Q. Please state your name, business address and present position with Rocky Mountain Power (the "Company"), a division of PacifiCorp.

A. My name is Stefan A. Bird, my business address is 825 NE Multnomah St., Suite 600, Portland, Oregon 97232, and my present title is Senior Vice President, Commercial and Trading.

Q. Briefly describe your educational and professional background.

A. I hold a B.S. in mechanical engineering from Kansas State University. I joined PacifiCorp Energy, a division of the Company, and assumed my current position in January 2007. From 2003 to 2006, I served as president of CalEnergy Generation U.S., an owner and operator of Qualifying Facility and merchant generation assets, including geothermal and natural gas-fired cogeneration projects across the United States. From 1999 to 2003, I was vice president of acquisitions and development for MidAmerican Energy Holdings Company ("MEHC"). From 1989 to 1997, I held various positions at Koch Industries, Inc., including energy marketing, financial services, corporate acquisitions, project engineering and maintenance planning in the United States, Latin America and Europe.

In my current position I oversee the Company's Commercial and Trading organization which is responsible for dispatch of the Company's owned and contracted generation resources, procurement of natural gas and electricity wholesale purchases and sales to balance the Company's load and resources. I am responsible for acquisition of power resources for the Company by means that include the negotiation of power purchase agreements and the acquisition of

generation resources through the request for proposals process. My organization is also responsible for the Company's load and revenue forecast, integrated resource plan and net power costs ("NPC") modeling.

Q. Have you previously filed testimony in this case?

A. No.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to rebut testimony filed by the Division of Public Utilities ("Division") witness Mr. Charles E. Peterson, Office of Consumer Services ("Office") witness Mr. Daniel E. Gimble, Utah Association of Energy Users ("UAE") witness Mr. Kevin C. Higgins and Western Resource Advocates ("WRA") witness Ms. Nancy L. Kelly.

Q. Please summarize your testimony.

A. I will explain why Mr. Peterson's testimony regarding the effectiveness of hedging is incorrect and correct the calculation referenced in his testimony to include hedges that were missing in the Division's calculation. Inclusive of all hedging transactions, the Company's hedging activity has in fact resulted in a gain of $304.8 million during the period reviewed. More importantly, I will explain why gains or losses resulting from hedging are not an indicator of an effective hedge program. Hedging is not done to beat the market, but rather to mitigate the risk that actual NPC may exceed NPC in rates due to volatile, unpredictable and uncontrollable natural gas and electricity prices. Given the apparent confusion of the purpose of hedging and tools used in hedging, I will explain the benefit of hedging to customers and the Company in the current

regulatory structure. I will also explain changes in customer and Company benefits from hedging under the proposed energy cost adjustment mechanism ("ECAM") regulatory structure. I agree with Mr. Peterson that an ECAM must include all NPC components to avoid perverse incentives and explain why Mr. Gimble's proposal to exclude natural gas fuel costs, natural gas hedging costs and market purchases from the ECAM would create perverse incentives that would harm customers. Last, I will explain why Mr. Petersen's, Mr. Gimble's, Mr. Higgins' and Ms. Kelly's proposal to remove renewable energy credits ("RECs") from the ECAM would create perverse incentives that would harm customers.

Gains or Losses from Hedging

Q. What does Mr. Peterson state were the results of the Company's hedging program from 2006 to May 2010?

A. On page 5, line 106 of his testimony, Mr. Peterson states: "Since 2006 through May 2010, the Company has paid out a net $173 million as a result of being on the wrong side of its electric and natural gas swaps. This is an average additional cost of $40 million annually on a system wide basis... [T]hese results do not give the Division comfort regarding the effectiveness and costs [of] the Company's hedging program." In response to questions from the Company, the Division stated that Mr. Peterson's statement was based on a calculation by Mr. Wheelwright in presented in his Surrebuttal Testimony in Phase II, Part 1, in Confidential DPU SR Exhibit 2.1.

Q. What is missing from Mr. Wheelwright's calculation?

A. Mr. Wheelwright's calculation only included a portion of the hedge transactions.

Specifically, the fixed price physical transactions were omitted. These transactions are as much a part of the Company's hedging program as the swap transactions included in Mr. Wheelwright's calculation. Failure to include the fixed price physical hedges resulted in a substantial understatement of gains in the hedging program.

