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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of US
Magnesium, LLC for Determination of
Long-Term Rates, and Terms and
Conditions of Interruptible/DSM Electric
Service Between It and Rocky Mountain
Power

Docket No. 21-035-53

REDACTED PREFILED REBUTTAL TESTIMONY OF ROGER J. SWENSON

US Magnesium, LLC hereby submits the REDACTED Prefiled Rebuttal Testimony of
Roger J. Swenson.

DATED this 6th day of May 2022.

JAMES DODGE RUSSELL & STEPHENS



/s/

Gary A. Dodge
Phillip J. Russell
Attorneys for US Magnesium, LLC

CERTIFICATE OF SERVICE

I hereby certify that on this 6th day of May 2022, I served a true and correct copy of the foregoing via electronic mail to the following:

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REDACTED REBUTTAL TESTIMONY

AND EXHIBITS

OF

ROGER J. SWENSON

On behalf of

US Magnesium, LLC

May 6, 2022

1 **Introduction**

2 **Q. Please state your name and business address.**

3 A. My name is Roger Swenson. My business address is 1592 East 3350 South, Salt Lake
4 City, Utah.

5 **Q. Did you file testimony previously in this matter?**

6 A. Yes. I provided direct testimony that was filed with US Magnesium’s application in this
7 docket.

8 **Q. What is the purpose of your rebuttal testimony?**

9 A. My rebuttal testimony responds to the testimony filed by Rocky Mountain Power (“RMP”
10 or “Company”) witness Craig Eller, the testimony filed by Division of Public Utilities
11 (“Division”) witness Casey Colman, and the testimony filed by Office of Consumer
12 Services (“Office”) witness Bela Vastag. My rebuttal testimony also revises US
13 Magnesium’s proposal in this matter from the proposal submitted with my direct testimony
14 in September 2021. A draft ESA with proposed rates, terms, and conditions setting forth
15 my proposal is attached hereto as CONF USMag Exhibit 2.1. My rebuttal testimony
16 discusses various provisions of US Magnesium’s current proposal.

17 **Nature of this Proceeding**

18 **Q. Each of the other witnesses offer testimony regarding the unique nature of this
19 proceeding. Please respond.**

20 A. I will respond to Mr. Colman for the Division, Mr. Vastag for the Office, and Mr. Eller for
21 the Company, each of whom offer perspectives about the validity of this proceeding.

22 Mr. Eller bluntly states that public utility customers should not be permitted to file
23 an application seeking a special contract with the Company.¹ Mr. Eller's opinion is
24 contradicted by the history of Commission proceedings involving US Magnesium and the
25 Company as outlined in my direct testimony. As discussed in my direct testimony, this
26 Commission has adjudicated numerous disputes regarding the provision of electric service
27 by the Company to US Magnesium since 1968. This docket does not differ in its nature
28 from the previous disputes that this Commission has addressed when the parties have been
29 unable to reach agreement on the rates, terms, and conditions of electric service. Mr.
30 Eller's claim that a utility customer cannot petition the Commission as US Magnesium has
31 done in this proceeding is troubling. The Company has been granted a state-sanctioned
32 monopoly to provide electric service. US Magnesium is a captive customer with no option
33 to obtain electric service from other market participants. The Commission, as the regulator,
34 is empowered to act in the absence of market forces to ensure that rates, terms, and
35 conditions of service are just and reasonable. The Commission has acted in this capacity
36 since US Magnesium first petitioned for interruptible service in 1968. Mr. Eller's position,
37 if adopted, would empower the Company to dictate terms and conditions to US
38 Magnesium, which would have no power to bargain. The Commission should reject Mr.
39 Eller's assertion that the Commission has no role to play in addressing disputes such as the
40 one in this docket.

41 US Magnesium generally agrees with the testimony of Mr. Colman and Mr. Vastag
42 on this point. Mr. Vastag notes that, pursuant to Utah Code § 54-4-4, the Commission has
43 the authority to order new rates and terms between the Company and US Magnesium.² US

¹ January 2022 Response Testimony of Craig Eller at lines 35-37.

² Direct Testimony of Bela Vastag (OCS) at lines 20-26.

44 Magnesium agrees with this discussion. US Magnesium also agrees with Mr. Colman that
45 this docket is unusual, in that the Commission is typically asked to consider a negotiated
46 agreement, whereas this docket asks the Commission to resolve disputes that prevent the
47 parties from reaching an agreement.³ I would prefer that US Magnesium and the Company
48 had been able to reach a negotiated agreement. That has not happened here, but this
49 Commission must be available to bridge gaps in such negotiations or customers like US
50 Magnesium will have no ability to negotiate. As Mr. Colman states: “Simply casting a
51 long-time customer off its expiring contract and onto schedule rates in these circumstances
52 is not likely in the public interest, particularly if that result gives the utility too much
53 bargaining power in its contract negotiations with the customer that has long had contracts
54 recognizing specific customer attributes and potential value to the system.”⁴

55 **The Major Focus of the Company’s Testimony**

56 **Q. Please provide a summary of the Company’s position as you see it?**

57 A. Mr. Eller’s testimony on behalf of the Company identified several main points. First, the
58 Company argues that curtailment should no longer be based on a day-ahead temperature
59 forecast. Second, the Company argues that the buy-through provisions of the existing
60 contract is not working because there is no physical curtailment of load. Third, the
61 Company asserts that removing US Magnesium’s load at the time of system coincident
62 peak from the cost-of-service model that allocates cost for the six months in which US
63 Magnesium is subject to curtailment to avoid those system coincident peaks should no
64 longer be allowed. Finally, the Company asserts that US Magnesium should no longer be
65 able to buy-through during a curtailment and that US Magnesium should become a firm

³ Direct Testimony of Casey Colman (DPU) at lines 92-133.

⁴ *Id.* at lines 122-126.

66 customer under Schedule 31 arrangements and only have an operating reserve contract
67 offsetting the Schedule 31 costs.

68 **Q. What is your response to the Company’s first argument that curtailment should no
69 longer be based on a temperature forecast as it is in the existing contract?**

70 A. US Magnesium agrees that basing curtailment decisions on high temperature forecasts is
71 not the optimal method for the Company to curtail US Magnesium’s load. My direct
72 testimony proposed an alternative mechanism for curtailment that was not based on the
73 temperature triggers set forth in the existing contract. I believe there are better approaches
74 to achieving the desired result of load reduction during system coincident peaks that
75 reduces the costs allocated to Utah. Other parties have also indicated that the temperature-
76 based trigger is not something that should be continued. I agree.

77 **Q. Have the temperature-based curtailment provisions in the contract been successful in
78 resulting in curtailments that coincide with system coincident peaks?**

79 A. Yes. Confidential Table 2 in Mr. Eller’s January 2022 Response Testimony demonstrates
80 that [REDACTED]
81 [REDACTED]
82 [REDACTED]

83 **Q. Does the current contract address what happens when a system coincident peak
84 occurs at a time when the forecasted temperature did not allow the Company to call
85 for curtailment during one of the summer curtailment months?**

86 A. [REDACTED]
87 [REDACTED]
88 [REDACTED]

89 [REDACTED]
90 [REDACTED]
91 [REDACTED]
92 [REDACTED]
93 [REDACTED]
94 [REDACTED]
95 [REDACTED]
96 [REDACTED]
97 [REDACTED]

98 **Q. If the temperature trigger has successfully resulted in the Company calling for**
99 **curtailment during system peak hours, why do you agree that it is no longer**
100 **necessary?**

101 A. From US Magnesium’s perspective, the temperature trigger has resulted in the Company
102 calling for more curtailments than has been necessary to avoid system coincident peaks.
103 The Company has simply called for a curtailment [REDACTED]
104 [REDACTED] This is
105 unnecessary. While the temperature trigger has been a useful tool in the Company’s
106 decision to call for curtailments, it need not be a limitation or a requirement in the contract.
107 The Company can still utilize forecasted temperatures as one of many data points to decide
108 whether or not to require curtailment, but it need not be a contract requirement that it be
109 the only data point available to the Company in this regard.

