ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

1407 West North Temple
Salt Lake City, Utah 84116

May 6, 2022

VIA ELECTRONIC FILING

Public Service Commission of Utah
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84114

Attention: Gary Widerburg
Commission Administrator

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

Pursuant to the Phase I and II Scheduling Order and Notice of Hearings issued by the Public Service Commission of Utah on October 13, 2021 in the above referenced matter, Rocky Mountain Power hereby submits for filing its Confidential Rebuttal Testimony of Craig M. Eller.

Rocky Mountain Power respectfully requests that all formal correspondence and requests for additional information regarding this filing be addressed to the following:

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Informal inquiries may be directed to Jana Saba at (801) 220-2823.

Sincerely,

Joelle Steward
Senior Vice President, Regulation and Customer & Community Solutions

cc: Service List Docket Nos. 21-035-53

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
Rebuttal Testimony of Craig M. Eller

May 2022

INTRODUCTION OF WITNESS AND QUALIFICATIONS

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 RMP.

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

A. Yes.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my rebuttal testimony is to address the concerns and recommendations raised by Casey J. Coleman on behalf of the Division of Public Utilities ("DPU") and Bela Vastag on behalf the Office of Consumer Services ("OCS") regarding US Magnesium, LLC's ("US Magnesium") September 21, 2021, application.

PUBLIC INTEREST

Q. The DPU and OCS recognize that the agreement between the Company and US Magnesium is no longer in the public interest, but they also suggest that Company's proposal may not be in the public interest. Please explain how the Company's proposed new contract structure is in the public interest.

A. The Company's proposal is in the public interest for several reasons. First, the proposal eliminates some flaws in the existing Electric Service Agreement ("ESA") that stem from the Temperature Pseudo Curtailment with Buy Through Option construct. These flaws are discussed at length in both my Response Testimony and Direct Testimony.[1] In summary, these flaws include 1) mistakenly considering the Pseudo Curtailments as a physical interruption to load when in fact no such load reduction is assured in the contract or experienced in historical operations; 2) removing actual coincident peak loads from the determination of US Magnesium's cost of service, which artificially lowers the cost of service calculation; 3) use of index-pricing to derive the cost of "Replacement Power," when in reality the market is closed at the time of election by US Magnesium; 4) mistakenly assigning limited market depth to a single customer when the market availability may be required to serve the load of other customers; 5) instances of lost availability of the Physical Operating Reserves due to overlaps with the Temperature Pseudo Curtailment. Most, if not all, of these existing flaws are generally acknowledged by both the DPU and the OCS who recommend the Public Service Commission ("Commission") provide guidance on mitigating them.[2]

Second, the Company's proposal provides a competitive net rate to US Magnesium of [redacted] per MWh in reflection of the significant value received by all customers from the Physical Operating Reserves. This represents a reduction of [redacted] versus the rates US Magnesium would otherwise pay if it were a normal firm customer. Importantly, this net rate is derived in a way that is transparent and assures value to all customers served by the Company commensurate with the benefits received for the products. The proposal begins by calculating the full-service cost US Magnesium would pay if it were a standard

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[1] Response Testimony of Craig M. Eller ("Eller Response") at 6-13, lines 93-240 (January 7, 2022); Direct Testimony of Craig M. Eller ("Eller Direct") at 8-28, lines 127-569 (April 7, 2022).

[2] Direct Testimony of Casey J. Coleman for the Division of Public Utilities ("Coleman Direct"); Direct Testimony of Bela Vastag for the Office of Consumer Services ("Vastag Direct") (April 7, 2022).

industrial customer, thereby creating a common starting point for a determination of the costs to serve a similarly situated firm load. Next, the Company's proposal reduces this amount by an anticipated $[redacted] per year based on an objective valuation of the Physical Operating Reserves, as detailed in my Response Testimony. The net result of this proposal is a substantially reduced cost to US Magnesium in return for the Physical Operating Reserves it is willing to provide while providing assurance to all other customers that they are not subsidizing the rates of a single customer or paying for non-physical products.

Third, the proposal provides a reasonable term length of two years. This term is supported by both the DPU and the OCS and provides all parties the opportunity to re-evaluate the appropriate special contract provisions in the near future.

