REDACTED
Rocky Mountain Power
Docket No. 21-035-53
Witness: Craig M. Eller

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

REDACTED
Direct Testimony of Craig M. Eller

April 2022

INTRODUCTION OF WITNESS

Q. Please state your name, business address, and present position with PacifiCorp, d/b/a Rocky Mountain Power ("RMP" or the "Company").

A. My name is Craig M. Eller. My business address is 1407 West North Temple Street, Suite 310, Salt Lake City, Utah 84116. My present position is Vice President, Business Policy and Development for Rocky Mountain Power.

Q. Are you the same Craig M. Eller who filed response testimony on January 7, 2022, ("Response Testimony") in this proceeding?

A. Yes.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to directly address the arguments and proposals presented in US Magnesium, LLC's ("US Magnesium") September 21, 2021 application, explain how it differs from the Company's proposal presented in my Response Testimony and described how the Company's proposal is the best choice for all Utah customers.

Q. Can you provide a brief summary of your recommendations in your Response Testimony?

A. Yes. My Response Testimony presented the Company's proposal for a new Electric Service Agreement ("ESA") and Operating Reserve Interruption Agreement ("ORIA") effective July 1, 2022, upon the expiration of the current contract, with the following terms and conditions:

1. Eliminate the current construct that allows for Temperature Pseudo Curtailments with Buy Through Option.

2. Establish ESA rates using Electric Service Schedules 31 and 9.

3. Increase the credit for Operating Reserves to $[redacted]/kilowatt-month ("kW-month") in the ORIA.

4. Establish a term of 2 years.

EXISTING CONTRACTS

Q. Please briefly summarize US Magnesium's current agreements with the Company regarding its electric service.

A. My Response Testimony describes the current agreements and pricing between US Magnesium and the Company in detail, so I will only provide a high-level summary here. The first pertinent agreement is the ESA dated December 28, 2017, which took effect May 1, 2018, and terminates June 30, 2022, after amendments which extended the contract term. The ESA details the rates and terms for US Magnesium's electric service. Included within the ESA's terms are two curtailment options, which I will continue to refer to as "Temperature Pseudo Curtailments"[1] and "Physical System Reliability Interruption"[2] in my testimony. The terms and conditions also specify that US Magnesium may purchase "Replacement Power" or buy through Temperature Pseudo Curtailments to avoid physical curtailment. I will refer to this option as a the "Buy Through Option."[3]

The second pertinent agreement is the ORIA dated December 28, 2017, which took effect May 1, 2018, and terminates June 30, 2022, after amendments which extended the contract term. The ORIA details rate credits to US Magnesium in return for operating reserve products associated with both US Magnesium's load and US Magnesium's on-site

[1] Confidential Exhibit RMP__(CME-1), Electric Service Agreement Between Rocky Mountain Power and US Magnesium LLC Executed December 29, 2017, Section 4.1
[2] Ibid. Section 4.2
[3] Ibid. Section 5

generation along with various terms and conditions regarding the operating reserves. I will refer to the operating reserves as "Physical Operating Reserves" in my testimony.

For ease of reference, the existing ESA and ORIA contracts were provided with my Response testimony as Confidential Exhibit RMP__(CME-1).

SUMMARY OF US MAGNESIUM'S PROPOSAL

Q. What is US Magnesium's proposal with respect to a new ESA and ORIA contract?

A. US Magnesium requests it be granted a ten-year extension with terms and conditions varying between two distinct periods. The first period is a two-year extension of the existing terms and conditions of service without modification. This is followed by an eight-year period which represents a purported continuation of the historic construct that exists in the current ESA and ORIA; however, the proposal contains notable variances that make the proposal even more favorable for US Magnesium and more detrimental to RMP and its other customers.

Q. Should the Commission approve the initial the two-year extension of the existing terms and conditions?

A. No. My Response Testimony describes the deficiencies in the existing ESA and ORIA as well as appropriate modifications to each, so I will only provide a high-level summary here.

First, the Temperature Pseudo Curtailments with Buy Through Option construct does not provide the purported benefits claimed by US Magnesium and should be eliminated. US Magnesium consistently exercises its Buy Through Option resulting in no physical curtailment of load. US Magnesium's load simply continues to rely on PacifiCorp's system and at a market-oriented price in place of retail rates. This financial change in energy rates provides no physical benefit to PacifiCorp's system. Further, the Company does not make dedicated energy purchases to serve US Magnesium's Replacement Power needs and continues to supply the load as a part of its overall system. Even if such dedicated purchases were made, the market-index price mechanism of the existing contract would not reflect actual costs paid for such hypothetical purchases as it reflects day-ahead prices for an individual market hub as they existed prior to US Magnesium's election to utilize its Buy Through Option.

