

Tony J. Rudman
MAGCORP
238 North 2200 West
Salt Lake City, Utah 84116

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the matter of the Application of PacifiCorp for and increase in its Rates and Charges.	I I I I I I I I I I	Prefiled Surrebuttal Testimony of Roger J. Swenson on Behalf of Magcorp [Cost of Service/Rate Design] Docket No. 01-035-01
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Magnesium Corporation of America (Magcorp) hereby submits the surrebuttal testimony of Roger J. Swenson on cost of service/rate design issues.

Dated this ___ day of _____,2001.

Tony J. Rudman
Attorney for Magcorp

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

2 A. Roger J. Swenson , 1592 East 3350 South, Salt Lake City, Utah 84106

3 **Q. By whom are you employed and in what capacity?**

4 A. I am a principal in the firm E-Quant Consulting, LLC. E-Quant Consulting, LLC is a
5 private consulting firm specializing in energy matters.

6 **Q. On whose behalf are you testifying in this proceeding?**

7 A. My testimony is sponsored by Magnesium Corporation of America (Magcorp).

8 **Q. What is the purpose of filing testimony in this proceeding at this late date?**

9 A. Initially Magcorp saw no reason to file testimony in this proceeding as Pacificorp stated
10 in its initial testimony [see William R. Griffith direct testimony p. 6-7] that large
11 industrial service customers had cost characteristics that made for a unique cost of
12 service for each customer. Magcorp agrees with this perspective as it has been served
13 under its own contract based on unique characteristics since service commenced in
14 1972. We also did not take issue the proposal of Rebecca Wilson to establish a large
15 Firm rate at costs lower than Schedule 9. Subsequently in rebuttal testimony filed by Mr.
16 Griffith [rebuttal testimony pg. 8-9] Pacificorp has changed its position to propose
17 Schedule 50 for customers that have demand in excess of 50 MW. Those customers
18 would just receive Firm Schedule 9 rate elements including firm service.

19 **Q. Besides the dramatic change in Pacificorp's position why would this make Magcorp
20 feel it is necessary to provide rebuttal testimony at this point?**

21 A. Recently, Pacificorp has indicated that Schedule 50 is the only rate that Magcorp will
22 qualify for in the future.

23 **Q. Does this attitude toward high load factor industrial customers surprise Magcorp?**

24 A. This change in treatment for Magcorp and possibly other high load factor industrial
25 customers that provide significant economic benefits and a high earning employment

1 base in Utah is exactly what Magcorp was concerned with during the hearings associated
2 with the Scottish Power takeover of Pacificorp. Magcorp's concern was that the
3 interests of Scottish Power would push Pacificorp to focus first on the profits for Scottish
4 Power shareholders above the interests of the State of Utah.

5 **Q. What gave Magcorp some degree of comfort when the order approving the takeover**
6 **was approved?**

7 A. In the press release that followed the takeover approval there was the following
8 statement: "... Large industrial customers argued against the merger approval on the
9 grounds that Scottish Power will treat them differently than Pacificorp did. The
10 Commission committed to ensure fair treatment of those customers as well and may
11 consider some of the industrial customers in the future in separate dockets."
12 Also, the Commission states in its decision in Docket No. 98-2035-04 (page 34)
13 "... We intend to hold Applicants to their commitment to address special contract
14 customer concerns in good faith and to complete any negotiations with them promptly."

14 **Q. Has Pacificorp/Scottish Power negotiated "in good faith and promptly"?**

15 A. In over two and one half years of asking for a rate that would be supported by Pacificorp
16 we have received one offer for an extension of nine months. That offer was good for
17 approximately 72 hours and then withdrawn. When we attempted to negotiate with them
18 on their proposal, they made clear it was a take it or leave it proposal. Since then we
19 have had meeting after meeting where proposals were promised but never forthcoming.
20 Finally, on September 11, 2001 we were told Schedule 50 as filed in this rate case was
21 the Pacificorp position for what Magcorp should be charged for service even though it is
22 and always has been an interruptible customer.

22 **Q. What is Magcorp's position?**

23 A. Magcorp is Utah Power & Light's oldest interruptible customer in Utah. It has always

1 been served under its own tariff as a separate customer class. Now Scottish Power is
2 attempting to eliminate interruptible contracts in Utah, which have a long historical
3 precedence.

4 **Q. What are some of the benefits to a system from interruptible customers?**

5 A. Interruptible customers provide both supply side and demand side benefits. On the
6 supply side, they can be interrupted during peak periods to free up power for firm
7 customers. On the demand side, resources do not have to be constructed to meet their
8 requirements and those resources have not been built.

8 **Q. What is the resulting rate treatment of interruptible customers?**

9 A. Because they benefit the system from the supply side without imposing costs from
10 investing in resources to provide service, interruptible customers pay a rate sufficient to
11 cover variable costs incurred to serve them plus a contribution to fixed costs or system
12 benefits. Thus their rate is less than the firm rate.

13 **Q. What is your opinion of Pacificorp's Schedule 50 rate proposal?**

14 A. Based on Pacificorp's refusal to deal with Magcorp on other than a firm rate schedule
15 basis, Pacificorp is attempting to have Magcorp assume costs never incurred on its
16 behalf. It apparently is attempting to eliminate the interruptible concept, which has
17 been a mainstay for attracting large customers that have significant economic benefits,
18 such as Magcorp, to the State of Utah.

19 **Q. What should be done?**

20 A. The commission has already issued guidelines in the report of the special contract task
21 force. Pacificorp should not be allowed to eliminate Magcorp's separate tariff but should
22 be required to negotiate on any changes that should be made to its tariff. Magcorp is an
23 interruptible customer that has repeatedly been found by orders of this Commission to
24 provide a system benefit under the terms of its tariff. Moreover, Magcorp's plant and the
25 resulting economic benefits was brought to this State with the promise of interruptible
26

1 power on an economic basis.
2 Today that incentive is no less warranted than it was at the beginning. Magcorp has been
3 forced to seek bankruptcy protection in the face of low cost imports. Magcorp has made
4 significant investments to lower its own cost of production to remain competitive. It is
5 now the sole remaining domestic producer of magnesium. But as a power intensive user,
6 it must have access to lower cost power, to which as an interruptible customer it would be
7 economically entitled. Only in this manner can it preserve its contribution to the Utah
8 economy, a contribution that has been estimated at over \$120,000,000 per year.

9 Q. **What relief does Magcorp seek here?**

10 A. Only that the commission make clear that that Pacificorp has full authority to make
11 interruptible power sales . With existing guidelines, Magcorp and Pacificorp can
12 negotiate in good faith to enter into a new contract. This approach would be fully
13 consistent with the Commission's undertaking to "hold Applicants to their commitment
14 to address special contract customers in good faith and promptly."

15 Q. **Does this complete your surrebuttal testimony in this case?**

15 A. Yes it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing surrebuttal testimony of Magcorp, in Docket No. 01-035-01 was hand delivered or mailed postage prepaid on this 21st day of September 2001, to the following: