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*Attorneys for Rocky Mountain Power*

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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In the Matter of the Application of Rocky Mountain Power for Authority To Increase its Retail Electric Utility Service Rates in Utah and for Approval of Its Proposed Electric Service Schedules and Electric Service Regulations, Consisting of a General Rate Increase of Approximately \$161.2 Million Per Year, and for Approval of a New Large Load Surcharge	)	)	)
	)	DOCKET NO. 07-035-93	)
	)	<b>APPLICATION</b>	)

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**APPLICATION FOR GENERAL RATE INCREASE**

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Rocky Mountain Power hereby submits its application to the Public Service Commission of Utah ("Commission") requesting approval of an increase in its retail electric utility service rates in Utah, consisting of an annual general rate increase of \$161,229,086 or 11.3 percent, and approval of its proposed electric service schedules and electric service regulations. Rocky Mountain Power also requests approval of a new

large load surcharge tariff for new customer loads 10 MW or greater. In support of its application, Rocky Mountain Power states as follows:

1. Rocky Mountain Power is a division of PacifiCorp. PacifiCorp is an Oregon corporation that provides electric service to retail customers through its Rocky Mountain Power division in the states of Utah, Wyoming, and Idaho, and through its Pacific Power division in the states of Oregon, California, and Washington (referred to herein as the “Company” or “Rocky Mountain Power”).

2. Rocky Mountain Power is a public utility in the state of Utah and is subject to the Commission's jurisdiction with respect to its prices and terms of electric service to retail customers in Utah. The Company serves approximately 760,000 customers and has approximately 2,400 employees in Utah. Rocky Mountain Power's principal place of business in Utah is 201 South Main Street, Suite 2300, Salt Lake City, Utah 84111.

3. Communications regarding this filing should be addressed to:

David L. Taylor  
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In addition, Rocky Mountain Power requests that all data requests regarding this application should be sent in Microsoft Word or plain text format to the following:

By email (preferred): [datarequest@pacificorp.com](mailto:datarequest@pacificorp.com)

By fax: (503) 813-6060

By regular mail: Data Request Response Center  
PacifiCorp  
825 NE Multnomah, Suite 2000  
Portland, Oregon 97232

Informal questions may be directed to Dave Taylor, Utah Regulatory Affairs Manager at (801) 220-2923.

### **Brief Overview of Application**

4. The Company has carefully prepared this application to ensure that all elements of the revenue increase request are necessary to maintain and provide safe and reliable service to its customers at a level they both expect and deserve.

5. Rocky Mountain Power requests authorization to increase its retail rates in Utah to recover additional annual revenues of approximately \$161.2 million or 11.3 percent. Rocky Mountain Power's request is based upon a forecast test year ending June 30, 2009 and a return on equity ("ROE") of 10.75 percent.

6. In addition to Rocky Mountain Power's request for authority to increase its retail rates, the Company is requesting for authority to implement a new large load surcharge tariff, which is a marginal cost based pricing alternative for new customer loads 10 MW or greater.

7. The Company believes that the application of this surcharge will result in pricing that better reflects the cost of adding new generation resources to the Company's portfolio and will send a better price signal to customers with new large loads.

8. The requested authorization to increase retail rates in Utah by approximately \$161.2 million annually is not affected by the proposed new large load

surcharge tariff. Accordingly, Rocky Mountain Power requests that regardless of the Commission's decision on the proposed new large load surcharge tariff, the Commission approve the requested annual revenue increase.

### **Request for Authority to Increase Rates**

9. Pursuant to applicable Utah law and Commission Rules, Rocky Mountain Power hereby requests authority to increase its Utah retail electric utility service rates to achieve an increase in total Utah revenues of approximately \$161.2 million or 11.3 percent annually. Rocky Mountain Power's application is based on a forecast test year ending June 30, 2009.

10. In recent years, Rocky Mountain Power has consistently under-earned the authorized ROE established by the Commission. Rocky Mountain Power's normalized ROE under current rates will be 5.8 percent during the test year, which is well below the Commission authorized return of 10.25 percent. The revenue increase for which approval is requested in this application is based on a ROE of 10.75 percent, which the Company submits reflects recent market circumstances, interest rate increases, and reasonable investor expectations.

#### *Application of Forecast Test Period*

11. The Company contends that a significant contributor to its under earning is largely the effect of regulatory lag, which arises from the combined effect of the use of a historic test period and the eight month administrative process associated with prosecuting a general rate case in the state of Utah. These circumstances, coupled with consistent increasing wholesale power costs and the need for increased levels of new capital investment driven by system growth, result in an anticipated continuation of

under-earning that cannot be overcome by Rocky Mountain Power's efficiencies and cost cutting measures.