Second, the current cost of service methodology for US Magnesium, which removes US Magnesium's actual coincident peak loads from the cost of service for six of twelve months, is inappropriate in light of the non-physical nature of the Temperature Pseudo Curtailment construct and the treatment should be discontinued. Instead, the Commission should establish ESA rates utilizing the rates contained in Electric Service Schedule No. 31 – Partial Requirements Service Large General Service 1000kW and Over and Electric Service Schedule No. 9 – General Service High Voltage ("Schedule 31/9") and the Company's recommended adjustment schedules. It should be noted that the current treatment, which US Magnesium proposes to continue, is inconsistent with all other cost of service allocations performed by the Company for both its Utah customers and across its system—including for similarly situated customers which provide significant levels of interruptible products to the Company.

Finally, and only in light of the changes recommended above, the Company recommends increasing the credit paid for the Physical Operating Reserves to $[redacted]/kW-month in the ORIA. This change is in consideration of the Company's improved ability to rely upon the Physical Operating Reserves by eliminating conflicts with the Temperature

Pseudo Curtailment. The proposed increase in the credit under the ORIA reflects the value of US Magnesium remaining an interruptible customer and largely offsets the increases in retail rates. In fact, as a result of the increased ORIA credit, US Magnesium's net rate remains [redacted] percent[4] lower than it would be as a non-interruptible partial requirements customer under Schedule 31/9. In total, the Company's proposal represents a net rate increase of less than [redacted] percent[5] versus the net rate under the existing ESA and ORIA.

Q. Should the Commission approve the changes suggested by US Magnesium in the subsequent eight-year period?

A. No. The proposed changes compound upon the deficiencies of the existing ESA and ORIA and should be denied. Specifically, US Magnesium's proposed changes:

1. Perpetuate the errant notion that "Replacement Power"[6] is physically purchased by the Company from a third party at the time of US Magnesium's election and subsequently delivered to US Magnesium during buy-through events;
2. Allow US Magnesium to "cherry pick" between proposed retail pricing versus market index pricing in each individual hour, regardless of system conditions, providing significant financial benefits to US Magnesium at the expense of the Company's other customers;
3. Allow US Magnesium to make an after the fact election of whether or not to purchase "Replacement Power";

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[4] Calculated from Exhibit RMP__(CME-2) as (N40-T40)/N40 = [redacted]
[5] Calculated from Exhibit RMP__(CME-2) as T40/T18 – 1 = [redacted]
[6] As defined in Article 5 of the existing ESA and US Magnesium's proposal in US Mag Exhibit 1.1

4. Inappropriately provide US Magnesium priority access to increasingly scarce market availability;
5. Include no consideration for system costs to deliver "Replacement Power" to US Magnesium;
6. Continue the practice of removing six coincident peaks from the determination of US Magnesium's cost of service calculation, even though this is inconsistent with the treatment used for all of the Company's other customers, including other interruptible customers;
7. Reduce total retail rates associated with energy consumption in all hours, with reductions of up to [redacted]% versus existing rates;[7]
8. Increase the notification time for use of the Operating Reserve products to "[redacted]", further nullifying its value;
9. Oblige the Company to provide a 10-year contract to US Magnesium with no commitment to load levels; and,
10. Fail to identify all surcharges which should be applicable to US Magnesium's service.

[7] *See* Confidential Table 1: Summary of US Magnesium's Proposed Energy Usage Rates.

DEFICIENCIES IN US MAGNESIUM'S PROPOSED CONTRACT MODIFICATIONS REGARDING REPLACEMENT POWER

Q. Please elaborate on your concerns regarding the proposed Replacement Power treatment perpetuating the financial construct of the existing Temperature Pseudo Curtailment with Buy Through Option.

A. First I'll note that my concerns on US Magnesium's proposal largely echo those regarding the Temperature Pseudo Curtailment with Buy Through Option construct presented in my Response Testimony in lines 95 through 220, as well as those on the topic above. US Magnesium's proposed modifications simply move the trigger for the Pseudo Curtailment event from one that is temperature driven to one that is driven by the sole choice of US Magnesium while maintaining the unilateral Buy Through Option to avoid physical curtailment. To address the arguments presented by US Magnesium, I will expand the discussion presented in my Response Testimony to provide additional clarity and apply the analysis specifically to US Magnesium's proposal.

In its simplest form, the Company finds no physical operational benefit from changing the rates charged for energy delivered to US Magnesium during the Pseudo Curtailment event. This is in essence all that the proposed Replacement Power construct accomplishes – a change in the *financial* energy rate charged, but not *physical* load served, during buy-through events. Altering the rate during these instances of "Replacement Power," regardless of the new rate charged, does not, in and of itself, alter the physical needs of the system because PacifiCorp continues to serve the physical load.

In order for the "Replacement Power" to represent something other than reliance on the Company's system and overall energy supply portfolio, at least one of the following conditions would need to be true at all times; namely, either (a) the Company would need to have an abundant excess supply of generation facilities which were not necessary to serve other loads, or (b) the Company were to make one-to-one purchases of energy generated by a third party *and delivered* to the US Magnesium facility without use of the Company's network resources. However, neither of these conditions are met under US Magnesium's proposal.

As to the first condition, the Company does not have an abundance of excess generation. In fact, the Company's 2021 Integrated Resource Plan ("IRP") calls for some level of reliance on market purchases to meet its resource requirements and provide reliable service to customers while simultaneously recognizing reduced market purchase availability due to scarcity in the wholesale market.

