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DPU Data Request 4.1

DPU Data Request 4.1

What is the reasoning and theory behind using 12 Coincident Peaks (CP), as suggested in Craig Eller's responsive testimony, instead of 6 CP (current situation)? Why is 12 or 6 the appropriate number? Why not use 4 CP or 1 CP?

Response to DPU Data Request 4.1

The Company assumes and understands the question's use of "Coincident Peaks (CP)" to be within the context of the Utah cost of service (COS) allocation wherein Utah's total COS is allocated to individual customer classes. Based on the foregoing assumption and understanding, the Company responds as follows:

Using 12 CPs to allocate costs to customer classes is consistent with the allocation methodologies used for all other Utah customers. Please refer to the Company's response to DPU Data Request 4.3 for further discussion on why the Company thinks the current practice of removing U.S. Magnesium LLC's (US Mag) actual historic loads from six of the 12 CPs is no longer appropriate.

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DPU Data Request 4.2

DPU Data Request 4.2

What are the practical implications of using 12 CP? Does that mean there are more or less curtailment events for an industrial customer over the course of a year?

Response to DPU Data Request 4.2

The Company assumes and understands the question's use of "12 CP" to be within the context of the Utah cost of service (COS) allocation wherein Utah's total COS is allocated to individual customer classes. The Company further assumes and understands the reference to "curtailment events" to mean the Temperature Pseudo Curtailment, as defined in the response testimony of Company witness, Craig M. Eller. Based on the foregoing assumptions and understandings, the Company responds as follows:

The Company notes that the COS methodology does not directly impact physical operations, but rather that the use of Temperature Pseudo Curtailments would be dictated by the specific contractual provisions.

That said, the Company does recommend elimination of the Temperature Pseudo Curtailment from the extension contract in its entirety. This would in turn eliminate all curtailment notices based on temperature as well as the need for U.S. Magnesium LLC's (US Mag) subsequent option to buy-through.

In the event the Public Service Commission of Utah (UPSC) were to determine that the Temperature Pseudo Curtailment construct should exist in its current form, the Company would continue to recommend using the 12 coincident peak (CP) methodology for determining U.S. Mag's COS to reflect its actual physical operations and for consistency with all other customers.

Please refer to the Company's response to DPU Data Request 4.3 for further discussion on why the Company thinks the current practice of removing U.S. Mag's actual historic loads from six of the 12 CPs is no longer appropriate.

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DPU Data Request 4.3

DPU Data Request 4.3

In lines 246 – 249 of Mr. Eller's responsive testimony he states "Depending upon the year, coincident peak usage for US Magnesium is eliminated for between five to six of the 12 months of the year. Elimination of these peaks provides a large reduction to US Magnesium's cost of service, which the Company believes is no longer justified." From a day to day operation standpoint, why is the elimination of US Mag's coincident peak usage no longer justified?

Response to DPU Data Request 4.3

The Company assumes and understands the question's use of "coincident peak" to be within the context of the Utah cost of service (COS) allocation wherein Utah's total COS is allocated to individual customer classes. Based on the foregoing assumption and understanding, the Company responds as follows:

The treatment of US Magnesium LLC's (US Mag) coincident peak (CP) usage in the COS model has no impact on the Company's day-to-day operations. COS simply allocates system costs to specific customers. The Company's proposal is to leave US Mag load in the inter-jurisdictional allocation factors for all months and then to pay them a fair market value (FMV) for the product they provide to PacifiCorp's customers, rather than using allocations to come up with an artificial value.

The Company's primary concern with the practice of removing five to six months of US Mag CP from the COS study is that the treatment is inconsistent with all other COS allocation methods both within Utah and in the five additional states served by the Company. This is true even in the context of other large industrial loads providing significant physical interruptible products such as Nucor. Further, the Temperature Pseudo Curtailment, as defined in the response testimony of Company witness, Craig M. Eller, upon which the CP removal practice is predicated, does not actually reduce U.S. Mag's physical loads due to its buy through option. The day-to-day operations do not support the exclusion of any of U.S. Mag's CPs as the Company must continue to plan to serve US Mag's entire load in case it opts to buy-through. Even if the Temperature Pseudo Curtailment were restructured in a way to actually remove U.S. Mag's load during system CPs there would be no need to artificially adjust the COS methodology as U.S. Mag's load would be zero during these instances. Note, such a hypothetical structure would negatively impact the Company's valuation of the Physical Operating Reserves as the Physical Operating Reserves cannot provide benefits such as operating reserves unless U.S. Mag has load available to interrupt.

The Company also disagrees that it is appropriate to consider buy-through energy as somehow less dependent upon PacifiCorp's overall system than non-buy-through energy. Both the buy-through and non-buy-through energy are fully dependent upon PacifiCorp's transmission system. Transmission costs are

allocated to PacifiCorp's retail customers in all states based upon the actual CPs of all of PacifiCorp's customers, including U.S. Mag's buy-through loads. In addition, U.S. Mag's load is dependent upon PacifiCorp's overall portfolio of generating resources needed to balance PacifiCorp's loads and provide adequate reserves to manage its load. Allocation of the full costs of these dependencies to U.S. Mag is synonymous with elimination of the current modified cost allocation process.