110 **Q. How do you respond to the Company's second argument that the buy-through**
111 **provisions of the existing contract do not result in physical curtailment of load and**
112 **should be discontinued?**

113 A. The Company is incorrect when it claims that the existing contractual provisions, and how
114 US Magnesium operates during curtailments, results in no curtailment benefits to the
115 Company. As an initial matter, the testimony offered by the Company strongly suggests
116 that US Magnesium has somehow acted improperly in buying through during curtailment
117 periods. Any such suggestion should be rejected. US Magnesium curtails load when called
118 upon to do so and, consistent with the provisions of its contract, it has bought through at
119 market prices when it has needed to operate at a level above what is possible with its on-
120 site generation resources during curtailment periods. When US Magnesium buys through
121 during curtailment periods, [REDACTED]

122 [REDACTED]
123 [REDACTED]
124 [REDACTED]
125 [REDACTED]
126 [REDACTED]
127 [REDACTED]
128 [REDACTED]
129 [REDACTED]
130 [REDACTED]
131 [REDACTED]
132 [REDACTED]

133 [REDACTED]
134 [REDACTED]
135 [REDACTED]
136 [REDACTED]
137 [REDACTED]

138 **Q. Does US Magnesium ever elect to physically curtail load, or does it always buy**
139 **through to its full capacity during curtailment periods?**

140 A. Contrary to the testimony of Mr. Eller, US Magnesium *does* physically curtail load when
141 requested to curtail by the Company. US Magnesium elects not to buy through at full
142 capacity when it makes economic sense to do so, as any rational commercial operator
143 would do. The curtailments as directed by the Company are typically for the 4-hour period
144 during the summer months between the hours ending 1800-2100. US Magnesium has
145 recently often physically curtailed load and elected not to buy through during the hours
146 ending 2000 and 2100.⁵

147 **Q. Why does US Magnesium curtail load during the hours ending 2000 and 2100.**

148 A. These hours are the highest cost hours in the contractual arrangement when called on by
149 the Company to curtail usage. Pursuant to the existing contract, [REDACTED]

150 [REDACTED]

151 [REDACTED]

152 [REDACTED]

153 [REDACTED] US Magnesium elects to reduce its load

154 requirements and not to buy through during these hours where market prices and scalars

⁵ See CONF USMag Exhibit 2.5.

155 are too high to justify continuing operations at that level. The market pricing and scalars
156 are price signals to which US Magnesium responds and adjusts operations.

157 **Q. Are the scalars developed by the Company typically highest at times of system**
158 **coincident peak?**

159 A. No. The Company provided information in response to a data request showing the hours
160 that system peak loads occurred in each of the contract curtailment months from 2016
161 through 2021. Confidential Table 1 below summarizes those results. As Confidential
162 Table 1 shows, [REDACTED]

163 [REDACTED]

164 [REDACTED]

165 [REDACTED]

166 [REDACTED]

167 [REDACTED]

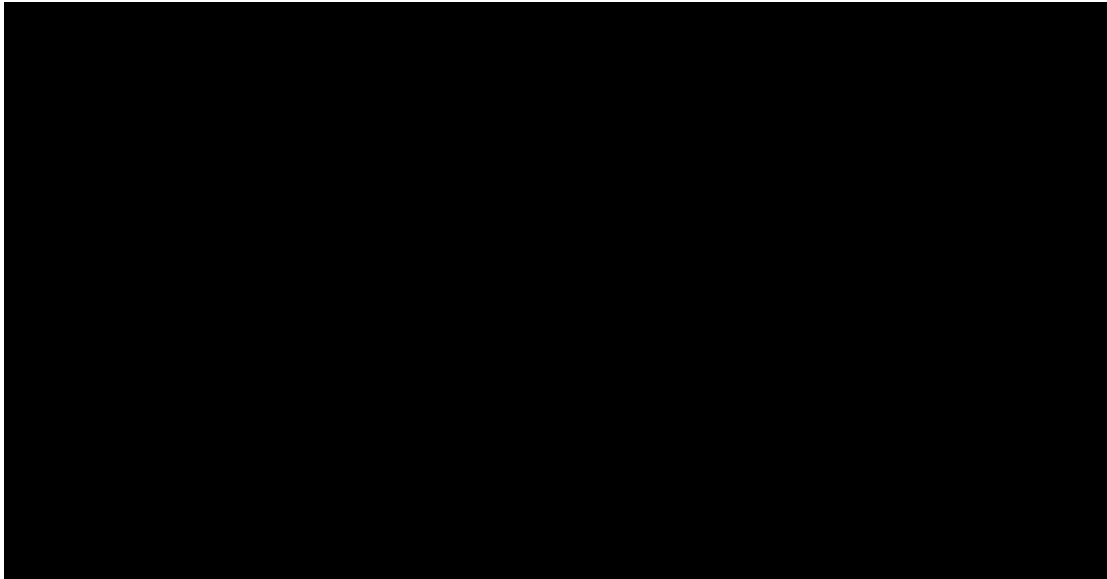
168 [REDACTED]

169 [REDACTED]

170 [REDACTED]

171 [REDACTED]

172 [REDACTED]

CONFIDENTIAL Table 1

174

175 **Q. What does the information in Confidential Table 1 show?**

176 A. As noted above, Confidential Table 1 shows the hours during which system coincident
177 peaks occurred during the curtailment months of [REDACTED]

178

179

[REDACTED].⁶

180 **Q. How do you respond to RMP's claim that the buy-through basis of the approved
181 contract provisions and the temperature derived curtailment trigger is not working?**

182 A. I agree with the testimony of Division witness Casey Colman, who testified that the
183 Company was not administering the contract properly and certainly not in a way that
184 gave US Magnesium encouragement to physically curtail and elect not to buy through in
185 the system peak hours. If the goal of reducing Utah load during system coincident peaks
186 has not been achieved during the contract by the Company's now after-the-fact

⁶ A workpaper showing calculations associated with Confidential Table 1 is included herewith in CONF USMag Exhibit 2.7.

187 determination, the question must be asked whether that is the result of the contract
188 provisions or whether this is the result of the manner in which the Company administered
189 the contract. If RMP did not properly administer the curtailment provisions of the
190 contract to incentivize US Magnesium to physically curtail rather than buy through from
191 market resources, as Mr. Colman concludes, then the Company's assertion that the
192 contract provisions must be radically changed to achieve those results are drawn into
193 serious question.

194 **Q. Why doesn't US Magnesium just physically curtail and decline to buy through during**
195 **all four hours of a curtailment period when the Company calls for a curtailment?**

196 A. US Magnesium prefers to curtail its operations for not more than two hours to keep high
197 temperature molten salt in its manufacturing process from cooling to levels that can cause
198 problems in US Magnesium's operations. Therefore, when the Company calls for a 4-hour
199 curtailment, the best option available to US Magnesium's operations is usually to always
200 buy-through if costs are reasonable for market sourced resources. If costs are
201 extraordinarily high then US Magnesium will choose to reduce load for the two highest-
202 cost hours out of the 4-hour period and buy-through for the two lower-cost hours.