As to the second condition, a US Magnesium decision to exercise the Buy-Through Option 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 US Magnesium 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. Further, the current day-ahead market pricing mechanism which US Magnesium proposes to extend, neglects all considerations for costs associated with transporting this hypothetical energy purchase from the Palo Verde market hub to US Magnesium's facility and all associated ancillary services associated with maintaining US Magnesium's physical load.

Q. Do you have concerns with US Magnesium's proposal to eliminate the restrictions on when a Pseudo Curtailment event is called and its proposed unilateral ability to create a Pseudo Curtailment event?

A. Yes, this is a particularly concerning aspect of the proposal. The Company notes that the existing ESA structure has led to periods of time where the cost of Replacement Power is less than the Company's retail rates. These instances have occurred despite the existing contractual limitations which attempt to align Pseudo Curtailment events with monthly coincident peaks through the use of forecasted temperatures. US Magnesium proposes elimination of even these modest controls in favor of granting itself the ability to:

> "**at any time provide Company with a notice** ("Curtailment Notice") by email or facsimile s**pecifying that Customer elects during any or all hour(s) to** either (i) physically curtail its use of Power and Energy from Company or (ii) **purchase market power and energy**, to the extent reasonably available to Company ("Replacement Power")."
> (US Mag Exhibit 1.1, emphasis added)

This unilateral ability to elect to purchase Replacement Power effectively grants US Magnesium the ability to make hour-by hour-elections of whether to purchase power at the ESA retail rates or at then-known market index prices. This ability would provide no physical benefit to the Company's operations. Such ability to "cherry pick" rates by hours represents a fatal flaw to the detriment to the Company's other customers in US Magnesium's proposal and should be rejected by the Commission.

Q. Mr. Swenson proposes the Company begin to supply US Magnesium with forecasted peak load data so it may avoid coincident peaks. Is this feasible?

A. No. While the Company is continuously forecasting its system load, the request to provide a forecast of "peak load data" is fundamentally untenable. The Company simply has no way to predict when its monthly system coincident peak will occur until after the entire month has occurred. Actual jurisdictional hourly loads and the associated actual system coincident peak data is typically only available 60 calendar days following the close of each month. For example, the hourly data for January 31, 2022, would be available by approximately March 31, 2022.

Q. US Magnesium purports that such information is provided by the California Independent System Operator ("ISO") as an example of the type of data that should be provided. How do you respond?

A. The California ISO example offered by US Magnesium does not provide a prediction of when a system coincident peak will occur. Rather, this information simply shows a series of historical and forecasted load parameters. Neither the Company, the California ISO, nor any other entity can accurately predict whether or not the load in any future hour will ultimately be a monthly coincident peak.

Q. Are there additional issues associated with the timing of US Magnesium's proposal to provide notice that it intends to purchase Replacement Power?

A. Yes. US Magnesium proposes delaying the timeframe in which it provides notice of requesting Replacement Power from 1300 Mountain Prevailing Time ("MPT") to 1700 MPT while maintaining the day-ahead market index price as the basis for rates associated with the Replacement Power. Neither the existing notification requirement nor the proposed delay is consistent with the actual trading window for the Intercontinental Exchange ("ICE") Palo-Verde day ahead market which is published at 1100 MPT each day. Further, market experience indicates that most trading in the day-ahead market is concluded by 0800 MPT. This means that US Magnesium would continue to benefit from making Replacement Power decisions based on *previously settled and closed* day-ahead markets while the Company must react to these unilateral decisions in the materially more volatile real-time market. Worse still, the proposed notice would not be available until the conclusion of the working day leaving PacifiCorp with extremely limited transaction options.

Q. Could the market index timing concerns be addressed with additional advanced notice?

A. Only partially. While a multi-day notice of both the self-initiation of a Pseudo Curtailment event and simultaneous notification of intent to purchase Replacement Power could theoretically allow PacifiCorp to conduct 1:1 transactions for Replacement Power in the day-ahead market, several unresolved issues would remain.

First, it is a presumption of the existing and proposed construct that Replacement Power is purchased at the Palo Verde market hub; however, the Company's 2021 IRP reduced the assumed market depth at Palo Verde to zero during the summer months to reflect availability constraints in the region. Second, even if power were purchased at the Palo Verde market hub in the day-ahead market, the actual price paid for a single transaction may not equate to the daily index price as this price is a composite average of all transactions at the hub in a given day. Third, the day-ahead market is not constructed in a way to allow purchases to mirror the hour-to-hour nature of US Magnesium's proposed Pseudo Curtailment events and associated Replacement Power. Instead, transactions are structured to cover the entire on-peak or off-peak period. Fourth, day-ahead transactions are for fixed volumes, and US Magnesium does not appear to make commitments to the Company that its load will be at a particular level during the Replacement Power event. This non-commitment to future levels of future load is not unique to US Magnesium and in fact highlights that US Magnesium's physical operations are similar to those of all other customers, but for the existence of the Physical Reserves Products. For US Magnesium, and all other customers, the Company is obligated to plan for and serve the collective load, and customers can impose whatever demand on the system they choose at any given moment. Nothing prevents US Magnesium from indicating it will exercise its Buy Through option and then significantly reduce its load anyhow. In such an event, the Company and other customers will not recover any incremental market costs from US Magnesium. That said, the more compelling argument is that the Company must always have resources available to serve US Magnesium's full load, regardless of any possible pseudo curtailment or replacement power.