In addition to these fixed cost allocation issues, the current construct represents a number of issues for an energy-only or variable cost perspective as well. A U.S. Mag decision to buy-through is not directly correlated with a discrete purchase of market energy. The Company is continually balancing its market position in the long-term, near-term and real time markets in its entirety, not on a customer to customer level. Even if there were a 1:1 relationship of energy purchases to U.S. Mag buy-through events, the existing pricing structure assumes energy is both readily available and at a price equivalent to the day-ahead market index price.

Recent market changes have made the Temperature Pseudo Curtailment construct's assumption of market depth especially troublesome as the availability to purchase power in the market has decreased dramatically. From the 2019 Integrated Resource Plan (IRP) to the 2021 IRP, the Company reduced the assumed depth of the market for front office transactions (FOT) from 1,425 megawatts (MW) to 500 MW to reflect current market conditions and the risk associated with market reliance to serve load. Notably, the Company assumed no ability to purchase capacity in the PacifiCorp East (PACE) balancing authority area (BAA), which includes U.S. Mag, during the summer in the 2021 IRP. The Company further believes it is inappropriate to allocate the remaining finite ability to make market purchases to a single customer.

Please refer to Mr. Eller's response testimony, lines 93 through 232 for more detail.

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DPU Data Request 4.4

From a customer perspective, a major benefit of being an interruptible customer, for the company purchasing the power, is a reduction in the rate paid by that industrial customer. In the past this price reduction has acceptable to the DPU, Commission, and other parties, because the interruptible customer is helping to decrease loads on the system when resources are constrained because of any number of market conditions. Discuss why or why not this premise is still valid today?

Response to DPU Data Request 4.4

The Company's position is that the ability for the Company to physical interrupt a customer does in fact have value. A customer willing to allow the Company to direct physical interruptions of its load should generally receive a reduction to the rates it would otherwise pay commensurate with the value such physical products provide to the remainder of the system.

The Company's proposal is consistent with this understanding. First, the Company's proposal starts with Schedule 31/9 rates as the rate otherwise applicable to the customer (i.e., the rate US Magnesium LLC (US Mag) would pay if it provided no Company-directed physical interruptions to the system). Next, the Company evaluated the value provided to the system by the specific physical products that U.S. Mag is providing to the Company (i.e., the Physical Operating Reserves, as defined in the response testimony of Craig M. Eller). Finally, the Company proposes reducing the net rate paid by U.S. Mag by the full value of these Physical Operating Reserves; resulting in a net rate significantly lower than it would otherwise pay as a non-interruptible customer.

The Temperature Pseudo Curtailments, as defined in Mr. Eller's response testimony, do not represent Company-directed physical interruptions of the U.S. Mag load and as such do not provide value to other customers. Please refer to the Company's response to DPU Data Request 4.3 for further discussion on why the Company thinks the current practice of removing U.S. Mag's actual historic loads from six of the 12 coincident peaks (CP) is no longer appropriate.

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DPU Data Request 4.5

DPU Data Request 4.5

In conversations with RMP it has been suggested that a Pseudo Temperature Curtailment is not optional for RMP but mandatory. Can RMP point to some language that supports the premise that a Pseudo Temperature Curtailment must happen if the temperature is above the thresholds in the contract?

Response to DPU Data Request 4.5

The Company assumes that the reference to "Pseudo Temperature Curtailment" is intended to be a reference to the term Temperature Pseudo Curtailments, as the terms is used and defined in the response testimony of Company witness, Craig M. Eller, and pursuant to footnote 1 of Mr. Eller's response testimony referencing Confidential Exhibit RMP__(CME-1), the Electric Service Agreement (ESA) between Rocky Mountain Power (RMP) and US Magnesium LLC (US Mag), executed December 28, 2017, Section 4.1 (Curtailment). Based on the foregoing assumptions, the Company responds as follows:

Paragraph 4.1.6 of the ESA states, in part, "Purchaser and Seller agree that the intent of curtailment allowed hereunder is to reduce Purchaser's demand during Seller's system coincident peak each month as coincident peak is measured and defined for Seller's ratemaking, and not to derive economic benefits for either Party from the disparity between market prices and the pricing provided herein". This language has been understood by the Company to mean that it cannot elect not to provide a curtailment notice for reasons which do not directly pertain to the probability of the hours in question constituting a coincident peak (CP) (e.g., avoidance of issuing a curtailment notice due solely to low market prices). Since the instance of the CP cannot be determined until an after-the-fact analysis of historic loads is conducted, the Company has in practice provided curtailment notices whenever the temperature thresholds have been reached.