SIDE**  
262 **RESOURCES INSIDE AN ESA CONTRACT?**

263 A. No. If any demand-side resources, such as interruptible programs, provide  
264 system benefits that are passed through to other customers, it would  
265 certainly be in the public interest to open such programs to any customers  
266 with the characteristics to provide those benefits. The OCS supports an  
267 expansion of demand response resources to the extent they are cost  
268 effective and have the ability to defer other investments. At present, RMP  
269 has only pursued these resources through its DSM tariff and in special  
270 contracts. While its DSM programs are quite successful, participation levels  
271 suggest that not all qualifying customers are aware of them. The OCS is  
272 concerned that some of these provisions are developed in different  
273 departments of RMP that are somewhat siloed from each other. For  
274 example, it appears that the DSM programs are developed to fill needs  
275 identified in the IRP while special contract provisions are included as base  
276 assumptions in the IRP.

277 **Q. WHAT ARE THE ADVANTAGES OF BETTER INTEGRATION OF**  
278 **VARIOUS DEMAND-SIDE RESOURCES?**

279 A. The primary advantages are increased transparency so that all qualifying  
280 customers can participate in the same programs, as I explained above, and  
281 the ability to maximize the benefits from cost-effective resources.

282 **Q. WHAT DO YOU RECOMMEND REGARDING RMP'S USE OF SPECIAL**  
283 **CONTRACTS TO ACQUIRE DEMAND-SIDE RESOURCES?**

284 A. I recommend that the PSC order RMP to work to harmonize its use of  
285 demand-side resources. In other words, it may be more appropriate in some

cases for RMP to have interruptible tariffs rather than a mix of special contracts and DSM programs. It would also be helpful if the PSC provided guidelines on how these special contracts should be approached to promote the public interest.

### **Overall Recommendations**

**Q. WHAT ARE THE OCS'S RECOMMENDATIONS FOR THE RENEWAL OF THE US MAG ESA?**

A. First, neither US Mag's nor RMP's proposal should be approved. Second, the OCS recommends that the PSC require US Mag and RMP to negotiate a new ESA with the following attributes:

- A term of no more than 2 years.
- Consideration of the inter-state allocation benefits from US Mag lowering the Utah contribution to PacifiCorp's system peaks.
- Instead of the current temperature curtailment and buy-through mechanisms, evaluate improved mechanisms for curtailment.
- Ensure that US Mag rates move closer to covering its full cost of service.
- Gradualism is employed to avoid rate shock.

**Q. DOES THE OCS HAVE ANY ADDITIONAL RECOMMENDATIONS FOR THIS PROCESS?**

A. Yes, in addition the OCS recommends:

- 308                   • That the PSC require RMP to work toward harmonizing its  
309                   treatment of demand-side resources.
- 310                   • For future ESAs, it would be helpful if the PSC would provide  
311                   guidelines on how special contracts should be approached to  
312                   promote the public interest.

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314   **Q.     DOES THAT CONCLUDE YOUR TESTIMONY?**

315   **A.     Yes it does.**