Q. Would use of a highest paid energy cost for Replacement Power resolve these issues?

A. Again, only partially. While utilization of the actual highest cost of energy procured by the Company during each hour of the Pseudo Curtailment event would better represent the true marginal cost of energy in those hours, the process would not resolve considerable uncertainty for both the Company and US Magnesium.

In such an event, the Company still is left with considerable uncertainty regarding whether US Magnesium will initiate a Pseudo Curtailment event and, if it does, whether it will buy through. Moreover, it is unclear how the Company should plan its system in such instance. If the Company presumes it will later receive a Pseudo Curtailment notice and plans its system around the assumption of a reduced load or later purchase of Replacement Power and US Magnesium elects not to provide such notice, the Company is once again left scrambling in the real-time market to balance its load. Further, the rates paid by US Magnesium, if it elects not to issue a Pseudo Curtailment event, are known ahead of time representing a fixed price option. This is true whether it assumes the hour in question will coincide with a coincident peak (and simply pays a fixed demand-based charge in addition to the fixed energy charges) or if it does not coincide with a coincident peak (and only pays the fixed energy charges).

If the Company instead presumes it will not receive a Pseudo Curtailment notice and plans its system around the assumption of a full load from US Magnesium, and US Magnesium later elects to provide notice of a Pseudo Curtailment and either reduce its load or compel the purchase of Replacement Power, the Company is still left scrambling in the real-time market to balance its load. In such a hypothetical event, the Company is now forced to simultaneously make a direct purchase for US Magnesium while selling excess "system" supply. As pointed out above, in many instances this notice could be prompted by US Magnesium's expectations that market prices will be less than the retail rates specified in the ESA, meaning the Company, and by extension its other customers, will be doubly impacted by a reduction of revenue for equivalent energy deliveries and increased net power costs as it is forced to liquidate a potentially long system position in a low value market environment.

Such a hypothetical construct would also introduce significant uncertainty for US Magnesium as the highest price for energy paid by the Company in each hour would be unknown at the time of US Magnesium's election to secure Replacement Power.

Q. Assuming all issues regarding the appropriate energy price for Replacement Power could be resolved, does the construct present a misallocation of limited market availability to a single customer?

A. Yes. In light of the limits on market purchase availability, allowing a single customer to monopolize the Company's access to the market would necessarily reduce the market purchases available for serving other retail customers. The proposal by US Magnesium exponentially increases this equitable allocation of market access issue by granting it the unilateral and unlimited ability to initiate Pseudo Curtailment events and subsequent demands for Replacement Power.

Q. Assuming all issues regarding both the appropriate energy price for Replacement Power and the equitable allocation of limited market depth could be resolved, would the Company still have concerns with the use of a "market-price" for Replacement Power?

A. Yes. Under both the existing ESA structure and the proposed structure presented by US Magnesium, no consideration is given for costs associated with transporting the hypothetical energy at a market hub to the US Magnesium load. Costs associated with the transportation of a market hub purchase to the US Magnesium load are considerable. First, the Company must utilize its transmission network to move power across its system. In many cases, this transaction may only be possible when looking at the entirety of PacifiCorp's system and load distribution. Said another way, in certain conditions, point-to-point transmission from a market hub to US Magnesium may not be available; however, a market purchase may be feasible in the same instance by leveraging the diversity of PacifiCorp's entire network and load distribution. Further, simple A to B transmission is not the only requirement associated with serving US Magnesium's Replacement Power needs. In such events, PacifiCorp must also provide adequate ancillary services, once again, from its entire portfolio of assets, to serve US Magnesium's load within its broader system load. Finally, a market purchase could never be utilized to directly "serve" US Magnesium's load due to fluctuations in its load level. As stated above, day-ahead market purchases are flat hourly purchases and cannot respond to moment-by-moment fluctuations in US Magnesium's load. Serving these natural fluctuations is accomplished by incorporating US Magnesium's load into the Company's broader management of its system load resulting in reliance on its system resources during all periods of physical load.

DEFICIENCIES IN US MAGNESIUM'S PROPOSED CONTRACT MODIFICATIONS REGARDING COST OF SERVICE DETERMINATION

Q. Given the concerns regarding the financial nature of the Pseudo Curtailments and issues regarding any associated construct of Replacement Power pricing, is it appropriate to continue the practice of removing six of US Magnesium's monthly coincident peaks when determining its cost of service?

A. No. The Company's primary concern with the practice of removing six of US Magnesium's monthly coincident peaks from the cost-of-service study is that the treatment is inconsistent with all other cost-of-service allocation methods both within Utah and in the five additional states for which the Company provides retail electric service. This is true even in the context of other large industrial loads providing significant physical interruptible products such as Nucor Steel-Utah.

