

**BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH**

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 STIPULATION IN COST OF SERVICE, RATE SPREAD AND RATE DESIGN - PHASE II
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1. This Stipulation in the Cost of Service, Rate Spread and Rate Design Phase of Docket 07-035-93 (“Stipulation”) is entered into by and among the parties whose signatures appear on the signature pages hereof (collectively referred to herein as the “Parties”).

I. INTRODUCTION

2. The terms and conditions of this Stipulation are set forth herein. The Parties represent that this Stipulation is in the public interest and recommend that the Utah Public Service Commission (the “Commission”) approve the Stipulation and all of its terms and conditions.

II. BACKGROUND

3. On December 17, 2007, Rocky Mountain Power (the “Company”) filed an application, together with revenue requirement, cost of service, rate spread and rate design testimony, for a rate increase of \$161.2 million based on a 12 month forecast test period beginning July 1, 2008 and ending June 30, 2009.

4. The Commission issued its Report and Order on Revenue Requirement on August 11, 2008 (“Original Order”), approving an increase in the Company’s revenue requirement in the amount of \$33.378 million, based on a forecasted 2008 test period and an allowed rate of return on equity of 10.25%.

5. The Commission issued its Erratum Report and Order on Revenue Requirement on August 21, 2008 (“Erratum Order”) after being made aware of a calculation error contained in the Original Order related to the generation overhaul adjustment. Consequently, the Commission, in its Erratum Order, increased the Company’s annual revenue requirement to \$36.164 million. The Company made a compliance filing reflecting the change in the approved revenue requirement in the Erratum Order, which filing is attached hereto as Exhibit A.

6. Non-company parties filed testimony in the cost of service, rate spread and rate design phase of the case on July 21, 2008. The Company and other parties filed rebuttal testimony on September 4, 2008. The Company and certain other parties filed surrebuttal testimony on September 24, 2008.

7. Parties have participated in several settlement conferences on the cost of service, rate spread and rate design phase of the case.

8. Certain parties raised questions on how the acquisition or retaining of renewable energy certificates associated with demand side management and energy efficiency projects should be handled. The Parties agreed that these issues should be addressed by a Commission rulemaking docket as prescribed in SB202 or in another appropriate proceeding.

9. As a result of the settlement negotiations, the Parties to this Stipulation have agreed to the cost of service, rate spread and rate design and other matters specified herein.

III. TERMS OF STIPULATION.

Subject to Commission approval and for purposes of this Stipulation only, unless otherwise noted, the Parties agree as follows:

10. Cost of Service, Rate Spread and Rate Design.

a. Implementation of Rate Increase. The \$36.164 million increase granted to the Company in the Erratum Order, or any other rate increase ultimately ordered as a result of reconsideration or appeal, shall be allocated on a uniform percentage basis. The current increase granted by the Commission will continue to be collected through Schedule 97, Tariff Rider Rate.

b. Education Program. The Company agrees to initiate an education program (“Program”) for residential customers regarding the Company’s residential rate structure and energy efficiency. The Program shall be treated as a component of the DSM program and all costs incurred by the Company, as reviewed and approved by the Commission, shall be recovered through Schedule 193, Demand Side Management Cost Adjustment surcharge. The Program will describe (i) the rates and usage levels within tiers of the Company’s residential rate structure and the purpose of the rate structure; (ii) the steps customers can take to reduce usage; and (iii) other energy efficiency measures customers can take to reduce usage. All education materials will be made available for review and comment to interested parties prior to circulation. The Program will begin as soon as practicable following the Commission’s approval of this Stipulation and will

continue for a period of at least one year. The Company agrees to report to the DSM Group (as defined below) regarding the Program's performance on a quarterly basis.

c. DSM Group. The DSM advisory group, or another group to be established by the Division with similar representation by stakeholders ("DSM Group"), will convene to discuss and investigate rate design proposals to promote conservation and energy efficiency. The first meeting of the DSM Group must be convened within 30 days of the Commission's approval of this Stipulation. The DSM Group shall submit a report regarding the DSM Group's activities and recommendations to the Commission within six months of the DSM Group's first meeting. The Parties agree that this report to the Commission will not report on pricing based on customer vintage. Following the filing of said report, the DSM Group will continue to meet quarterly thereafter.

11. Street Lighting Changes In the direct testimony of Mr. Daren H. Dixon the Company proposed changes to the Utah Street Lighting Schedules and Rules for the purpose of clarifying service applicability and provisions, to align these with tariff language from our other service territories, to reflect industry standards and legislative changes, to better appropriate costs to those responsible for those costs and to propose new metal halide lamps for Schedule 11. Given that no party filed any objections to the Company's proposals in this docket, and as Mr. Dixon indicated there is no revenue impact of his proposed changes for existing services being delivered, the Parties recommend that the Company's proposed changes to Street Lighting Service be approved by the Commission as filed.