12. Consistent with §54-4-4, the Company has proposed a forecast test year in this application that extends no more than 20 months from the filing date of the Company's proposed rate increase. The forecast test period applied for in this application begins July 1, 2008 and ends June 30, 2009. The Company used an historic base period ending June 30, 2007 for purposes of preparing its forecasted test period data. The Company requests that the Commission accept the use of this forecast test period so that the rates approved by the Commission better reflect the costs expected to be incurred by the Company during the rate-effective period and to fulfill the statutory intent, which permits the use of a forecast test period.

*Primary Cost Drivers*

13. The Company's requested increase in rates is driven by Rocky Mountain Power's need for a revenue increase as a result of increased costs in two primary areas:

- New generation, transmission and distribution plant investment.
- Net power costs associated with fuel, wholesale market transactions and wheeling.

In addition, a contributing factor to the need for a revenue increase is the forecasted load growth in Utah, which is one of the highest forecasted load growth states in the Company's six state service territory. The load growth in Utah also results in a higher percentage of common costs being allocated to the state through the interjurisdictional cost allocations under the Revised Protocol used by the Company in preparing this filing.

14. Rocky Mountain Power's need for capital investment is the result of experienced and anticipated customer growth and the demand for new services. Customer growth and increasing loads, coupled with environmental requirements and improved reliability expectations from customers are drivers for new utility plant investments. Furthermore, investments in new facilities have associated fuel costs, financing costs, and operation and maintenance expenses related to them.

15. In comparison to the information filed in the Company's 2006 general rate case, the Company projects that it will have made over \$2.4 billion of new capital investments system-wide by June 30, 2009, the end of the test year in this application.

16. Rocky Mountain Power anticipates that it will continue to experience increasing costs that are driven by the factors mentioned above, and that the use of a forecast test period is necessary to reduce the effect of regulatory lag and to permit the Company a realistic opportunity to earn a reasonable return on its Utah investment. Without a general rate increase now, the additional capital investments made by the Company, coupled with rising costs for fuel and other increases in operation and maintenance costs associated with the capital investments, it will be impossible for the Company to earn its authorized rate of return.

17. Net power costs consist of fuel, net wholesale transactions (purchases from and sales to other utilities and power marketers) and wheeling costs, which in total represent approximately 28 percent of the Utah revenue requirement in this application. The combination of higher fuel prices and wholesale market volatility has produced a much riskier environment for all participants in the wholesale energy markets, including regulated utilities. In comparison to information filed in Rocky Mountain Power's 2006

Utah general rate case application, power costs have increased approximately \$279 million. Net power costs continue to trend upward and remain volatile and they are one of the primary cost drivers in this general rate case.

18. Historically, a third major component of the Company's revenue increase has been related to its operation, maintenance, administrative, and general costs ("OMAG"). Through the effective management of power costs and operating costs, increased efficiencies through new procurement practices for transmission and distribution investments, staffing reductions, and by striking a balance between operational expenses and preventative maintenance on the Company's transmission and distribution facilities, on a per unit basis, OMAG costs on a per unit basis have remained level or slightly declined since the Company's last general rate case.

#### **New Large Load Surcharge Tariff**

19. As a separate and distinct request, and in addition to its request for authority to increase its retail electric utility service rates and for approval of its proposed electric service schedules and electric service regulations, the Company hereby requests authority to implement a new large load surcharge tariff.

20. A current problem facing Rocky Mountain Power and its customers is related to an advantage that its customers presently have, which is the Company's embedded cost of generation included in existing Utah rates, which is slightly above 3 cents per kWh. In comparison, prior to the addition of possible future carbon taxes, the cost of new generation to serve load growth is estimated to be nearly double the embedded cost of generation per kWh depending upon the fuel type, technology, and plant location.

21. Given this large difference between the average embedded cost of generation and the marginal cost of generation, coupled with the experienced and anticipated Utah load growth, the Company believes the Commission should consider an alternative to traditional average embedded cost of service pricing for new customer loads that are 10 MW or greater.

22. Accordingly, in an attempt to address the inefficiencies associated with new large load customer growth combined with a traditional average embedded cost of service based rate structure, Rocky Mountain Power requests authority to implement a marginal cost based pricing alternative for new customer loads 10 MW or greater.