As detailed above, the Temperature Pseudo Curtailment construct, upon which the coincident peaks removal practice is predicated, does not actually reduce US Magnesium's physical loads due to its buy-through option. The day-to-day operations do not support the exclusion of any of US Magnesium's coincident peaks as the Company must continue to plan to serve US Magnesium's entire load in case it opts to buy-through. Even if the Temperature Pseudo Curtailment were restructured in a way to actually remove US Magnesium's load during system coincident peaks, there would be no need to artificially adjust the cost-of-service methodology as US Magnesium's load would be zero during these instances.[8]

Q. Mr. Swenson states that the Commission ordered the Company to provide interruptible electric service to US Magnesium in 1968 and again in 2002. Why should the Commission depart from this long-standing treatment?

A. It is important to note that neither the 1968[9] nor 2002[10] orders established a permanent treatment or cost basis for determining rates for US Magnesium. Rather, each order attempted to establish just and reasonable rates based on then-current conditions. In fact, page 16 of the 2002 order recognizes the need to adjust treatment of the US Magnesium arrangement based on additional information, concluding in part:

> "**All witnesses agree that, based on the present record, there is no single, definitive way to resolve these issues**. They have reached different recommendations for interruption and its value. They also present various proposals of terms and conditions which they believe could translate the value of interruptibility into a service contract which results in a just and reasonable rate for electricity delivered to Magcorp. **Consequently, the**

[8] 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 US Magnesium has load available to interrupt.
[9] *See* Public Service Commission of Utah, Case No. 5639 and 5640, Order issued April 19, 1968
[10] *See* Public Service Commission of Utah, Docket No. 01-035-38, Order issued May 24, 2002

Commission finds value in approving rates, terms and conditions for Magcorp that will be considered experimental" (emphasis added)

Q. Did the subsequent task force conclude that the removal of six coincident peaks was either the exclusive, or even the recommended, methodology for establishing net rates to US Magnesium?

A. No on both counts. The final recommendation from the task force begins as follows, "In sum, the Taskforce explored numerous approaches for quantifying the interruptibility value provided by USM, but did not identify a particular approach as definitive."[11]

Q. What does the Company conclude from these orders and the subsequent task for study?

A. Given this history, the Company concludes that any variance from standard tariff rates and associated cost allocation practices must be continuously supported at the time of each contract extension. For the reasons stated above, continued removal of six coincident peaks from the cost-of-service methodology is no longer supported.

Further, the Company's proposed structure achieves the overarching objectives of each order and the taskforce recommendations, namely, to provide a reduction in overall charges paid by US Magnesium from those otherwise applicable to a non-interruptible customer commensurate with the value provide by its interruptible products to other customers. The Company proposal does just that by first establishing retail rates at those otherwise applicable and then reducing those very rates by the full value of the physical products provided by US Magnesium to achieve a net rate that is [redacted] percent[12] lower than

[11] Utah Division of Public Utilities 2004 Taskforce Report, June 21, 2004, p. 12.
[12] *See* footnote 4

those applicable to a similarly situated customer who does not provide interruptible products.

Q. Specific to this docket, which party bears the burden of proof to demonstrate whether a change from standard tariff rates should be ordered by the Commission?

A. While I am not a lawyer, my understanding is that US Magnesium, as the party that initiated the docket, bears the burden of proof to demonstrate why rates other than standard retail rates (i.e., Schedule 31/9) are just and reasonable.

Q. What evidence does US Magnesium offer to justify why it should be granted a continuation of removing six coincident peaks from its cost of service rate?

A. Mr. Swenson provides arguments that center around US Magnesium's history of locating and operating in Utah. In addition, his testimony expounds on the presumption that Replacement Power is something that is both readily available and wholly independent of the Company's normal system operations, which I refuted above.

Q. Do you agree with Mr. Swenson's assertion that the 1968 contract intended to provide terms and conditions designed to permit the facilities to be constructed and to operate on an economical basis?

A. The discount price offered to US Magnesium under the terms of the 1968 contract may have achieved that objective, but the Commission's order approving that contract stated:

> It is within the statutory authority of this Commission to set a rate which will be reasonable, non-discriminatory and will not adversely affect the residential, commercial, and other industrial customers of Utah Power, yet it will be a rate which will enable Magnesium Project to go forward now. (Case No. 5639 and 5640, Order issued April 19, 1968, p. 55)

Q. It is reasonable for US Magnesium to use 1968 circumstances to justify its claims to being entitled to preferential pricing 54 years later?

A. No. As I described in my testimony, the Temperature Pseudo Curtailment no longer represents a physical interruptible product that in any meaningful way provides value to customers. Therefore, the Company recommends the Temperature Pseudo Curtailments with Buy Through Option construct element of US Magnesium's contract be eliminated. Accordingly, the Company should no longer be required to remove the six actual coincident peak loads from the cost-of-service determination for US Magnesium.

Q. Does Mr. Swenson provide other justification for the irregular cost of service treatment being in the public interest?