203 **Q. How do you respond to Mr. Eller's third main argument that US Magnesium's load**
204 **during system coincident peaks when it is buying through should be included in the**
205 **cost-of-service allocation model in the months that US Magnesium is subject to**
206 **curtailment?**

207 A. The current contract does not serve as a basis for including US Magnesium's load in the
208 cost of service allocation model during curtailment months. The buy through provision is
209 a mechanism put in place to enable US Magnesium to be curtailed for a four-hour

210 duration to give a greater chance of being curtailed during a system coincident peak to
211 meet the objective of reducing Utah's peak load allocation during system peak times. It is
212 a condition applied to US Magnesium as part of the contract basis so as to confidently
213 drop load during the system coincident peak. The Company indicated that a four-hour
214 curtailment duration was necessary to ensure that curtailment occurred during system
215 peak, and US Magnesium responded that it did not want to regularly physically curtail for
216 four-hour time blocks since it would cause the production process to be less efficient.
217 Buy-through allowed both parties to achieve their objectives. Because US Magnesium
218 did not want to subject the operations to 4-hour duration curtailments it was a reasoned
219 basis to meet the curtailment goal. All parties have agreed to these provisions for multiple
220 contract extensions and the Commission has approved the contracts as such. It is hard to
221 understand the Company's assertion that it should not be allowed now just because US
222 Magnesium is the only customer to request such treatment.

223 **Q. Given the nature of how the Company has been administering the contract do you**
224 **agree that US Magnesium should not be permitted to buy-through because it is the**
225 **only customer to currently have that contractual right?**

226 A. No. The Company has called for curtailments in hours that clearly would not have
227 included the system coincident peak, resulting in US Magnesium being curtailed more
228 than was contemplated to meet the contract's purpose of curtailments to avoid system
229 coincident peak, and US Magnesium has elected to buy-through from the market
230 regularly as a result.

231 Also, the Company's argument that US Magnesium should not be permitted to
232 buy-through because it is the only interruptible special contract customer that currently

233 has that contract right is not a valid basis to eliminate the right in the next contract. There
234 are only three interruptible special contract customers on PacifiCorp’s system. There are
235 likely unique provisions in each of those special contracts. Extended to its logical
236 conclusion, the Company’s argument is that there should be no unique provisions in these
237 contracts and that each special contract customer must be treated the same.

238 Finally, US Magnesium is not now and has never suggested that other customers
239 not be allowed to buy through during a curtailment. If a buy-through makes sense for
240 another customer based on the terms of that customer’s contract and its operations, US
241 Magnesium does not object to another customer having the contractual right to buy-
242 through.

243 **Q. Would US Magnesium have taken different actions if it had known that the**
244 **Company would shift course and claim that interruptible value can only be derived**
245 **from physical load curtailments during system coincident peaks?**

246 A. Yes. US Magnesium would have pushed to use data and operational knowledge gained to
247 continue to reduce physical load in as many of the system coincident peaks as possible,
248 using the fewest hours possible to do so. If, as the Company proposes, cost of service is
249 determined only by physical curtailment—if curtailments with buy-through no longer
250 “count”—then US Magnesium would have been watching how the time period of
251 monthly system coincident peaks were changing in regards to what hours they would
252 occur and looking for patterns that would help it best project when they would occur to
253 take action itself to miss coincident system peaks. US Magnesium would have requested
254 the Company’s daily peak forecasts and determined a better curtailment protocol to
255 achieve the desired goal of peak reductions and cost minimization for US Magnesium

256 with physical curtailment if we would have known what the new rules were going to
257 become. But we were not provided that guidance until the position of the Company was
258 filed in this docket.

259 **Q. How do you respond to the Company’s proposal to push US Magnesium to be a firm**
260 **full load customer using its historical buy-through levels of load during system**
261 **coincident peaks as the cost basis for the new firm service it is proposing?**

262 A. The Company’s proposal should be rejected for numerous reasons. First, US Magnesium
263 has never been a firm service customer of the Company and RMP has not provided any
264 valid explanation as to why it should be forced to be one now. The proposal should be
265 rejected for the additional reason that the peak loads the Company wants to use to set US
266 Magnesium’s costs are based on how US Magnesium was encouraged, pursuant to the
267 terms of the existing contract (which would no longer apply) and the Company’s own
268 mis-interpretation of that contract, that resulted in US Magnesium electing to buy-
269 through during the system coincident peak load hours and to physically curtail loads in
270 other hours, as discussed above. If US Magnesium would have known that by following
271 the terms of the approved agreement and buying through for certain periods in the 12
272 months in the test period for its rate determination was going to cause it to pay an
273 additional [REDACTED] per year⁷ it would have made different decisions as how to reduce
274 load during coincident peaks without a buy-through option to minimize its allocated cost
275 basis for something like the Company is proposing. US Magnesium’s actions were
276 consistent with the price signals in its existing contract. Those actions should not result

⁷ This number is derived from a comparison of numbers in the “Exhibit CME-2 Bill Comparison” tab in CONF Exhibit___RMP (CME-2). [REDACTED]

277 in US Magnesium paying higher costs using a different rate structure. That is, however,
278 what the Company is now, after the fact, proposing to impose on US Magnesium.

279 **Q. The Company also has proposed a higher price for operating reserves to keep US**
280 **Magnesium's overall rate at what the Company suggests is a [REDACTED] discount to firm**
281 **industrial rates.⁸ What do you say to that proposal?**

282 A. US Magnesium appreciates that the company did not propose to just leave the operating
283 reserve payment at the existing level, but it is difficult to assess whether the new
284 proposed price is appropriate because there is no clear transparent market to know
285 whether the value is appropriate or not. Electric markets and most other energy markets
286 are facing substantial volatility with much higher costs right now. These changes in value
287 under these conditions should make operating reserves more valuable. Operating
288 reserves from non-generation based resources also should be more valuable as
289 intermittent resources make up a larger and larger share of the resource mix and as more
290 and more baseload fossil-based generation is retired. However, it is difficult to determine
291 the full value of US Magnesium as an operating reserve resource as a percentage discount
292 to an industrial firm rate that US Magnesium has never paid. The increase in costs that
293 the Company proposes to impose on US Magnesium represents an overall increase of
294 [REDACTED] to US Magnesium's electric bill under the assumptions used by Mr.
295 Eller in CONF Exhibit___RMP (CME-2). We appreciate the comments from other
296 stakeholders in this case have suggested cost increase gradualism in some way, and agree
297 that gradualism should be applied to prevent rate shock to US Magnesium.

⁸ See Confidential Direct Testimony of Craig Eller (RMP) at lines 93-95.

298 **Other Issues Identified in Company Direct Testimony**

299 **Q. Mr. Eller commented on a list of items related to US Magnesium’s proposal**
300 **submitted with your direct testimony. Can you respond?**

301 A. In lines 97-126 of his Direct Testimony, Mr. Eller provided a number of critiques to the
302 proposal included with my direct testimony. As noted above, and as explained more
303 thoroughly below, I have submitted a revised proposal that seeks to address the concerns
304 raised in the testimony of Mr. Eller, as well as issues raised by Mr. Colman and Mr.
305 Vastag. As such, I don’t respond to each of Mr. Eller’s critiques of my initial proposal.