Q. What is the correct calculation of the net costs or benefits from all hedging transactions during the period from January 2006 through May 2010?

A. The correct calculation is shown in Exhibit RMP___(SAB-Phase II-2-1R). It shows that the Company's hedging program resulted in a net benefit of $304.8 million during this period.

Q. Should the effectiveness of the Company's hedging program be measured in gains or losses?

A. No. Contrary to Mr. Peterson's statement that the Company would be expected to be "'out-of-the-money' more often than not," the Company's hedging program would be expected on balance over the long term to result in no gain or loss. As correctly stated by Mr. Peterson in footnote 7, the purpose of the hedging program is to reduce the risk of price volatility, and not to "beat the market." Therefore, whether the Company makes or loses money on its hedging program is not the issue. The issue is whether it has effectively reduced the risk of price volatility.

Q. So why did the Company deem it necessary to correct the Division's calculations of net gains or losses?

A. First, the correction to reflect all hedges is important because of Mr. Peterson's stated conclusion that the results of the hedging program (which he believed were

losses) during this period, caused the Division discomfort regarding the effectiveness and costs of the program. Ultimately, this erroneous observation led to the Division's recommendation for a dead band and a 70/30 sharing band. Second, the correction is important because the Division's calculation was based on incomplete information and it is essential to include all of the Company's hedging activity in an ECAM.

Q. Do you understand why physical electricity hedges were not included?

A. There appears to have been some miscommunication and misunderstanding on the information that was requested and the information that was provided in response to some of the Division's data requests.

Q. Please explain how fixed price physical hedges are used to hedge the risk of volatility of market prices.

A. When the Company purchases a fixed price physical product it agrees to pay a fixed price established at the time the transaction is consummated and receives physical electricity or natural gas at a specified point of delivery at some future time of delivery. Such a purchase locks in the price making subsequent changes in market price immaterial to NPC for the volume purchased. A fixed price physical product is used to both balance the Company's physical position and hedge the Company's market price risk.

Q. Which fixed price physical transactions are hedges?

A. Any fixed price physical transaction for which the commodity is delivered beyond the current month is a hedge. Additional information on hedging products used by or available to the Company is provided in Exhibit RMP___(SAB-Phase II-2-2R).

Q. Mr. Wheelwright's exhibit was marked confidential and the Company's responses to the Division's data requests were also confidential. Can you explain why you have discussed the results of Mr. Wheelwright's exhibit, Mr. Peterson's reference and your exhibit without claiming confidentiality?

A. Yes. The details of transactions underlying the summary annual numbers reflected in Exhibit RMP___(SAB-Phase II-2-1R) are confidential and proprietary. Disclosure of this information, especially on a current basis, would impact the Company's ability to negotiate fair trades in the natural gas and electricity commodity markets. However, summary data, particularly data for past years, cannot be used in the same way to the Company's disadvantage and is, therefore, not confidential.

Q. In Mr. Peterson's footnote 7, he states that the Company has asserted that its hedging activities are only done to reduce volatility and not to make money from bets on future prices. Is this correct?

A. Yes. Mr. Peterson's statement is correct. The Company does not speculate in the natural gas and electricity commodity markets. It hedges to reduce exposure to market price volatility. In the case of natural gas and electricity short positions, the exposure is to increasing prices. In the case of electricity long positions, the exposure is to decreasing prices.

Q. In footnote 7, Mr. Peterson also refers to counterparties in hedging transactions and hypothesizes that they engage in hedging transactions to make money. How do you respond?

A. When the Company enters into a hedging transaction, it has no knowledge of the

motive of the counterparty. There are different types and motives of counterparties in hedging transactions. Some of them are speculators and would have the motives suggested by Mr. Peterson. However, others are simply parties that have short or long positions in natural gas or electricity that need to be hedged. These parties are more like the Company in their purpose in engaging in hedging transactions and would not necessarily be motivated by profit considerations in engaging in the transactions. Because no party knows whether prices will rise or fall, no party can be assured of making a profit when transacting in the electricity or gas commodities markets.

Q. What do you conclude from the foregoing regarding the expected results of the Company's hedging program?

A. On balance and over a sufficient period of time, the Company would expect to come out about even on its hedging program. The purpose of the hedging program is not to make a profit; it is to reduce the risk to the Company and its customers arising from the volatility of market prices.