23. Under this alternative proposal, all existing customer loads and new customer loads below 10 MW will pay prices based on traditional embedded cost of service rates. New loads of 10 MW or greater will pay a 25 percent surcharge (or approximately 1 average cent per kWh) commencing upon the Commission's issuance of an order in this proceeding, with the surcharge increasing to a 30 percent surcharge (or approximately 1.2 average cents per kWh) in August 2009.

24. Rocky Mountain Power is proposing this marginal cost based pricing alternative because it believes this pricing alternative better reflects the cost of new generation resources and it will send a better price signal (one that is more representative of actual costs incurred by Rocky Mountain Power to serve the requested load) to large customers with new large loads that are considering electricity as an energy or fuel choice.

25. The Company proposes that the surcharge be calculated as a percentage of the Company's generation and transmission components of rates as opposed to



calculating the rate using an avoided cost methodology or using a true marginal cost because the percentage approach is a more gradual step toward recognizing the significant cost difference between embedded generation resources and new resources. This marginal cost based pricing alternative for the generation function of service to large new loads will result in large load customers paying closer to the real cost of new power resources, and it will mitigate the impact of new generation costs upon customers whose loads are not growing or growing as significantly.

26. The Company also requests that the Commission open a docket to investigate and explore alternatives to address the issue of embedded cost pricing and marginal cost pricing.

27. Notwithstanding this proposed alternative to traditional embedded cost of service pricing for new large loads, the Company is willing to work formally and informally with all interested parties during the course of this case (as well any new investigative docket) to discuss other alternative rate designs and even alternative means of addressing this vital issue and the need to send a better price signals to our large customers.

28. The proposed new large load surcharge has no immediate rate impact in this application. Accordingly, should the Commission decide not to authorize the proposed pricing alternative, Rocky Mountain Power's revenue requirement remains and thus requests that the Commission still authorize the approximately \$161.2 million revenue increase requested in this application.

## Miscellaneous Items

### Depreciation Rates and Deferred Accounting

29. Rocky Mountain Power currently has four different applications that are pending before the Commission. An application to change depreciation rates and three applications for deferred accounting orders (MEHC severance costs, GRID West loans, and the Powerdale hydro facility). At the time of finalizing this application, the Company has not yet received a decision from the Commission on these applications. As a result, the Company has reflected the application to change depreciation rates and the applications for deferred accounting orders in its revenue requirement consistent with the treatment requested by the Company in the respective applications for these items.

### Rate Spread

30. The Company is proposing to allocate the revenue increase to customer classes based upon the cost of service study included in this application. The proposed rate spread is designed to reflect cost of service results while balancing the impact of the rate change across customer classes. That rate spread methodology is consistent with the Company's proposal in the last general rate case in Docket No. 06-035-21.

31. The table below summarizes the proposed price changes from each listed customer class.

<b>Customer Class</b>	<b>Proposed Percentage Change</b>
<b>Residential</b>	12.2%
<b>General Service</b>	
Schedule 6	11.0%
Schedule 8	12.2%
Schedule 9	12.2%
Schedule 23	13%
<b>Irrigation</b>	24.0%

### Rate Design

32. In this filing, Rocky Mountain Power is also proposing to change the rate design for the residential class in four material respects: (1) increase the customer charge from \$2.00 to \$4.00 and discontinuance of the monthly minimum bill; (2) implement a usage-based residential customer load charge that will be triggered when a residential customer's monthly usage in the May through September billing months exceeds 1,000 kWh more than once; (3) replace the existing three-block inverted residential rate design with a two-block inverted rate design; and (4) increase the differential between summer and winter energy charges in order to reflect the higher costs associated with higher summer customer usage.

33. The Company submits that these proposed changes to the residential rate design will result in stronger and more persistent price signals to our residential customer class that will help control the anticipated load growth and the summer peak. In addition, the Company believes that these changes will simplify the customers' bill and enable customer's to better understand their bills and better impact customer usage decisions.

### Tariff Changes

34. In this filing, Rocky Mountain Power is also proposing several changes to the electric service rules and regulations in its tariff. The Company is proposing an addition to Regulation No. 3 regarding payment of collection agency costs and the Company is also proposing changes to Regulation No. 12 to include separate sections to address the relocation of facilities and replacing existing overhead facilities with underground facilities (conversions), and eliminating a credit for depreciation from the

calculation of the cost of conversions. The Company is also proposing a housekeeping change to Regulation No. 7 regarding Master Metering.