306 **Q. On pages 10-11 of his Direct Testimony, Mr. Eller responds to your request for**
307 **forecasted peak load information and states that it is not possible for the Company**
308 **to provide a projection of the system coincident peak for a month. Can you**
309 **respond?**

310 A. Yes. I was not asking the Company to state in advance what its monthly system
311 coincident peak will be. Every day the Company must forecast its peak load so that it
312 knows how much power to arrange from the daily front office trades or to nominate gas
313 supplies for its gas-fueled generation and to decide how it will operate its baseload plants.
314 US Magnesium requests to see the ongoing data containing these daily forecasts of the
315 system peak for the following day and perhaps two days ahead. US Magnesium does not
316 expect that the company can forecast the actual system coincident peak ahead of time.
317 The actual monthly system coincident peak is determined by looking back at the highest
318 actual usage of the combined jurisdictions once reliable data is available. My intent was
319 that US Magnesium be responsible for the curtailment determination since we are the
320 party that has a strong interest in missing the system coincident peak and the daily system

321 peak forecast information would provide us the information available from the experts at
322 the Company as they prepare to be able coordinate resources on an ongoing basis to serve
323 daily system peak loads. We would also require the after-the-fact actual measured daily
324 system coincident peak loads to measure how well the forecast mechanism is working so
325 that we can know how much variability to expect around forecasts vs. actuals and can
326 plan accordingly.

327 **Q. The Company asserts that excluding US Magnesium's load from the cost of service**
328 **study in the coincident peaks for the six months of curtailment is not justified**
329 **because it now believes that the buy-through mechanism does not count as a**
330 **curtailment and that, as a result, US Magnesium should become a firm customer.**
331 **Do you agree with their conclusion?**

332 A. No. The contract did not require US Magnesium to physically curtail, and in most
333 instances, it elected to buy through in order for its load not to be included in the system
334 coincident peak during the six curtailment months. Put another way, when the contract
335 was negotiated by the parties and approved by this Commission (and extended), the buy-
336 through mechanism counted as curtailment for purposes of the cost-of-service model
337 decisions. The Company has apparently changed its mind about this, but the Company's
338 about-face does not justify the result it seeks to impose on US Magnesium.

339 US Magnesium complied with the terms and conditions of the contract when it
340 elected either to physically curtail its operations or to buy through during a curtailment.
341 The Company's claim that US Magnesium failed to reduce loads during curtailments is
342 blatantly wrong and should be rejected. The evidence shows that US Magnesium did
343 reduce its load during curtailment hours in which market prices and the scalars

344 determined by the Company incentivized US Magnesium not to buy through.⁹ If the
345 Company failed to properly incentivize US Magnesium to physically curtail during hours
346 in which system coincident peaks were most likely to occur, the result should be to
347 correct the incentives, rather than to conclude that curtailment and buy-through is not
348 working. US Magnesium did what it did in reliance on the approved terms and
349 conditions and the Company is using that reliance to now assert that US Magnesium did
350 not reduce load during system coincident peaks, and that US Magnesium's ability to do
351 so should not be considered in the cost of service study and that US Magnesium should
352 be assigned full loads for those periods. The Company's argument is directly contradicted
353 by the evidence, which shows that the Company's application of the hourly index
354 adjustment scalar incentivized US Magnesium buy through during times of coincident
355 peak demand and to curtail load at times in very high priced periods.

356 *Discussion of State Policy Considerations*

357 **Q. A significant portion of the Company's testimony addresses state policy**
358 **considerations in setting rates. Can you comment?**

359 A. Yes. I brought up the discussion in my direct testimony to help frame the basis for the
360 thousands of hours of time people have put into the determination of a basis for an
361 interruptible rate. I know that there has been much turnover of the executive team at the
362 Company, and I think there are few people in the Company's staff that now remain that
363 were closely involved in that effort. However, I tried to be very careful in my direct
364 testimony not to ask for an economic development-based rate or a rate based on some
365 sort of policy perspective. The work that went into the task force groups and reports gave

⁹ See CONF USMag Exhibit 2.5.

366 us a clear direction to proceed and that was to look at a value derived from being an
367 operating reserve resource and also a means to avoid cost allocation to the state.

368 **Q. The Company’s testimony includes a lengthy discussion regarding rooftop solar**
369 **credits and the order stating that “we do not set policy for the state of Utah on carbon,**
370 **environmental regulations, social policy, or economic development.” Are you asking**
371 **that the basis of any part of the Commission determination in this matter on any of**
372 **those elements?**

373 A. No. We are asking that the interruptible rate determination be based on the existing
374 methodology with an operating reserve value and the value of the missed coincident
375 system peaks and the value that provides should continue to be used as part of the
376 determination of the rate.

377 **Q. The Company seems to suggest that after 54 years there has been enough**
378 **consideration. Do you agree with the Company’s characterization?**

379 A. No. As I stated above very good technical people from a wide variety of stakeholders
380 have weighed in on the most reasonable basis for setting an interruptible rate for US
381 Magnesium (and other interruptible customers) and the Commission has approved the
382 rates based on the two metrics—operating reserve value and load reduction during
383 coincident peaks to affect cost allocation to Utah—in many dockets without suggesting
384 that there are policy-based subsidies taking place. What I have strenuously argued for is
385 an interruptible rate such that there are no subsidies required from other ratepayers and
386 US Magnesium has consistently over time moved to a cost-of-service basis because that
387 metric was important and was based on the requirements in the approved contract. As a
388 result, US Magnesium’s rates are in line with the current cost of service.

389 **Q. Have policy makers for the State of Utah weighed in recently on the importance of**
390 **the mineral extraction industry in Utah?**

391 A. Yes. During the 2022 General Legislative Session the Utah Legislature adopted S.C.R. 3,
392 titled “Concurrent Resolution Highlighting Utah’s Rare Earth Mineral Position.” S.C.R.
393 3 states, in relevant part, as follows:

394 NOW, THEREFORE, BE IT RESOLVED that the Legislature of the state of Utah, the
395 Governor concurring therein, expresses through this resolution the necessity of ensuring
396 access to public lands, the continuation of the mineral extraction industry in Utah, and
397 sustainable development of renewable energy on public lands and through the state of
398 Utah....

399
400 BE IT FURTHER RESOLVED that the Legislature and the Governor find that the state
401 of Utah is a public land state that stands able and willing to promote mineral extraction
402 and the development of energy resources, including renewable energy resources, for the
403 citizens of Utah and other Americans.

404
405 S.C.R. 3 specifically mentions US Magnesium’s production of minerals, stating:

406
407 WHEREAS, Utah is the primary global provider of beryllium, the only domestic
408 producer of magnesium metal, and one of only two states producing lithium.¹⁰

409
410 As noted above, US Magnesium is not seeking an economic-development based
411 rate in this proceeding. I highlight S.C.R. 3 to indicate the importance of correctly
412 assessing the cost of service to US Magnesium to determine pricing and value of US
413 Magnesium’s interruptible electric service.

¹⁰ A copy of S.C.R. 3 is attached hereto as USMag Exhibit 2.8.

414 **Issues Associated with Burden of Proof**

415 **Q. The Company states that US Magnesium, as the party that initiated the docket, bears**
416 **the burden of proof to demonstrate why rates other than standard retail rates (i.e.,**
417 **Schedule 31/9) are just and reasonable. Do you agree with this assertion?**

418 A. No. US Magnesium initiated this proceeding because the Company had issued to US
419 Magnesium a letter terminating its service on December 31, 2021. With only 4 months
420 remaining to have a proceeding for a new contract approval we had to take some form of
421 action to make sure we were not calling for an emergency docket in December to deal
422 with this matter. Also, our filing was an attempt to propose to make the curtailment
423 process better by eliminating the temperature derived curtailment periods for all the
424 reasons discussed in my direct testimony. To now state that US Magnesium, by taking
425 such action, must offer proof for the non-standard special contract that has been in place
426 for 54 years is incomprehensible. With 54 years of service under special interruptible
427 contract conditions the special contract is in essence a standard rate for US Magnesium,
428 and I would suggest that it is the Company that should bear the burden of proof that
429 something *other* than the standard 2-part value interruptible rate determination is in the
430 public interest. Mr. Eller certainly cannot demonstrate that it would be in the public
431 interest for US Magnesium to take service pursuant to Schedule 31.