Q. Mr. Coleman states that one of the public interest factors, maintaining domestic supplies of magnesium, could justify a special contract for US Magnesium. What is your response to this statement?

A. The Company agrees that there are a number of public interest factors that could justify a special contract, including unique load characteristics or a viable alternative to the Company providing service. Importantly, these factors have a direct relationship with either the costs to provide service to the special contract customer or the value derived by other customers from specific attributes of the special contract customer's load attributes.

While other factors, such as the economic benefits the customer provides to the State of Utah or maintenance of domestic supplies of magnesium, may also represent issues of public interest, they generally do not have a direct impact on the Company's cost of service and should not be the basis of determining the rates for a special contract customer. The Commission's regulatory oversight does not extend to any and all considerations of interest to the public. When weighing the public interest factors that may justify a special contract, the Commission should take into account all costs associated with serving the customer along with any quantifiable benefits to the utility, and the utility's customers, including participating customers in their capacity as ratepayers of the utility, but it should not include broad public policy considerations that do not directly affect the utility's costs of service such as whether similar operations exist within the United States.

ELECTRIC SERVICE AGREEMENT

Q. The OCS acknowledges the flaws in the current ESA regarding the Temperature Pseudo Curtailment with Buy Through construct; however, Mr. Vastag also suggests that a short-term ESA maintaining the Temperature Pseudo Curtailment with Buy Through construct with modified provisions is appropriate. What is your response to this recommendation?

A. OCS witness Mr. Vastag agrees with the Company that the existing Temperature Pseudo Curtailment with Buy Through construct fails to deliver operational benefits to the Company and its customers[3]. Mr. Vastag further acknowledges that the Company's proposed structure to include all value for physical products through a rate credit is a reasonable approach to determining a net rate applicable to an interruptible customer[4]. In fact, Mr. Vastag appears to stop short of a full endorsement of the Company's proposal

[3] "[W]hen US Mag buys-through instead of physically curtailing, it remains a load on the system and actually would not avoid a system peak. Vastag Direct at 4, lines 79-81.

[4] US Mag's curtailment value, or value as an interruptible load or a demand side management resource, could be fully addressed by rate credits it receives from its ORIA with RMP. Vastag Direct at 8, lines 156-159.

due to perceived "inter-jurisdictional cost allocation benefit[s]."[5] This does not make sense.

If, as Mr. Vastag appears to acknowledge, the Temperature Pseudo Curtailment fails to deliver operational benefits, continued inclusion of those very terms is clearly no longer in the public interest. As noted in Mr. Vastag's testimony, the multi-state cost allocation methodology is subject to change at the end of 2023. However, it is reasonable to assume that future allocation methodologies will be based on allocating costs with physical benefits, which are non-existent with the Temperature Pseudo Curtailment.

That said, even if the Temperature Pseudo Curtailment were maintained solely to sustain the current misallocation of costs to the benefit of Utah through 2023, Mr. Vastag's position falls significantly short. The OCS posits that failure to maintain the Temperature Pseudo Curtailment would result in $6 million[6] in incremental Utah jurisdictional costs under the existing methodology; however, Mr. Vastag fails to evaluate to what extent increased jurisdictional revenues offset these costs. An evaluation of the confidential workpapers included with my January response testimony shows the Company's proposal would be expected to provide approximately [redacted] of increased Utah jurisdictional revenue, more than offsetting the increased jurisdictional costs purported by Mr. Vastag. If, as seemingly suggested by Mr. Vastag, US Magnesium's rates were increased to capture the full 12 coincident peak ("CP") cost of service resulting in a revenue increase of [redacted] the net benefit to Utah would be even more pronounced.

[5] Vastag Direct at 5, lines 99-100.
[6] The Company notes that the OCS reference to DPU data response 1.3 appears inaccurate. The Company does not concur that the $6 million is a reflection of increased Utah jurisdictional cost allocations under the existing protocol.

Q. Later in his testimony, Mr. Vastag calls for gradualism to be applied to any changes in US Magnesium's rates. What is your response to this recommendation?

