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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF DOMINION ENERGY UTAH TO INCREASE DISTRIBUTION RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	Docket No. 19-057-02

SURREBUTTAL TESTIMONY OF ROGER SWENSON
FOR US MAGNESIUM LLC

US Magnesium, LLC hereby submits the prefiled Surrebuttal Testimony of Roger Swenson in Phase II of this docket.

DATED this 6th day of January, 2020

Respectfully submitted,

By: 

Phillip J. Russell
HATCH, JAMES & DODGE, P.C.
Attorneys for US Magnesium LLC

Certificate of Service
Docket No. 19-057-02

I hereby certify that a true and correct copy of the foregoing was served by email this 6th day of January, 2020, on the following:

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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF DOMINION ENERGY UTAH TO INCREASE DISTRIBUTION RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	Docket No. 19-057-02

PHASE II

SURREBUTAL TESTIMONY OF ROGER SWENSON

FOR US MAGNESIUM LLC

January 6, 2020

US Magnesium Exhibit 1.0S

Q. Please state your name and business address.

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

Q. By whom are you employed and what is your position?

A. I am employed by E-Quant Consulting LLC (E-Quant) as a consultant in energy matters. In this matter I am providing testimony on behalf of US Magnesium LLC ("US Magnesium").

Q. Are you the same Roger Swenson who previously submitted direct testimony in Phase II of this docket on behalf of US Magnesium?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony in this Docket?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony regarding transportation class (TS) rates proposed submitted by Bruce Oliver for ANGC, Austin Summers for Dominion and Kevin Higgins for UAE.

Q. Mr. Oliver seems to suggest you did not intend to suggest gradualism for the demand component of rates that were proposed for an increase of over 100%.[1] Do you agree?

A. No, I was simply making an example using the volumetric component of the rate. The dramatic increase in the TS demand charge will result in an annual increase to US Magnesium's gas bill of hundreds of thousands of dollars. It will be important to reduce the rate shock from that component of rates as well and, as I discuss later in this testimony, the phase-in of rate increases will give US Magnesium some time to adjust its operation to respond to the higher cost it will be exposed to as a result of the rate increase proposed in this docket.

[1] *See* Phase II Rebuttal Testimony of ANGC Witness Bruce R. Oliver (ANGC Ex. 2R) at lines 654-684.

Q. Is there something that US Magnesium can do to mitigate the increase in the demand charge component of the TS rate?

A. Yes. US Magnesium can reduce its daily contract quantity with Dominion once its contract allows for that change and once the US Magnesium operations staff are ready to supply alternative fuel for operations during curtailment periods, as it has in the past.

Q. Mr. Oliver suggests in his rebuttal testimony[2] that the rates as provided are devoid of price signals. Do you agree?

A. No. To US Magnesium a 100% change in a rate component that will lead to hundreds of thousands of dollars in increased cost to US Magnesium is a very strong price signal.

Q. You mention that US Magnesium can move to the use of alternative fuels again. Why did US Magnesium move away from alternative fuels use and contract for firm transport delivery?

A. The cost associated with the demand charge for firm transport that was established after the last rate case provided reasonable economics as an alternative to the use of back-up fuels that US Magnesium would need to have on hand in case of curtailment. Moreover, the use of natural gas is just more convenient. When those economics change, US Magnesium must adjust.

Q. Do you believe that other TS customers will respond to the increase in the demand charge rate component and consider alternative fuels?

A. I believe other large TS customers will receive the price signal and will act in their own economic best interests if they are made aware of the change in a meaningful way. I expect the Company will provide some guidance in this regard since this dramatic change must

[2] *Id*. at lines 229-241.

mean they want to encourage more fuel switching. It may be reasonable to encourage the Company to follow up with large TS customers to deliver that message, so the price signal is not lost in the fine print of bills.

Q. Would many TS customers have the ability to switch to alternative fuels?

A. I expect so. Hundreds of the large TS customers were interruptible customers prior to the firm contract demand option being added as an alternative. Switching back to having the capability should still be a viable option for hundreds of large TS customers.

Q. Can you quantify the potential change if the 100 largest TS customers out of over 1000 TS customers were to drop their daily contract to zero?

A. Yes. Using the data that the Company provided in response to OCS data request 6.09, I can sort the customer data to obtain the daily contract quantity for the largest 100 TS customers. Reducing the daily quantity for each of those customers to 0 Dths would result in a drop of 115,384 Dths per day out of a total in the TS class of 210,360 Dths per day. That would be a substantial change in the class assignment of demand related cost.

Q. Would those costs go away?

A. No. The allocation factor for the design day would change by the reduced 115,384 Dths and that drop would be reflected in higher design-day allocations to other classes to make up for the reduction from large TS customers.