432 Like Mr. Eller, I am not an attorney. Nonetheless, this proceeding is clearly
433 different than civil litigation in state or federal court where, as I understand it, a plaintiff
434 must prove that a defendant has breached a contract or a standard of care. US Magnesium
435 filed the application in this docket to make sure it had a contract for power it could rely
436 on. US Magnesium—a captive customer of a monopoly utility that has no alternative but
437 to obtain electric service from the Company—had to take such action.

438 **Q. How do you respond to Mr. Eller’s proposal to require US Magnesium to take**
439 **electric service consistent with Schedule 31?**

440 A. Mr. Eller’s proposal to require US Magnesium to pay Schedule 31 rates is inconsistent
441 with the terms of Schedule 31 itself. Schedule 31 applies to commercial and industrial
442 customers that have on-site generation capacity of more than 1 MW but that does not
443 exceed 15 MW. US Magnesium’s on-site generation capacity is approximately 32 MW
444 and, [REDACTED]

445 [REDACTED]
446 Schedule 31 states that “Partial requirements service from the Company for customers
447 with more than 15,000 kW of on-site generation shall be provided under contractual
448 arrangements to be negotiated on a case-by-case basis.” That is, Schedule 31 was not
449 designed for a customer like US Magnesium.

450 **Q. Do you have concerns regarding the Company’s proposal as it relates to the**
451 **operating reserve contract?**

452 A. Yes. I also have concerns regarding a change the Company is now demanding
453 concerning the operating reserve contract component of the interruptible rate
454 determination. They are now stating that US Magnesium should be required to bid into a
455 demand side management RFP that will occur in the future. US Magnesium has never
456 been required to bid into an RFP to provide operating reserves. I understand the
457 Company agreed to grant to Nucor a 10-year operating reserve agreement without the
458 requirement that it bid into a RFP. The Company’s proposal to require US Magnesium to
459 bid into a RFP represents a change to the “standard rate determination” that has been in
460 place between the Company and with US Magnesium for many years. It would be

461 discriminatory to require US Magnesium to bid into the DSM RFP while the other
462 interruptible special contracts are not required to do so.

463 US Magnesium has issued data requests to the Company in an effort to evaluate
464 this proposal by the Company. In response, the Company has asserted that it would not
465 provide additional information other than to say that if US Magnesium is not a successful
466 bidder in the RFP it would just be out of luck and would transition to a full firm service
467 tariff rate. Pursuant to the calculations in CONF Exhibit RMP___(CME-3) attached to
468 Mr. Eller’s January 2022 response testimony, such a move would result in an increase of
469 over ██████████ per year to US Magnesium.¹¹ That proposal should be rejected.

470 **Response to the Direct Testimony of Bela Vastag (Office)**

471 **Q. Can you comment on the filing provided by Mr. Vastag of the Office in this docket?**

472 A. Yes. We very much appreciate the time and effort put in by the Office personnel to
473 understand the issues surrounding this matter. Mr. Vastag concludes that the current
474 temperature-based trigger for curtailment needs to be redesigned. As noted above, I
475 agree. Mr. Vastag asserts that the Commission should reject the proposals offered by US
476 Magnesium and by the Company and states that the Commission should adhere to certain
477 principles in determining a just and reasonable rate for US Magnesium. Specifically, Mr.
478 Vastag states that the rate US Magnesium pays for electric service must include some
479 contribution to system fixed costs and that the rate determined should reflect how the
480 system is used. Importantly, Mr. Vastag also states that the allocation of costs to US
481 Magnesium should consider the value US Magnesium provides by reducing Utah’s
482 contribution to system peaks. US Magnesium agrees with these principles.

¹¹ See CONF Exhibit___RMP (CME-2), Tab “Exhibit CME-2 Bill Comparison”, Cell R39.

483 **Q. Mr. Vastag also proposes that the Commission require the Company to harmonize**
484 **DSM resources. Do you agree?**

485 A. Generally, yes, US Magnesium agrees with the position that DSM resources should be
486 harmonized with each other and with generation and load. The Company's 2021 IRP
487 identifies significant reliance on DSM resources in the planning horizon and some kind
488 of harmonizing of those resources makes perfect sense. It is not clear what that
489 specifically means, but I expect that a much more transparent plan needs to be developed
490 to see how the Company intends to move forward. We do not expect that this
491 harmonization of resources can or will occur in this docket and will require work in
492 future dockets. For this docket, it is important to keep options available including both
493 operating reserves and system peak load reduction, so that both can be utilized in this
494 harmonization effort.

495 **Q. Mr. Vastag suggests that any service provided to a customer in a special contract**
496 **should be open to all customers. How do you respond?**

497 A. US Magnesium agrees that any customer that can provide value to the system by taking
498 interruptible service and curtailing to reduce load during system peaks should have that
499 opportunity. There are very few customers that are willing and able to do so, particularly
500 at the scale offered by US Magnesium. I noted in direct testimony the various task forces
501 that have been convened to determine when a special contract is warranted. US
502 Magnesium meets the criteria set by those task forces. Put simply, its use of the system is
503 qualitatively and quantitatively different than that of other customers. The Company
504 should provide opportunities for other customers that can provide DSM resources to do
505 so and receive credit for doing so. Providing those opportunities to other customers can

506 work in concert with a special contract for US Magnesium. Those two goals need not be
507 in conflict.

508 **Q. Mr. Vastag proposes that the ESA be continued for two years to study how to**
509 **revamp the arrangement. Do you have any comments on that suggestion?**

510 A. In my direct testimony I suggested a transition period for any substantive changes to the
511 existing contract structure and Mr. Vastag's testimony in this regard is very similar to my
512 proposal. While I would prefer the certainty of a longer contract term similar to the one
513 offered to Nucor, I acknowledge that the terms of the agreement between the parties must
514 be modified and agree that a short transition period will likely be necessary to land on a
515 final arrangement that can satisfy stakeholder needs and balance the value US
516 Magnesium can bring to the system in return for a lower cost of power. A transition
517 agreement such as the one Mr. Vastag proposes makes sense if it includes a gradualistic
518 approach to costs while we determine the best use of the interruptible arrangement.

519 **Q Does Mr. Vastag take a position as to the appropriate length of the Operating**
520 **Reserve Agreement?**

521 A. The Office does not seem to take a position regarding the length of the term of the
522 Operating Reserve Agreement. The Office's perspective regarding how dynamic energy
523 markets are at the moment suggests that the Office would assert a preference for shorter
524 term arrangements rather than lock down contracts for longer terms. My perspective is
525 somewhat different. More flexible fossil fueled generation is being retired in the west
526 and very few new fossil-fuel plants are being announced. There have even been
527 announcements by prominent members of government that natural gas now has a 10-year
528 expiration date. Natural gas prices have recently tripled, and fewer gas production

529 companies are focusing free cash into drilling programs since investors are demanding
530 low carbon investments now more than ever. This suggests to me that non-generation
531 types of Operating Reserve resources will have more value going forward. That is, while
532 I agree with the Office that energy markets are changing rapidly, my view is that this is
533 likely to drive the market higher for the Operating Reserve agreements in the future and
534 that locking in Operating Reserve resources for longer terms would be in the best
535 interests of ratepayers. US Magnesium suggests that a period of [REDACTED] is
536 appropriate for the ESA to provide a transition period to a longer-term deal. I suggest
537 that a longer term Operating Reserve agreement be established to provide better planning
538 for both the utility and for US Magnesium. We understand that Nucor has requested a 10-
539 year term for their agreement and we would expect the same timeline agreement for the
540 US Magnesium Operating Reserve agreement using the same basis as the Company has
541 proposed with the pricing as adjusted by US Magnesium of [REDACTED] for the
542 period until December 31, 2024 and then adjusted by some agreed upon factor.