A. The Company believes its proposal accomplishes this goal. As noted by Mr. Vastag, a strict implementation of a 12 CP cost of service would result in a revenue requirement significantly higher than the rates proposed by the Company. As a result, the Company's proposal to base US Magnesium's initial rates on established industrial tariffs and then to reduce those vary rates with a credit commensurate with the value of the physical products offered by US Magnesium is appropriate and in the public interest. In addition, Mr. Vastag makes no recommendation on what the Commission should consider as appropriate, much less provides any support for why an arbitrarily selected increase of less than 10% should be considered.

Q. The DPU also acknowledges the flaws in the current ESA regarding the Temperature Pseudo Curtailment with Buy Through construct; however, Mr. Coleman criticizes the Company's administration of the curtailment option. What is the Company's response to this assertion?

A. Like the Company and Mr. Vastag, Mr. Coleman recognizes that the Buy Through construct fails to accurately price the cost of replacement power. It is somewhat unclear from Mr. Coleman's testimony if he believes that when US Magnesium elects to buy through a curtailment it represents a physical reduction of load. Instead, Mr. Coleman focuses criticism of the existing construct on the Company's practice of initiating curtailment events based on forecasted temperature. In this regard, Mr. Coleman's criticism both appears unfounded and ultimately irrelevant in the determination of whether the Temperature Pseudo Curtailment with Buy Through construct provides value to customers. As quoted in Mr. Coleman's testimony, the existing ESA has clear prohibitions against the Company utilizing the Temperature Pseudo Curtailment for economic benefits. Since the forecasted temperature is utilized as the predictor of potential peak conditions, the Company's administration of the existing ESA is both reasonable and consistent with the letter of the contract.

Despite this fact, in Mr. Coleman's view, the Temperature Pseudo Curtailment lacks value commensurate with removal of six coincident peaks from determining US Magnesium's cost of service primarily because it is initiated in instances where day-ahead index prices may be lower than normal rates and US Magnesium chooses to exercise its buy through option. Even if future contracts were to eliminate these prohibitions, the underlying fatal flaw of the Temperature Pseudo Curtailment with Buy Through construct – namely, US Magnesium's ability to buy through and remain a physical load on PacifiCorp's system during the very coincident peaks the mechanism is purported to avoid – would remain, perpetuating the construct as a meaningless paper exercise. The ability for US Magnesium to buy through during coincident peaks, not the existence of additional buy-through events, represents the primary issue when determining whether it is appropriate to remove US Magnesium's actual historical physical loads from cost-of-service determinations.

Q. Mr. Coleman goes on to claim RMP has not provided sufficient evidence that it has properly considered appropriate interruptibility measures given US Magnesium's willingness to offer those provisions as a service. What is the Company's response to this assertion?

A. Mr. Coleman is incorrect. The Company's proposal maintains, evaluates and compensates US Magnesium for every physical interruption that US Magnesium has offered to the Company. The Company has repeatedly demonstrated how the Temperature Pseudo Curtailment with Buy Through construct does not constitute a physical interruptible product and therefore should no longer be considered as a justification for a reduced rate.

Q. Mr. Coleman claims that if the Commission adopted a different measure for US Magnesium's cost of service, RMP would collect "a windfall" unless credited to other ratepayers. How do you respond?

A. First, the discussion appears to represent a hypothetical example and not an actual calculation of increased revenue by the Company. Second, the hypothetical examples provided appear to be based on changes to revenue before consideration of the credit provided under the Operating Reserves Interruptible Agreement ("ORIA"), which significantly overstates the net change in rates paid by US Magnesium. My confidential workpaper CME-2 provides the anticipated net change in total revenue attributable to US Magnesium as approximately [redacted][7].

In any event, this docket is not a rate preceding and cost and revenue elements between general rate cases will vary from that included in rates from the most recent case. Any adjustments based solely on the modified terms of a future ESA and ORIA, as seemingly

[7] Cell T39 minus T17

suggested by Mr. Coleman, would constitute inappropriate single-issue rate making. The Company should not be precluded from pursing favorable changes to contracts and other aspects of its business solely because the change was not captured in rates. The Company is facing an environment of cost pressures and its ability to eliminate costs and increase revenues, where possible, helps to absorb cost pressures associated with recent increases in inflationary pressures.

