

**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	DOCKET NO. 08-035-38  <b>STIPULATION IN COST OF SERVICE AND RATE SPREAD - PHASE II</b>
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1. This Stipulation in the Cost of Service and Rate Spread Phase of Docket 08-035-38 (“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 Public Service Commission of Utah (the “Commission”) approve the Stipulation and all of its terms and conditions.

**II. BACKGROUND**

3. On July 17, 2008, Rocky Mountain Power (“Rocky Mountain Power” or “Company”) filed an application, together with revenue requirement, cost of service, rate spread and rate design testimony, requesting approval of an increase in its retail electric utility service rates in Utah in the amount of \$160.6 million above the then-currently effective rates (without reference to revenue increases requested in the Company’s 2007 rate case (Docket No. 07-035-93)) for a total revenue requirement in the approximate amount of \$1.592 billion. On September 10, 2008, Rocky Mountain Power filed

supplemental testimony to reflect the Commission's revenue requirement order in Docket No. 07-035-93, adjust net power costs, introduce an amended cost of service study, and update the proposed rate spread.

4. On August 1, 2008, the Commission issued an order establishing the procedural schedule for this case. On August 26, 2008, September 29, 2008, and September 30, 2008, the Commission issued orders amending the schedule. On October 14, 2008, the Commission issued an additional scheduling order for the Revenue Requirement and Cost of Service/Rate Design portion of this case. On October 30, 2008 and November 6, 2008, the Commission issued orders modifying the Revenue Requirement and Cost of Service/Rate Design procedural schedule. On January 27, 2009, the Commission issued a scheduling order amending the schedule for the Rate Design/Cost of Service phase of this case.

5. On October 28, 2008, the Commission held a hearing on Rocky Mountain Power's Motion to Determine Test Year wherein Rocky Mountain Power sought approval to use a test period ending June 2009. On October 30, 2009, the Commission issued an order approving a test period ending December 2009, using average rate base. Rocky Mountain Power subsequently filed supplemental direct testimony and exhibits with the Commission on December 8, 2008, which included a revised revenue increase request of \$116.1 million, a cost of capital request of 8.69% and return on equity of 11.0% with a 51.5% common equity component.

6. On February 4 and 9, 2009, certain Parties held settlement conferences to discuss cost of capital issues in the 2008 General Rate Case.

7. As a result of the settlement negotiations, certain Parties reached a compromise on cost of capital at issue in this case. The settlement resulted in a return on equity of 10.61 percent and a capital structure with a 51.0 percent common equity component. The Commission held hearings on March 12, 2009 and approved the cost of capital stipulation from the bench.

8. On March 17 and 18, 2009, the Parties held settlement conferences to discuss revenue requirement issues in the 2008 General Rate Case. On March 18, 2009, notice was provided to all intervenors advising all parties who filed revenue requirement testimony and others that the parties had reached an agreement in principle, and that a draft stipulation would be circulated. On March 19, 2009 a copy of the draft stipulation was circulated to all intervenors.

9. As a result of the settlement negotiations, the Parties agreed to the revenue requirement in this case. The settlement resulted in an increase in revenue requirement in the amount of \$45 million, or 3.34 percent, based on an allowed rate of return on equity of 10.61 percent and a capital structure with a 51.0 percent common equity component. The Commission held hearings on March 31, 2009 and issued an order (“Order”) approving the revenue requirement stipulation on April 21, 2009.

10. On April 24, 2009, a notice of a settlement conference was provided to intervenors.

11. The Parties held a settlement conference on the cost of service and rate spread phase of the case on April 28, 2009. On April 29, 2009 a copy of the draft stipulation was circulated to intervenors.

12. As a result of the settlement negotiations, the Parties to this Stipulation have agreed to the cost of service and rate spread and other matters specified herein. The Parties have not, however, agreed on rate design issues in the 2008 General Rate Case.

### **III. TERMS OF STIPULATION.**

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

13. Cost of Service and Rate Spread.

a. Implementation of Rate Increase. The \$45.0 million increase granted to the Company in the Order, shall be allocated across rate schedules as set forth and attached hereto as Exhibit A. The Parties agree that the increase shall be implemented through Schedule 98, Tariff Rider Rate approved in the Order as modified herein. In the Order, Schedule 98 was to equal 6.40 percent and to be applied to all tariff customers' bills. In this Stipulation the Parties agree that Schedule 98 shall be applied to all tariff customers' bills as modified and set forth in Exhibit A (Column 11). The proposed tariff Schedule 98 is attached hereto as Exhibit B. The Parties agree that proposed Schedule 98 will replace the compliance tariff sheet Schedule 98 filed by the Company April 24, 2009 and shall become effective with service on and after May 8, 2009. It is the Parties' intent that Schedule 98 remain in effect until it is superseded by revised rate schedules following the Commission's final order in the Phase II portion of this proceeding. The Parties agree that the other tariff revisions filed by the Company in its compliance filing on April 24, 2009 shall be approved. In the event the Commission does not approve this Stipulation by end of day on May 7, 2009, the Company will proceed to implement the

original rates approved in the Order effective with service on and after May 8, 2009, and submitted in the Company's original April 24, 2009, compliance filing.