543 **Response to the Direct Testimony of Casey Colman (Division)**

544 **Q. Mr. Colman suggests that neither the Division nor the Commission is in a position to**
545 **negotiate a special contract between US Magnesium and the Company. Did you**
546 **expect that the DPU or Commission would negotiate our agreement?**

547 A. No. I want to first thank the Division personnel for all the time it spent getting to
548 understand the issues at hand in this matter and the well-reasoned and insightful response
549 to the application. We certainly did not intend for the Division or the Commission to
550 negotiate an agreement between US Magnesium and the Company. As noted above, US
551 Magnesium was in the unfortunate position of having to file the application in this docket

552 because insufficient progress was being made in negotiations with the Company and time
553 was running out on an expiring contract.

554 US Magnesium has benefitted from getting insight from the Division from
555 discussions and from Mr. Colman's direct testimony, which may prove to be very
556 important in finding a solution to the current impasse between US Magnesium and the
557 Company.

558 **Q. The DPU suggests that special contract terms should allow for flexibility as market
559 conditions change. Do you agree with that proposition?**

560 A. I do, and I would suggest that flexibility must be incorporated in the specific times we are
561 heading into in the energy business. In over 30 years in the energy business, I have not
562 seen a more dynamic time for change coming at every aspect of the energy space. Every
563 aspect seems to be in upheaval. Now is not the time to foreclose any kind of resource
564 that can be brought to bear on helping find solutions. US Magnesium seeks to be a part
565 of the solution, whatever it may be at any given time.

566 **Q. Does that mean we should not consider making changes such as dropping the
567 temperature-based curtailment?**

568 A. No, we should always look for better solutions that help meet the intended results and
569 revise efforts that are rigid and cause unwanted outcomes. The temperature-based
570 curtailment as administered by the Company resulted in unintended consequences and, as
571 such, US Magnesium and every other party seems to agree its time has passed and should
572 be scrapped. We should be looking for better ways to achieve desired results.

573 **Q. Mr. Colman states in lines 532-533 of his direct testimony that “every time a**
574 **curtailment has been called US Magnesium has opted to buy-through.” Do you**
575 **agree with this statement?**

576 A. US Magnesium nearly always buys through at some level during a curtailment, but Mr.
577 Colman’s testimony in this regard leaves out some nuance that I want to highlight. First,
578 as noted above and as shown in CONF USMag Exhibit 2.5, US Magnesium very often
579 has opted to buy through during curtailments, but has physically curtailed load in the very
580 high price hours of the four-hour curtailment periods. As I stated earlier in my rebuttal
581 testimony, [REDACTED]

582 [REDACTED]
583 [REDACTED]
584 [REDACTED]
585 [REDACTED]
586 [REDACTED]
587 [REDACTED]

588 Second, US Magnesium has elected to buy through at very low levels even during
589 periods of very high market prices. The decision to not to curtail all the way to zero
590 during some of those periods reflected some production related issues that made not
591 going completely to zero load more rational with the buy through option for the much-
592 reduced remaining load.

593 Finally, and to Mr. Coleman’s point, I agree that the Company has called for
594 curtailments as a matter of course when the temperature was above the contract
595 curtailment trigger point, and that the Company has not sought to target curtailments to

596 system coincident peaks. As Mr. Colman states in lines 543-546 of his direct testimony,
597 curtailment decisions were not strictly tied to system needs, and there seems to be a
598 divergence between the stated goal of reducing load during peaks and to how that goal
599 was sought to be achieved.

600 **Q. What recommendation does the Mr. Colman make regarding a reasonable path**
601 **forward as a goal and how do you respond to it?**

602 A. Mr. Colman suggests that US Magnesium and the Company should work in a
603 collaborative manner to reach a new agreement. Specifically, he states that the new
604 agreement should include “a physical curtailment option and a buy through option that
605 could aid USMag when the system is not physically constrained,” and that “a contract might
606 help RMP build a portfolio more in line with WECC’s thinking in its resource assessment
607 and still satisfy RMPs resource adequacy needs.”¹² I could not agree more.

608 **Q. Does Mr. Colman offer some suggestions for the path forward now to try and**
609 **achieve the goal?**

610 A. Yes. He provides some suggestions for modified agreement terms for a transition period.

611 **Q. Can you comment on his suggestions for modifications?**

612 A. Yes. I will comment on each as listed below.

613

- *Mr. Colman suggests an extension to the current contract, with modifications*

614 I agree that we should modify the existing contract as a starting point for the
615 transition basis.

617

- *Mr. Colman suggests that the new contract permit temporary use of the*

618 *temperature trigger for summer curtailments as a threshold for the buy through*
619 *curtailment option.*
620

¹² Direct Testimony of Casey Colman (Division) at lines 958-961.

621 US Magnesium proposes to eliminate the temperature-based curtailment, as it
622 seems to result in the Company calling for curtailments when they are unnecessary to
623 reduce load during system peaks. US Magnesium believes that buy-through will be less
624 of a factor if and when curtailment is more targeted and shorter in duration. US
625 Magnesium proposes that, during this transition period, [REDACTED]
626 [REDACTED]
627 [REDACTED] This will reduce US Magnesium’s need for buy-through during
628 many of those curtailments. The data in Confidential Table 1, above, provides a solid
629 basis for being able to achieve load reduction during system coincident peaks using only
630 two-hour curtailments.

- 631 • *Mr. Colman suggests a revision to the agreement that would require US*
632 *Magnesium to pay the “actual” price paid for by the Company for replacement*
633 *power supplied to US Magnesium, whatever the source.*
634

635 I have some concern with this proposal because US Magnesium will likely not
636 know what the “actual” price is until after the fact. As such, US Magnesium cannot make
637 an economic decision regarding replacement power during a curtailment and must instead
638 make decisions based on an “estimate” of what the Company will state was the price of
639 replacement power. However, if curtailment duration is reduced as I suggest, US
640 Magnesium will not need to rely on replacement power as much as it has in the past and
641 my concerns about the cost of buy-through could be addressed by minimizing the need
642 for buy-through. US Magnesium’s goal by year two of the transition period would be to
643 try and not use any or just minor amounts of replacement power. For the first year of a
644 transition period we will be modifying the operational procedures to help push the
645 curtailments to be more directed to physical load drop. If US Magnesium is not meeting

646 operational needs with just physical curtailment without the buy through application, then
647 we may need to find reasonable ways to utilize a buy-through option where and when it
648 makes sense for all parties.