A. Yes. He also states that firm electric service is not economically feasible for US Magnesium's electrolytic operations as the basis for why the lower rate is in the public interest. Mr. Swenson also points to US Magnesium's long-standing status in Utah as a significant contributor to Utah's economy.

Q. Do you agree with this reasoning?

A. US Magnesium is a valued customer of PacifiCorp, and the Company commits to continue to work with US Magnesium to provide rates that accurately and fairly reflect the value it brings to the system. The Company does not dispute that US Magnesium provides significant economic benefits to the state of Utah. However, the Company is committed to provide fair and equitable treatment to *all* its customers and believes that sound regulatory principles require that one customer should not receive a discounted rate at the expense of other customers.

Q. Are there any recent examples of the Commission concluding that rates should not be set based on external elements that do not impact the Company's cost of service?

A. Yes. In Docket No. 17-035-61, the Commission ruled on a proceeding to determine the rate paid for customers with onsite generation, such as rooftop solar, for the excess energy generated and exported to the Company's system ("the Export Credit Docket"). Through hundreds of pages of testimony, some participants in the proceeding argued that the calculation of the export credit rate should consider factors such as community benefits, social benefits and local economic benefits such as jobs. The Commission's October 30, 2020 Order, on page 18, found:

> We recognize that many of these proposed ECR components have societal value, and in some cases parties have quantified that value. But without an impact on cost of service, we decline to appropriate jurisdiction that properly belongs to other agencies who have more direct authority over and expertise related to these areas of policy. **We do not set policy for the state of Utah on carbon, environmental regulations, social policy, or economic development**. (emphasis added)

Q. Does the Company have other customers who also provide significant benefits to Utah's economy that could benefit from a special contract?

A. Yes. There are undoubtably many other industrial and commercial customer that would benefit financially if they could obtain electricity at less than the Company's cost to serve them. Approval of US Magnesium's requested contract terms and pricing, which results in costs being passed to other customers, is not in the public interest.

Q. Does the Company have additional concerns with US Magnesium's proposed energy usage rates?

A. Yes. The proposed rates based on retail energy consumption (i.e., the "Energy Charge" and the "Facilities Charge") represent a dramatic reduction from those in the existing ESA as shown in Table 1, below.

CONFIDENTIAL Table 1
Summary of US Magnesium's proposed energy usage rates

[redacted]

Q. Does US Magnesium provide any support for either the Energy Charges or the Facilities Charge?

A. No. However, the Company observes that the Energy Charges mirror those applicable to Schedule 9 and by extension those applicable under Schedule 31 for supplemental service, the presumed requirement for the entire US Magnesium load based on recent operations.

Q. Does the Facilities Charge also mirror those in Schedule 9 or 31?

A. No. The facilities charges under both Schedule 9 and 31 are based on the maximum monthly demand level and measured in $/kW. For supplemental power requirements the current facilities charge is $2.28/kW-month. In contrast, the proposal by US Magnesium is based on energy consumption, notably excluding Replacement Power volumes, and measured in $/MWh. Again, how this amount is determined is not clarified or supported in US Magnesium's Proposal.

Q. Is it appropriate to utilize the Schedule 9 Energy Charges in conjunction with the proposed energy-based facilities charge and modified Pseudo Curtailment structure?

A. No. This appears to represent US Magnesium picking favorable pricing components from existing tariffs while ignoring the broader context of that rate structure.

Q. Please explain.

A. The charges detailed in Schedule 9 represent an allocation of fixed and variable charges between rate components to arrive at overall charges that are expected to fully recover the applicable cost of service for customers under that rate class. While the Company has generally tried to align variable costs with energy-based charges and fixed costs with demand-based charges, this allocation is by no means perfect. Picking individual energy-based charges out of Schedule 9 while ignoring the corresponding demand based charges results in uncertain alignment of cost recovery with cost of service.

Because of the permissive structure of US Magnesium's proposed Pseudo Curtailment construct, it is impossible to predict what number of hours would be applicable to retail rates and which would be subject to Replacement Power rates. It is entirely plausible that US Magnesium would elect Replacement Power in every hour of every day and thereby pay no facilities charges whatsoever.

Q. Are there similar concerns with US Magnesium's proposed Power Charge?

A. Yes. First, US Magnesium seems to present a unique, and inadequately supported, calculation for the proposed Power Charge amount but also indicates a willingness to utilize the lower Schedule 9 amount. However, the proposed *applicability* of the Power Charge is radically different than that in Schedule 9. Under US Magnesium's proposal, the only time the Power Charge would be applicable is during the 15-minute period of the system's coincident peak. In contrast, the Power Charges under Schedule 9 are applicable "for the 15-minute On-Peak period of Customer's greatest use during the month, adjusted for Power Factor to the nearest kW".

This radical difference in applicability of *some* rate components makes the usage of *any* Schedule 9 rate components for the usage of US Magnesium inappropriate. If hypothetically Schedule 9 were to be redesigned to reflect the *applicability* of the Facilities and Power Charges included in US Magnesium's proposal, it stands to reason that each of the rate components would be revised according to this new structure. As a result, the Schedule 31/9 rate components must be utilized in their entirety to ensure full cost recovery, as proposed by the Company, or a unique cost of service rate design should be designed based on US Magnesium's cost of service.