b. Work Group on Cost of Service Model. Rocky Mountain Power agrees, within 14 days of the date of approval of this Stipulation, to invite parties, including all Parties, to participate in work group meetings to discuss the Company's cost of service model ("COS Model"). The work group meetings will address the mechanics of the COS Model as opposed to the assumptions utilized. The Company agrees to schedule the first work group meeting promptly, giving due consideration to the availability of interested parties, and to hold at least three substantive work group meetings within 90 days of the date of approval of this Stipulation. Interested parties should be prepared to share and identify specific issues and concerns relating to the COS Model at the first work group meeting. Rocky Mountain Power will discuss and respond to such concerns in that and subsequent meetings. Rocky Mountain Power also agrees to develop instruction manuals for operating specific sections of the COS Model, subject to the discussion and negotiation described herein. Rocky Mountain Power will provide training on the COS Model to all interested parties requesting such training and will provide additional documentation and other reasonable means of facilitating easier use of the COS Model. The Parties agree to discuss and negotiate in good faith at least the following issues, without limitation: the scope of any necessary instruction manuals; the relationship between Rocky Mountain Power's Jurisdictional Allocation Model (JAM) and the COS Model and consistency between the two models; potential alternative COS Models; and potential changes and improvements to the current COS Model. Participation in the workgroup will not preclude or prevent participating parties from filing testimony

regarding the COS model or recommending the use of alternative models in any future rate case.

14. Revised cost of service and rate design update filing date. The Parties agree that the filing date for the revised cost of service study and rate design originally agreed to be filed within 30 days of the hearing date of the Revenue Requirement Stipulation shall, upon Commission approval, be extended until May 5, 2009.

15. Rate Design Not Part of Stipulation. The Parties agree that this Stipulation does not address any issues related to rate design in this proceeding.

16. Schedule in Phase II to Continue. The Parties agree to follow the schedule currently in place in Phase II of this docket (unless they mutually agree to change it as needed), but agree that any filings made pursuant to the schedule will address only rate design issues. The Parties further agree to request that a hearing for approval of this Stipulation be held May 7, 2009. Finally, the Parties agree that, pending Commission approval of the Stipulation, cost of service and rate spread elements of this case shall be deemed concluded.

#### **IV. GENERAL TERMS AND CONDITIONS**

17. 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.

18. The Parties respectfully request of the Commission that all of the prefiled testimony in this Docket be admitted into the record without witnesses being called or sworn at the proceeding. The Company, the Division and the Committee each agree to make one or more witnesses available to explain and support this Stipulation to the Commission. Such witnesses will be available for examination. So that the record in this Docket is complete, the Parties may move for admission of evidence, comments, position statements or exhibits that have been filed on the issues resolved by this Stipulation; however, notwithstanding the admission of such documents, the Parties shall support the Commission's approval of the Stipulation and the Commission order approving the Stipulation. As applied to the Division and the Committee, the explanation and support shall be consistent with their statutory authority and responsibility.

19. 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 seeks judicial review of a Commission order approving this Stipulation, no Party shall take a position in that judicial review opposed to the Stipulation.

20. Except with regard to the obligations of the Parties under the two immediately 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. This Stipulation is an integrated whole, and any Party may withdraw from it if it is not approved without material change or condition by the Commission or if the Commission's approval is rejected or materially conditioned by a reviewing court. If the Commission rejects any part of this Stipulation or imposes any material change or condition on approval of this Stipulation or if the Commission's approval of this Stipulation is rejected or materially conditioned by a reviewing court, 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 consistent with the order. No Party shall withdraw from the Stipulation prior to complying with the foregoing sentence. If any Party withdraws from the Stipulation, any Party retains the right to seek additional procedures before the Commission, including cross-examination of witnesses, with respect to issues addressed by the Stipulation and no Party shall be bound or prejudiced by the terms and conditions of the Stipulation.

21. 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 30<sup>th</sup> day of April, 2009.

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ROCKY MOUNTAIN POWER

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