- 649 • *Mr. Colman suggests that the Company be required to use discretion when*
650 *invoking the reformed temperature-based curtailment, only acting when there is*
651 *an actual short position to cover, not merely the existence of the temperature*
652 *conditions.*

653
654 I agree that, if the curtailment is to be based on temperature forecasts, the
655 Company should be required to use discretion in calling for a curtailment with an
656 agreement for the transition period. I think a better approach would be to use historical
657 data to try and project what the average peak load for a month will be from recent 12
658 months history and then to try and limit the curtailment trigger to roughly the 25%
659 highest load days. The data in Confidential Table 1, above, shows that [REDACTED]

660 [REDACTED]

661 [REDACTED] This data, along with the Company's forecasted system peak load data, should
662 allow for more targeted curtailments to reduce load during system peak periods.

- 663 • *Mr. Colman suggests that the extension of the ESA be limited to 2-3 years.*

664 US Magnesium suggests that the transition period run through the end of 2024 for
665 a term of [REDACTED] I suggest that US Magnesium and the Company use the
666 interim period to negotiate new rates, terms, and conditions of interruptible service and
667 that, if an agreement cannot be reached, that a new docket be filed in mid-2024 to set the
668 pricing basis according to the US Magnesium loads during the coincident system peak
669 hours being used in the cost of service cost allocation model for the most recent and
670 available actual 12 month period.

671 **Q. Mr. Colman asks the Commission to provide guidance to the parties regarding the**
672 **circumstances in which a special contract is warranted and how it should be**
673 **evaluated. Can you respond?**

674 A. Yes. On lines 47-77 of his direct testimony, Mr. Colman outlines the Division's
675 positions in this matter and asks the Commission to provide guidance to the parties
676 regarding special contracts. Below, I'll repeat Mr. Colman's statements and respond.

- 677 • *"A special contract may be warranted when a customer has unique*
678 *characteristics not reflected in current rate structures."*

679 US Magnesium has 32 MW of on-site generation [REDACTED], and the
680 plant was built specifically to receive interruptible electric service and, as a result, can
681 drastically reduce load on very short notice. Its on-site generation far exceeds the upper
682 limit of 15 MW contemplated for Schedule 31 and there is no rate structure that currently
683 contemplates an industrial customer being able to provide the volume of interruptible
684 service that US Magnesium is capable of providing. As such, US Magnesium believes a
685 special contract is warranted.

- 687 • *"A special contract should cover the actual costs of serving that customer and*
688 *provide meaningful contributions to overall system costs so other customers are*
689 *not harmed by the contract."*

690 The rates in US Magnesium's current contract are in line with cost of service and
691 US Magnesium's proposal in this docket seek to ensure that US Magnesium stays in line
692 with its cost of service. In Docket No. 20-035-47, the Company filed an application
693 seeking approval of a one-year extension to the current ESA, which this Commission
694 approved. In that application, the Company stated that the extension agreement "keeps in
695 place the existing rates to US Mag for electric service, which are in line with the current
696 cost of service, as demonstrated in the Company's cost of service filing in the recent
697

698 general rate case in Docket No. 20-035-04.”¹³ The Company now proposes to change the
699 manner in which US Magnesium’s cost of service is measured, and US Magnesium
700 opposes such a change. But US Magnesium does not oppose that its rates reflect its
701 actual cost of service with a meaningful contribution to overall system costs and its
702 proposal in this docket reflects that.

- 703 • *“An interruptible contract may have value to the system beyond what is available*
704 *in tariffed rates.”*

705 All parties in this docket acknowledge that US Magnesium’s ability to curtail
706 service provides value to the system.¹⁴ The disagreement between the parties is how to
707 define and place a price on that value.
708

- 709 • *“Load and supply curtailments at times of physical or supply constraint can*
710 *mitigate RMP’s needs for other resources and provide value that warrants*
711 *recognition in a special contract or other rate mechanism.”*

712 The current contract between the parties, and US Magnesium’s proposal in this
713 docket, are designed to reduce US Magnesium’s load during system coincident peaks.
714 This results in a reduction of load during system peak, which should reduce the need to
715 acquire new generation resources. US Magnesium’s reduction in load also reduces the
716 allocation of system costs to Utah. This warrants recognition in a special contract.
717

- 718 • *“When a customer can provide meaningful value to the utility through*
719 *curtailment provisions, it may be in the public interest to sell that customer excess*
720 *supply at rates advantageous to the customer.”*

721 As noted above, all parties to the docket acknowledge that US Magnesium’s
722 ability to curtail service provides value to the system. US Magnesium agrees that it is in
723

¹³ See Docket No. 20-035-47, In the Matter of the Application of Rocky Mountain Power for Approval of Electric Service Agreement and Operating Reserves Agreement Between PacifiCorp and US Magnesium LLC, Application of Rocky Mountain Power, ¶ 6.

¹⁴ See, e.g., Direct Testimony of Craig Eller at lines 528-533; Direct Testimony of Casey Colman at lines 563-575; Direct Testimony of Bela Vastag at lines 41-43 & 156-160.

724 the public interest to incentivize US Magnesium to utilize excess supply at advantageous
725 rates, but at rates which cover US Magnesium's cost of service.

726 • *“Cost of service measurements should appropriately recognize value provided by*
727 *the customer. If coincident peaks are used to evaluate that value, their use should*
728 *reflect the contract's mechanisms, not adhere to rigid cost of service measures*
729 *used for other purposes. Special terms, including the length of the contract,*
730 *should allow sufficient flexibility to adapt to changing markets, allocation*
731 *mechanisms, and the like.”*

732
733 US Magnesium agrees that if its interruptible contract contemplates that it will be
734 curtailed during system coincident peaks, then the cost of service measurement for US
735 Magnesium should account for the fact that US Magnesium is not contributing to the
736 system coincident peak. US Magnesium notes that it can be flexible by curtailing at other
737 times that provide value to the system, so long as the number and duration of curtailments
738 take into account US Magnesium's operational needs.

739 **Q. Mr. Colman and Mr. Vastag both suggest that the focus on curtailment to reduce**
740 **load during system coincident peaks may not be the optimal way to address**
741 **resource adequacy issues. How do you respond?**

742 A. Mr. Vastag and Mr. Colman raise useful and interesting points about whether the best
743 system constraints to target are those that occur during periods of system peak load or
744 during periods when system loads are high relative to system generation. From US
745 Magnesium's perspective, it is willing to curtail at the times when reduction of load
746 provides the most value to the system. So long as costs are allocated based on load
747 during system coincident peak, however, US Magnesium will be incentivized to curtail at
748 system coincident peak periods. If US Magnesium is asked to curtail at times other than
749 system coincident peak load periods because that provides greater value to the system,
750 US Magnesium should not be penalized with higher prices to meet a higher cost of

751 service metric after the fact simply because it was not asked to curtail during system peak
752 load periods.

753 **US Magnesium’s Revised Proposal**

754 **Q. Have you modified the proposal for rates, terms, and conditions of interruptible**
755 **electric service from the proposal you submitted with your direct testimony?**

756 A. Yes. I have considered the testimony submitted by the parties in this docket and have
757 made several changes to the proposal I initially submitted in September of 2021 with my
758 direct testimony. I drafted an ESA containing the modified proposal, which is attached
759 hereto as CONF USMag Exhibit 2.1.