Q. Mr. Swenson estimates that US Magnesium contributes $[redacted] towards system fixed costs. What is your response?

A. There are many deficiencies in Mr. Swensen's analysis. The analysis appears to be based on historic costs which are then adjusted for changes in overall rates. While it is conceivable that this is a realistic estimate of total costs during the initial two-year extension when US Magnesium's proposed contract terms remain the same, it provides no meaningful information about cost recovery during the proposed subsequent eight year modified period. This is presumably because US Magnesium, like PacifiCorp, has no way to estimate the frequency and number of hours it will choose to initiate the unilateral

Pseudo Curtailment construct and acquire Replacement Power. As stated previously, this structure provides a pathway for US Magnesium to obtain Replacement Power in every hour and thereby provide no contribution whatsoever to system costs.

The second major issue is that the analysis draws the wrong conclusion. The relevant question is not whether US Magnesium pays anything towards fixed system costs but rather whether it pays its full contribution. To that end, the study appears to conclude US Magnesium does not meet this goal landing approximately [redacted]% short of its total fixed-cost revenue requirements, as calculated by US Magnesium in Exhibit 1.3. This analysis identifies the very deficiency in the existing ESA that the Company hopes to resolve through its proposal to utilize Schedule 31/9 rates.

Finally, the Company does not agree that the QF price paid to US Magnesium is directly representative of the variable costs to service US Magnesium's loads.

Q. Does US Magnesium provide adequate support to demonstrate that both its two year extension of the existing ESA and its proposed modifications during the subsequent 8 year extension will recover its full cost of service either under a traditional 12 monthly coincident peak analysis or under and extension of the anomalous 6 monthly coincident peak analysis?

A. No. US Magnesium fails to adequately support that any of its proposals will result in full cost of service recovery under either evaluation methodology.

DEFICIENCIES IN US MAGNESIUM'S PROPOSED CONTRACT MODIFICATIONS REGARDING THE ORIA

Q. Do you agree with Mr. Swenson's assertion that US Magnesium is an important demand side management ("DSM") resource to the Company?

A. Generally, yes. However, the Company attributes the value and importance to the physical products provided by US Magnesium. These are specifically the Physical Reserves Products and exclude the Temperature Pseudo Curtailment construct or any financial variations thereof.

Q. In Exhibit 1.1 US Magnesium states that operating reserves will be subject to "[redacted]". Does this concern the Company?

A. Yes. This change adversely affects the Company's ability to use the product as Contingency Reserves under North American Electric Reliability Corporation (NERC) standard BAL-002-WECC-3. While the language is a seemingly minor adjustment from the existing requirement for US Magnesium to adjust its load "[redacted]," in the existing ORIA, the longer notice duration would mean the Company could no longer utilize the product as Contingency Reserves which is the primary source of the ORIA's value to customers. While it is entirely possible that the revised language represents an oversight, it is critical that the final terms and conditions of the ORIA products allow the Company to utilize the products consistently with their existing functions to provide value to customers.

Q. Mr. Swenson proposes that all remaining aspects of the current arrangement with respect to operating reserves should continue. Do you agree?

A. Assuming resolution of the notification timeline issue identified above, if the Commission determines that the new ESA should retain the existing terms and conditions, I generally agree the current arrangement for the operating reserves should also be continued, including the existing credit value of $[redacted]/kW-month. However, I oppose extending the current ORIA terms and conditions should the Company's recommended changes to the ESA be denied because the credit value for the ORIA would no longer be adjusted with changes in retail rates, which means that changes in overall retail rates may not directly correlate with changes to the value of reserves.

If the ESA modifications proposed by the Company are adopted, the Commission should make two modifications to the ORIA pricing. First, the Physical System Reliability Interruption should be removed from the ESA and added to the ORIA. Second, the credit received for the Physical Operating Reserves should be [redacted] to $[redacted]/kW-month to reflect the elimination of the Temperature Pseudo Curtailments with Buy Through Option construct, the addition of the Physical System Reliability Interruption to the ORIA, and use of an existing tariff schedule for the retail rates instead of utilizing a reduce retail rate.

Q. Mr. Swenson describes conditions under which US Magnesium could increase the hours of operating reserves. Given these constraints, does the Company wish to pursue the option of increasing the hours.

A. Not at this time. The Company would recommend that US Magnesium bid any incremental DSM products it is interested evaluating to a future DSM RFP where it can be considered in light of other potential resources and products that the Company could acquire.

OTHER DEFICIENCIES IN US MAGNESIUM'S PROPOSED CONTRACT MODIFICATIONS

Q. Mr. Swenson proposes that the new contract be a in effect for a period of ten years, with possible successive five-year extensions thereafter, which he states will provide "long-term certainty on these matters to USMag".[13] Do you believe this is appropriate?

A. No. As stated in my Response Testimony, although the Company does not believe the Commission has the authority to dictate a specific contract term, the Company is comfortable providing an initial contract term of two years (i.e., July 1, 2022, through June 30, 2024).