12. Changes to Electric Service Regulations In the direct testimony of Mr. F. Robert Stewart the Company proposed changes to Utah Electric Service Regulations No.

3, No. 7, and No. 12 to better reflect cost causation, to improve the clarity of the Company's regulations and to better describe the application of these regulations. The Company agrees to withdraw the proposed changes to Regulation No. 3R.3 that would require former customers to be responsible for court costs, attorney's fees and/or collection agency fees incurred in the collection of unpaid debt, and further agrees to exclude such proposed changes in the event the Company re-files, either voluntarily or involuntarily, the 2008 rate case (08-035-38). Given that no party filed any objections to the Company's proposed changes to Electric Service Regulation No. 7, and No. 12 in this docket, and as there is no revenue impact of the proposed changes, the Parties recommend that the Company's proposed changes to Electric Service Regulations No. 7 and No. 12 be approved by the Commission as filed.

13. Parties' Rights Pertaining to Phase I, Revenue Requirement. On September 2, 2008, the Company filed a Petition for Reconsideration. On September 22, 2008, the Commission granted reconsideration for further consideration. The Parties agree that this Stipulation does not prohibit any Party from exhausting any or all of its remedies in regard to the Petition for Reconsideration.

14. Schedule in Phase II Suspended. The Parties agree that the schedule in Phase II of this docket should be suspended, other than a hearing for approval of this Stipulation, and that cost of service, rate spread and rate design elements of this case shall be deemed concluded.

IV. GENERAL TERMS AND CONDITIONS

15. All negotiations related to this Stipulation are privileged and confidential and no party shall be bound by any position asserted in negotiations. Neither the

execution of this Stipulation nor the order adopting this Stipulation shall be deemed to constitute an admission or acknowledgment by any Party of any liability, the validity or invalidity of any claim or defense, the validity or invalidity of any principle or practice, or the basis of an estoppel or waiver by any Party other than with respect to issues resolved by this Stipulation; nor shall they be introduced or used as evidence for any other purpose in a future proceeding by any Party except a proceeding to enforce the approval or terms of this Stipulation.

16. The Company, the Division of Public Utilities and the Committee of Consumer Services each agree to, and other Parties may, present testimony of one or more witnesses to explain and support this Stipulation and will be available for examination by other parties. So that the record in this docket is complete and in support of this Stipulation, the Parties may move for the admission of testimony and exhibits that have been filed; however, notwithstanding the admission of filed testimony, the Parties shall support the Commission's approval of the Stipulation.

17. The Parties agree that if any person challenges the approval of this Stipulation or requests rehearing or reconsideration of any order of the Commission approving this Stipulation, each Party will use its best efforts to support the terms and conditions of the Stipulation. As applied to the Division and Committee, the phrase "use its best efforts" means that they shall do so in a manner consistent with their statutory authority and responsibility. In the event any person or party seeks judicial review of a Commission order approving this Stipulation, no Party shall take a position in that judicial review opposed to the Stipulation.

18. Except with regard to the obligations of the Parties under Paragraph 13 and the three preceding paragraphs of this Stipulation, this Stipulation shall not be final and binding on the Parties until it has been approved without material change or condition by the Commission in an order that is no longer subject to any further reconsideration or appellate review; provided no Party may withdraw from this Stipulation unless and until the Commission rejects any part or all of this Stipulation, or imposes any additional material change or condition on approval of this Stipulation, or in the event the Commission's approval of this Stipulation is rejected or materially conditioned in whole or in part by a court. Upon occurrence of any such event(s), each Party reserves the right to withdraw from this Stipulation. If such an order is issued, the Parties agree to meet and discuss the applicable Commission or court order within five business days of its issuance and to attempt in good faith to determine if they are willing to modify the Stipulation. No Party shall provide notice of withdrawal prior to complying with the foregoing sentence. In the event that no modified stipulation is reached, any Party may withdraw from this Stipulation by giving written notice of withdrawal to the Commission and the other Parties. Any such notice shall be given within five business days after reaching impasse in any discussions regarding modifying the Stipulation. If any Party withdraws from this Stipulation pursuant to this paragraph, no Party shall be bound or prejudiced by the terms and conditions of this Stipulation, which have been accepted by the parties in consideration of this Stipulation and which may have been contested but for this Stipulation, and each Party shall be entitled to undertake any step or to assert any position it deems appropriate without regard to this Stipulation.

The Parties may execute this Stipulation in counterparts each of which is deemed an original and all of which only constitute one original.

BASED ON THE FOREGOING, the Parties request that the Commission issue an order approving this Stipulation and adopting the terms and conditions of this Stipulation.

Respectfully submitted this 25th day of September, 2008.

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