760 **Q. Please discuss some of the rates, terms, and conditions of your modified proposal?**

761 A. I will highlight some of the terms and conditions that have been the subject of testimony
762 in this docket.

763 [REDACTED]

764 [REDACTED]

765 [REDACTED]

766 [REDACTED]

767 [REDACTED]

768 [REDACTED]

769 [REDACTED]

770 [REDACTED]

771 [REDACTED]

772 [REDACTED]

773 [REDACTED]

774 [REDACTED]
775 [REDACTED]
776 [REDACTED]
777 [REDACTED]
778 [REDACTED]
779 [REDACTED]
780 [REDACTED]
781 [REDACTED]
782 [REDACTED]

783 **Q. Can you explain what you are trying to accomplish with your proposal?**

784 **A.** Yes. I have tried to take into account many of the inputs from the stakeholders in this
785 matter. My proposal here no longer seeks the sort of long-term deal I had initially
786 proposed. Instead, the proposal is for a shorter-term deal that will act as a transition
787 period while US Magnesium and the Company negotiate a longer-term contract with
788 stakeholder input. We will be focused in this [REDACTED] of transition in
789 adapting to more targeted curtailment periods with more physical curtailment to reduce
790 load during system coincident peaks. We have also added a flexible DSM provision as
791 suggested by the Division to have some flexibility to deal with issues we can't
792 contemplate now but that the circumstance may present to us in the future. I have not
793 tried to price or value that flexibility but to just say if there is a circumstance that requires
794 more curtailment then the Company can offer some value for US Mag to consider.

795 **Q. What three-month period are you proposing for the curtailments to be targeted to?**

796 **A.** I believe the best three-month period would be from [REDACTED]

797 [REDACTED]
798 [REDACTED]
799 [REDACTED]
800 [REDACTED]
801 [REDACTED]
802 [REDACTED]

803 **Q. What assumptions did you make to derive a pricing basis for the ESA you have**
804 **provided?**

805 A. My proposed pricing is included in the proposed ESA attached as CONF USMag Exhibit
806 2.1. My proposal includes [REDACTED], which are not included
807 in US Magnesium's current agreement but were included in the Company's proposal.

808 I based the numbers on the allocation of costs from the reduced coincident peak
809 loads in the cost of service allocation model. The current approved method is for US
810 Magnesium's loads to be removed from the cost of service model for the system peaks in
811 three curtailment months identified in the agreement. We have proposed to use [REDACTED]

812 [REDACTED]
813 [REDACTED]
814 [REDACTED]
815 [REDACTED]
816 [REDACTED]
817 [REDACTED]
818 [REDACTED]
819 [REDACTED]

820 [REDACTED]

821 [REDACTED] My workpapers showing the calculation of the revenue requirement based on
822 these changes are attached as CONF USMag Exhibit 2.3.

823 We know that US Magnesium can achieve physical reductions and that [REDACTED]

824 [REDACTED]

825 [REDACTED]

826 [REDACTED] I believe this is much more reasonable than just saying, US
827 Magnesium did not achieve any load reduction even though the existing approved
828 contractual agreement process was followed to achieve full load reduction.

829 **Q. Can you walk through the steps of the calculation you used to come up with the**
830 **rates you propose?**

831 A. I used Mr. Eller's cost comparison model (CME-3) and reworked that model to use [REDACTED]

832 [REDACTED] My work is shown in CONF
833 USMag Exhibit 2.3 filed herewith. To make the change to [REDACTED]

834 [REDACTED], I took the base billing for US Magnesium with the existing
835 contract structure before the addition of market energy costs (which were [REDACTED])¹⁵

836 and then subtracted that amount from the new Company-proposed base billing revenue of

837 [REDACTED] to obtain the difference of [REDACTED] I then multiplied that difference by

838 [REDACTED]

839 [REDACTED]

840 This gives an amount equal to [REDACTED] for the revenue requirement difference. I then

¹⁵ This figure is derived from CONF Exhibit ___RMP (CME-2), Tab "Exhibit CME-2 Bill Comparison." It is the amount that US Magnesium paid to RMP for On- and Off-Peak kWh for system energy at the current contract price, before the addition of amounts paid for buy-through market energy.

841 subtracted that amount from the Company-proposed full revenue requirement shown
842 above, giving a revenue requirement of [REDACTED] I then used the Company billing
843 factors but with the Power Charge adjusted by a uniform percentage until the revenue
844 requirement of [REDACTED] has been recovered at the assumed loads. The values are then
845 used in the draft agreement attached. The resulting billing factors shown in the workpaper
846 are then used in the attached draft agreement.

847 **Q. Do you also propose a revised Operating Reserve price?**

848 A. Yes. I propose an operating reserve price of [REDACTED] My proposal is derived
849 from Mr. Eller's methodology set forth in CONF Exhibit ___ RMP (CME-3) to set the
850 operating reserve price in the Company's proposal. Mr. Eller proposed an operating
851 reserve price of [REDACTED] I discuss how and why my price differs from Mr.
852 Eller's below.

853 Mr. Eller's operating reserve pricing assumed that US Magnesium would be a
854 Schedule 31 customer and would no longer receive interruptible service. As such, [REDACTED]

855 [REDACTED]
856 [REDACTED]
857 [REDACTED] My proposal revises the curtailments to which
858 the Company will be subject, which revises the potential days in which the Company can
859 call on US Magnesium to provide Operating Reserves. My proposal is based on a
860 projection that US Magnesium will be subject to curtailment during [REDACTED]

861 [REDACTED]
862 [REDACTED]
863 [REDACTED]

864 [REDACTED] My calculations are shown in CONF USMag
865 Exhibit 2.4, and I have included a draft Operating Reserve Interruption Agreement
866 showing the proposed change in price. The draft ORIA reflecting my proposal is attached
867 hereto as CONF USMag Exhibit 2.6.

868 **Q. You propose that in mid-2024 the stakeholders review the arrangement and look at**
869 **the results that we have seen with your draft agreement. What should stakeholders**
870 **look at as a basis to provide a cost in that contract?**

871 A. I am hopeful that we will have met or exceeded the assumed reduction in loads during
872 system coincident peak times in the three summer months using physical curtailments.
873 During the course of this interim agreement, the parties can evaluate the success of these
874 modifications to the existing curtailment structure. My hope is that the parties can
875 continue to iterate as necessary to achieve the goal of reducing load during system
876 coincident peak and reach a longer-term deal on that basis.

877 **Q. What will happen if the cost allocation methodology between the state jurisdictions**
878 **changes?**

879 A. I expect that any change we will likely see will still have some tie to coincident peak
880 loads and if the 12 CP becomes 8 CP or 6 CP or 1 CP there will still be some value in
881 reducing load during coincident peaks.

882 **Q. Do you have further suggestions to offer?**

883 A. Yes, in addition to the foregoing, I offer the following suggestions:

884 1. US Magnesium requests that the Company provide a) daily forecasts for projected
885 peak loads to create an effective basis for target days for curtailment, and b) reports of
886 actual system peak loads when they become available to measure the effectiveness of

887 the efforts to curtail to reduce load during system peaks.

888 2. With respect to pricing for Replacement Power, the Company has suggested using the
889 highest cost of power for the value of Replacement Power in the contract. It is unclear
890 how the Company might make this calculation and how long after the fact this price
891 would be determined. US Magnesium proposes to continue to use the existing method
892 of pricing for Replacement Power, which uses the premium Palo Verde day-ahead
893 index on-peak power price shaped by the scalars developed by the Company. If the
894 Commission adopts the Company's proposal, US Magnesium requests that the
895 Commission require the Company to specifically identify how it will determine its
896 actual price it would charge to US Magnesium and to provide that price for
897 comparison to the market price used in the proposed Agreement during the term of
898 the agreement so that US Magnesium can make decisions about whether or not to use
899 Replacement Power prior to a curtailment.

900 3. US Magnesium requests that RMP provide actual US Magnesium hourly loads in
901 monthly report so that feedback can be given to operations personnel on meeting the
902 objectives of reducing load during system peaks.

903 **Q. Does the conclude your rebuttal testimony?**

904 A. Yes.