

Witness OCS – 1D

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

**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)**

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.

15

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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47 • Other Issues

48 ○ Due to uncertainties caused by the evolving generation

49 resource mix and with inter-jurisdictional allocation, the

50 contract length for a new US Mag ESA should be limited

51 to 2 years.

52 ○ Gradualism should be applied if US Mag's rates are

53 increased above their current level.

54 ○ Neither US Mag's nor RMP's rate proposal should be

55 approved without changes.

56 ○ RMP should harmonize its use of demand-side resources

57 (i.e. identify how demand-side resources can provide

58 value to the system and develop tariffs open to all

59 customers who can provide the value rather than using

60 special contracts and DSM programs open to select

61 customers only).

62 ○ The PSC should provide parties guidance as to when and

63 how special ESA contracts are in the public interest.

64

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

66 **Q. DOES THE OCS SEE A FLAW WITH THE TEMPERATURE**

67 **CURTAILMENT MECHANISM OF US MAG'S CURRENT ESA?**

68 **A.** Yes. Per US Mag's ESA, RMP can call these curtailments when specified

69 temperature thresholds are reached for days in six months of the year –

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

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

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

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

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

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

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

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

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

114 1. The current WECC Western Assessment of Resource Adequacy
115 (WARA), released December 2021, has found that the most
116 strained times on the power system do not necessarily align with
117 the system peak. The report concluded that only focusing on
118 peak load hours is no longer adequate for resource adequacy
119 planning. Because of the changing resource mix, variability is
120 driving strain on the system.¹ The benefits of US Mag missing
121 the system peaks are now less clear than when the temperature
122 curtailment mechanism was adopted.

123 2. PacifiCorp's 2021 IRP continues to decrease its reliance on
124 market purchases of power or front office transactions (FOTs).
125 The IRP states "...planning to rely exclusively on markets and
126 imports at the same levels [as historically] is becoming riskier as
127 western resource mix evolves and there is greater reliance on
128 variable and short-duration resources".² Given this decrease in
129 liquidity, the assumption that US Mag's buy-through mechanism
130 provides a benefit to RMP's system should be reexamined.

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

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

² 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.

161

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 █ 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.³ 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

³ 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

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

290

291 **Overall Recommendations**

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

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

297

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

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

307 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.

313

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

315 A. Yes it does.