Q. Why is it unreasonable for US Magnesium to expect this type of long-term rate certainty?

A. It is notable that US Magnesium makes no corresponding commitments to the Company, its other customers, or the state of Utah that it will affirmatively continue at its historic operations, employment, or load levels. Additionally, US Magnesium specifically retains its options to further displace its load with additional on-site generation. While the Company understands US Magnesium's desire to retain these rights, a firm commitment from a single party, namely, PacifiCorp and in turn its customers, without the counterparty providing reciprocal firm commitments to long-term benefits, is inappropriate.

[13] Confidential Direct Testimony of Roger J. Swenson, line 659-660.

Q. Did the Commission recently rule on a similar request for rate certainty?

A. Yes. In the Export Credit Proceeding, several parties advocated for the export credit rate to be fixed for several years on the premise that it would provide certainty to prospective customer generators so they could calculate their return on investment. The Commission rejected the notion that Electric Service Schedule No. 137 – Net Billing ("Schedule 137") customers should receive long-term price guarantees determining that they are policy arguments and not relevant to the Company's cost of service, expressly stating "we decline to approve a long-term price guarantee for Schedule 137 customers without an accompanying long-term contractual and generation obligations."[14]

Q. The Company recently filed an application for approval of a special contract for a different customer with a term of approximately 10 years.[15] How do the circumstances differ between that customer and US Magnesium to warrant a longer contract term?

A. In my direct testimony supporting the pending approval of that agreement I point to several non-standard terms and conditions which support approval of the contract term. None of these terms and conditions are included in the proposal by US Magnesium. The other customer's contract includes higher demand-based Facility and Power Charge costs than existing rate schedules such as Schedule 9 to ensure proper alignment of cost recovery and cost generation. In contrast, US Magnesium's proposal includes no demand-based costs which cannot be unilaterally avoided by its own election. The other customer contract includes commitments by that customer to remain a full service customer through

[14] Docket No. 17-035-61, Order Issued October 30, 2020, p.8.

[15] *See* Docket No. 21-035-69 In the Matter of the Application of Rocky Mountain Power for Approval of Electric Service Agreement between PacifiCorp and Nucor-Plymouth Bar Division, a Division of Nucor Corporation.

the term of the agreement to prevent a reduction in load that could shift costs to other customers. Meanwhile, US Magnesium expressly retains the right to implement actions that would reduce its system load and subsequent contribution to system costs.

Q. What surcharges does Mr. Swenson list that he claims US Magnesium should be required to pay?

A. Mr. Swenson's exhibit USMag Ex 1.1 lists following as the proposed surcharge adjustments:

- Schedule 91 – Surcharge To Fund Low Income Residential Lifeline Program
- Schedule 94 – Energy Balancing Account
- Schedule 196 – Sustainable Transportation and Energy Plan (STEP) Cost Adjustment Pilot Program
- Schedule 197 – Federal Tax Act Adjustment

Q. Does the Company agree with this list?

A. Not entirely. As I discussed in my Response Testimony, US Magnesium should be subject to the following adjustment schedules. Differences from Mr. Swenson's testimony are underlined:

- Schedule 91 – Surcharge To Fund Low Income Residential Lifeline Program
- Schedule 94 – Energy Balancing Account
- Schedule 97 – Wildfire Mitigation Balancing Account
- Schedule 98 – REC Revenue Adjustment
- Schedule 197 – Federal Tax Act Adjustment
- Schedule 198 – Electric Vehicle Infrastructure Program Cost Adjustment

A new surcharge for the Electric Vehicle Infrastructure Program ("EVIP") under Schedule 198 became effective on January 1, 2022, which the Company recommends be applied to US Magnesium. Also, Schedule 97 – Wildfire Mitigation Balancing Account was not identified in my Response Testimony, but the Company believes it should be applicable to US Magnesium. This schedule was established in the Company's last general rate case, Docket No. 20-035-04, in order to track the actual spending on the Company's Commission-approved Wildland Fire Mitigation Plan from the forecasted amounts included in base rates. US Magnesium has also paid (or received credit from) Schedule 98, which should continue.

CONCLUSION

Q. What is your recommendation for the Commission in this proceeding?

A. I recommend that the Commission reject US Magnesium's proposed terms and conditions and enter an order establishing just and reasonable rates, terms, and conditions of service for US Magnesium, consistent with my Response Testimony and the arguments presented above. Specifically, I request that the Commission's decision:

- Recognize that the Company has voluntarily consented to participate in this docket due to the unique facts of the negotiations with US Magnesium and that there is no established process for a customer to compel the Company to enter into a special contract under Commission-determined terms and conditions;
- Eliminate the Temperature Pseudo Curtailments with Buy Through Option construct;
- Establish ESA rates under Schedule 31/9 and the Company's recommended adjustment schedules;

- Establish a credit of $[redacted]/kW-month in the ORIA; and,
- Establish an initial term of two years for the ORIA.

Q. Does this conclude your direct testimony?

A. Yes.