Q. Can you make a generalization about how much it would change the design-day charge allocation?

A. Using the 115,384 Dth per day assumption for a reduction in design-day allocation would drop the monthly contract quantity from TS customers by that amount. Then using 12 months of reduction in contract quantity would reduce the demand billing units over a year

by 1,384,608 Dths (12 months times 115,384 Dth per month = 1,384,608 Dths). According to DEU Exhibit 4.02R, the electronic model attached to Mr. Summers' Rebuttal testimony, the TS contract quantity demand rate at the company's full cost of service is $4.47 per Dth.[3] $4.47 times the 1,384,608 units would reduce the cost allocation to the TS class by $6,189,198 per year. Of course, this is just an estimate based on assumptions used here but I believe it informs the issue of how dynamic the circumstances will be with changing rates based on the customer response to the price signal to move to curtailment.

Q. Mr. Oliver suggests that there will not be an intra-class dynamic change between large and small TS customers since the change brought about by movement of customers will not be large and may be insignificant.

A. I would suggest based on my testimony above that the significant change in the TS class will be driven by the higher demand charge rate and customers reacting to that. There will be some change at the low end of usage, but I have no sense of what those specific economic drivers would be. US Magnesium will feel the significant change from the increase in the demand cost and it will seriously consider changes.

Q. Is the significant change you see coming in the cost allocation changes to TS customers because of price signals why you have proposed a new "cost allocation proceeding" to make sure intra-class subsidies are minimized?

A. Yes, to me the significant driver in the cost recovery shortfall from large TS customers is driven by this change in demand related cost recovery and the large customers will change operations with significant cost increases.

[3] *See* DEU Exhibit 4.02R at Row 134 of Tab titled "Rate Design Full Cost."

Q. Is this change why you suggested a gradual implementation of the new rates and a new proceeding to do rate design for the TS class?

A. Yes. It will take time to provide clear information to the TS customer class and make operational changes and to have an actionable set of contract data. I would hope that the class demand for large TS customers could be dropped substantially and understood by late summer of 2021 for a proceeding with a result provided by spring of 2022 and new rates implemented then that would take these changes into account on March 1 of 2022.

Q. Mr. Oliver provided summary of your recommendations. Can you add to what he said?

A. Yes. Mr. Oliver suggested he agreed with my suggestions for the most part as he summarized:

> Implement the rates on a gradual basis;
>
> Break the TS class into two classes; and
>
> Institute a proceeding to develop rate designs.[4]

I would add the following suggestion as well:

> Order the company to help establish a clear economic signal for the cost increase coming to TS customers based on daily contract demand changes being implemented in the next 3 years so customer can make rational economic choices.

Q. Do you recommend that the Commission issue an order in this proceeding that breaks the TS class into two classes?

A. No. As noted in my direct testimony, I propose a separate proceeding in which the Commission addresses class cost of service and rate design issues that will not be resolved in this docket. I support breaking the TS class into separate classes in that separate proceeding

[4] *See* ANGC Ex. 2R at lines 654-684.

if the evidence supports it. As noted above, large TS customers will act in their own economic best interests in response to the price signals from the rate increase that may result from this docket. How those large TS customers react to the price signals from this docket may affect whether a separate proceeding on cost of service and rate design issues should result in breaking up the TS class.

Q. Mr. Summers suggests using a 3-step rate increase with two increases in 2020 that would move 50% of the way to full rates and then another 50% increase in the fall of 2021. Do you feel like this timing of increases would give US Magnesium and other TS customers time to see the changes in cost drivers in the TS class take hold?

A. No, I think the last scheduled increase should occur in Spring of 2022, which will let us see the full extent of TS customers shifting away from firm transport service because of high costs and incorporate that cost allocation shift into the cost recovery at that time. It will also give us time to have a rate design optimization based on the changed cost allocation.

Q. Mr. Higgins suggests that there is no need to split the TS class into separate classes in this proceeding. Do you agree with that suggestion?

A. Yes, but I believe such a split will be necessary at some point. The data from the Company's response to OCS data request 6.09 shows that the largest TS customer in the class is roughly 3,500 times larger than the smallest customer. As I have stated in this sur-rebuttal testimony, I believe the economics of being able to curtail usage is going to be an important driver in the costs allocated to the TS class and small TS customers will likely not have the economics to implement alternative fuels systems. I expect that Mr. Higgins could use many rate blocks and a clear cost driver from design day categorizations of demand-related cost to derive a demand charge for the firm service, such that a single TS class is possible. However, after

reading the testimony in this case my instincts are that the small TS customers that cannot be interrupted should ultimately have a separate rate class that is more homogenous so as to remove the appearance of subsidization in one direction or the other from such different types of customers. I prefer having two classes, but such a decision should be made in the new rate design proceeding in 2021 for new rate to be implemented in spring of 2022.

Q. Can you respond to Mr. Higgins' suggestion for a 3-phase approach to implementing the changes in costs in this matter?

A. Yes, I agree with Mr. Higgins' approach for timing and cost increases as he shows in Table KCH 2R of his rebuttal testimony, and I would just suggest that the timing he proposes would provide enough time to have a proceeding for a new rate design case for TS customers classes done by March 2022 using base that rate determination on the COS information derived in this proceeding.

Q. Does this conclude your testimony?

A. Yes.