Witnesses – Prefiled Written Testimony

35. This application and the requests made herein are supported by the prefiled written direct testimony and exhibits of the following witnesses, all of which are submitted as attachments to the application:

- **A. Richard Walje**, President, Rocky Mountain Power, will provide an overview of the Company's 2007 general rate case filing, policy considerations related to the Company's application and proposed revenue increase of approximately \$161.2 million, including the Company's general financial condition.

- **A. Robert Lasich**, President, PacifiCorp Energy, will provide investment information on and prudence justification for the Company's major new generation resources acquisitions and environmental facility upgrades, including the increased generation-related overhaul and maintenance expenses for the test period.

- **Bruce N. Williams**, Vice President and Treasurer, will testify concerning the Company's cost of debt, preferred stock and capital structure.

- **Dr. Samuel C. Hadaway**, FINANCO, Inc., will testify concerning the Company's return on equity. He will also describe the unique operational risks that Rocky Mountain Power faces and why the Commission should authorize a return on equity that will account for the Company's higher risks and operating challenges.

- **Dr. G. Michael Rife**, Director, Planning, will testify on the changing loads and revenues in Utah. He will explain how Utah's load growth relates to previous years and to the other states in the Company's system, and how the changing peak demand in

Utah is contributing to a relative shift in the interjurisdictional allocation of common costs. He will also provide a view of future system growth in Utah relative to the other states.

- **Mark T. Widmer**, Director, Net Power Costs, will describe the Company's net power costs. Mr. Widmer will also explain the Company's production cost model and normalization of input data.

- **Douglas N. Bennion**, Managing Director, Network Reliability, will explain the Company's capital investments in transmission and distribution facilities to serve growing customer loads and deliver reliable power in Utah.

- **Erich D. Wilson**, Director, Human Resources, will explain the Company's new compensation, pension, and benefits program and related costs. In addition, Mr. Wilson will support the costs incurred by the Company in reshaping its corporate workforce.

- **Steven R. McDougal**, Director, Revenue Requirement, will explain why the forecast test year that begins on July 1, 2008 and ends on June 30, 2009 best reflects the conditions that the Company expects to experience in the rate-effective period. In addition, Mr. McDougal will present the Company's overall revenue requirement based on the forecasted results of operations for the test year. He will describe the sources of the forecast data and present certain normalizing adjustments related to revenue, operations and maintenance expense, net power costs, depreciation and amortization, taxes and rate base. Mr. McDougal will also testify on deferred accounting costs and support the Company's proposed interjurisdictional allocation of common costs.

- **C. Craig Paice**, Regulatory Consultant, Pricing and Cost of Service, will present the Company's class cost of service study.
- **William R. Griffith**, Director, Pricing and Cost of Service, will present the Company's rate spread and rate design proposals.
- **Dr. Karl McDermott**, Vice-President at NERA Economic Consulting, will testify on the marginal cost pricing principles underlying the Company's pricing proposal for large industrial customers.
- **F. Robert Stewart**, Regulatory Consultant, Customer Services & Regulatory Liaison, will propose housekeeping and needed operational changes to Utah Electric Service Schedules and Regulations.
- **Daren H. Dixon**, Manager, Street Lighting Policy, will present proposed changes to the Company's street lighting tariffs.

## **Conclusion**

36. Rocky Mountain Power believes that authorization of the rate increase requested in this application coupled with the approval of the new large load surcharge, as proposed, represents the best outcome for the Company and its customers in this case and is in the public interest. However, should the Commission decide not to authorize the new large load surcharge tariff, Rocky Mountain Power requests that the Commission authorize a general rate increase based on the proposed forecast test year ending June 30, 2009 in the amount of \$161.2 per annum.

WHEREFORE, by this application, Rocky Mountain Power respectfully requests that the Commission:

1. Authorize an annual Utah retail electric service rate increase based upon a forecast test year ending June 30, 2009 of \$161,229,086 annually.

2. Approve the Company's proposed electric service schedules and electric service regulations.
3. Open a new docket to investigate and explore alternatives to address the issue of embedded cost pricing and marginal cost pricing.
4. Authorize implementation of a new large load surcharge tariff for new customer loads of 10 MW or greater.

In the alternative, if the Commission decides not to approve the new large load surcharge tariff, Rocky Mountain Power requests that the Commission:

1. Authorize an annual Utah retail electric service rate increase based upon a forecast test year ending June 30, 2009 of \$161,229,086 annually.
2. Approve the Company's proposed electric service schedules and electric service regulations.

DATED this 17<sup>th</sup> day of December 2007.

Respectfully submitted,

ROCKY MOUNTAIN POWER

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