Q. Mr. Coleman claims that contracts need to reflect modern conditions, which have shifted away from on-peak and off-peak hours. Do you agree?

A. Yes, and the Company's proposal does just that. Basing the initial service rates (i.e., the rates prior to inclusion of the credits to US Magnesium for the physical curtailment products offered by US Magnesium) on existing industrial rate structure and charges is a reasonable alternative to the existing on-peak and off-peak energy-only rates included in the existing ESA.

INTERRUPTIBLE TARIFF

Q. Mr. Coleman and Mr. Vastag suggest that an interruptible tariff should be considered. What is the Company's position on this suggestion?

A. For the specific case of US Magnesium, the Company does not see a benefit of developing a tariff that would ostensibly be limited in applicability to only US Magnesium. In such an event, the tariff would appear to provide no value versus a special contract. Even considering the limited number of other industrial customers of similar size to US Magnesium which have the ability to physically curtail load, there are substantial differences in the individual customers' operations which would make a single tariff impractical. If a tariff were developed that could be used to address multiple industrial loads, it is likely that the tariff would need to be made more general, which would reduce flexibility for unique customer requirements. This could reduce both benefits to all customers and rate reductions available to participating customers by failing to maximize the full set of characteristics of each individual large interruptible customer's load.

COMMISSION GUIDANCE REGARDING SPECIAL CONTRACTS

Q. The DPU requests that the Commission provide guidance for the parties to consider when negotiating special contracts. Similarly, OCS seeks Commission guidance as to when and how special contracts are in the public interest. How does the Company respond to this request?

A. The DPU requests that the Commission provide guidance on four items in light of changes in the energy market. Specifically, the DPU requests lists interruptibility, value for interruptibility, capacity benefits, and methods for identifying and allocating cost of service. Generally, PacifiCorp agrees that a Commission order should address most of these items formally. In the case of interruptibility, the Company believes the Commission should also clarify that interruptions must be physical reductions of load that provide physical benefits to PacifiCorp's system. In the case of value for interruptibility, the Company also requests that the Commission clarify that the credit provided to the customer should be less than or equal to the reasonably anticipated benefits received by all other system customers from the physical products. In the case of identifying and allocating cost of service, the Company recommends that the Commission clarify that any unique variations from the standard methodology for determining the cost of service (presently the 12 CP approach) for an individual customer or class of customers must be continuously supported in future extensions of that unique determination methodology to avoid perpetuation of flawed cost of service allocations.

Separately, OCS requests guidance on the circumstances in which a special contract ESA is in the public interest. Here, also the Company agrees that guidance from the Commission is appropriate. On this topic, the Company suggests that the Commission clarify that a special contract is appropriate in instances where; i) an individual customer presents unique circumstances which cannot be reasonably addressed by use of existing tariffs, ii) that these unique circumstances are not expected to be applicable to other similar customers (in which event a new tariff schedule may be warranted), iii) that the customer is of sufficient size to justify the administrative burdens of developing, approving, and maintaining the special contract arrangement, and iv) that the special contract provisions ensure just and reasonable rates based on the expected costs of serving the customer.

Q. What is your recommendation to the Commission?

A. The Company respectfully requests that the Commission reject US Magnesium's proposed terms and conditions and issue an order establishing just and reasonable rates, terms and conditions of service, consistent with my Direct, Response and this rebuttal testimony. Specifically, I request the Commission's order in this matter contain the following directives:

1. 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;

2. Eliminate the Temperature Pseudo Curtailments with Buy Through Option construct;
3. Establish ESA rates under Schedule 31/9 and the Company's recommended surcharge adjustment schedules as discussed in my Direct testimony;
4. Establish a credit of $[redacted]/kW-month in the ORIA;
5. Establish an initial term of two years for the ORIA; and
6. Provide guidance for the parties to consider in negotiations of special contracts including the clarifications requested by the Company discussed above.

Q. Does this conclude your rebuttal testimony?

A. Yes.

CERTIFICATE OF SERVICE

Docket No. 21-035-53

I hereby certify that on May 6, 2022, a true and correct copy of the foregoing was served by electronic mail to the following:

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