Effectiveness of the Company's Hedging Program

Q. Does the fact that the Company's hedging program resulted in a net gain of $304.8 million from January 2006 through May of 2010 indicate that the program was effective?

A. No. Likewise, had the program resulted in a net cost of $173 million as erroneously indicated by Mr. Peterson, that also would not have been a measure of its effectiveness. The effectiveness of the program depends upon whether the program reduced the risk of market price volatility. As represented in the May 18,

2009 technical conference Company presentation and as discussed by Mr. Duvall in his rebuttal testimony in this phase, the Company's hedging program clearly achieves that goal. That is why it is an effective program.

Q. How has hedging benefitted customers in the current Utah regulatory structure with periodic general rate cases including net power cost forecasts in a future test period?

A. Hedging protects customers from the risk that NPC in rates could be significantly higher if prices moved unfavorably since the last rate case. To get this protection, customers must give up potential lower NPC that could have resulted if prices moved favorably since the last rate case. Mr. Duvall's rebuttal testimony demonstrates how NPC established in the last general rate case would have been more volatile had it not been for the Company's hedging program. Hedging mitigates the arbitrary nature of setting rates based on forward market prices at a given point in time. Without hedges, customer rates are at the whim of forward market prices in a test period that can change dramatically over the course of just a few weeks or months. Mr. Duvall's rebuttal testimony demonstrates that without hedging NPC might have been $120 million higher in the last general rate case based solely on volatility in electricity and natural gas market prices.

Q. How does the Company benefit from hedging in the current Utah regulatory structure and why is hedging insufficient to mitigate all NPC exposure?

A. As summarized in Mr. Duvall's rebuttal testimony, the Company's hedging program results in reducing the upward volatility of NPC (i.e.., from $120 million to $10 million in the last general rate case) at the time the Company files a rate

case. Thus the remaining exposure to prices is reduced to volumetric uncertainty and volatility associated with forecast loads, resources and dispatch economics that change coincident with volatile prices. This remaining exposure is uncontrollable and unpredictable and is the fundamental reason for the proposed ECAM.

Q. How do customers benefit from hedging in the proposed ECAM regulatory structure?

A. Customers will continue to benefit from the same hedging program that has benefitted customers in the current regulatory paradigm. There is no proposed or anticipated change to the hedge program. The ECAM solely deals with truing up actual costs with modeled forecast costs. Customers will be further protected by two prudence reviews: the first identical to the current approach associated with a modeled forecast test period in a rate case and the second associated with a look back at prudence of actual costs incurred during the ECAM period.

Q. How will the Company benefit from hedging in the proposed ECAM regulatory structure?

A. As discussed in the Company's testimony in Phase I of this case and Dr. McDermott's rebuttal testimony in this Phase, under the proposed ECAM, the Company will receive recovery for prudently incurred costs, no more and no less. It will have an opportunity to achieve its authorized return on equity, as opposed to being rewarded for arbitrary favorable movements in volatile, uncontrollable, unpredictable factors or being penalized for arbitrary unfavorable movements in the same factors despite operating prudently. In the proposed ECAM, the

Company has no ability to earn a profit from changes in NPC and at best may only recover all of its prudently incurred costs following a prudence review.

Q. What would be the result of a reduction in the Company's current level of hedging?

A. Since the Company's hedging program results in substantial hedging of NPC for a forecast test period, any reduction to the Company's level of hedging would increase the level of volatility of NPC for customers caused by increased exposure to market price volatility

Perverse Incentives

Q. Do you agree with Mr. Peterson that it is necessary to include all of the components of NPC, including natural gas fuel costs, natural gas hedging costs and market purchases, in an ECAM to avoid perverse incentives?

A. Yes. However, Mr. Peterson's proposed incentive to reduce front office transactions ("FOTs") would create perverse incentives.

Q. Please explain why including Mr. Peterson's proposed incentives to reduce FOTs through progressively favorable sharing bands would result in perverse incentives that would harm customers.

A. Under Mr. Peterson's proposed progressive incentive structure, the Company would have a perverse incentive to acquire resources to reduce FOTs regardless of whether the acquisition of those resources was the most economic alternative for customers.[1] The double prudence review provides the Company with the greatest

[1] See Greg Duvall's Highly Confidential Rebuttal Testimony in Phase II, Part 1 of this docket, page 3 lines 55 – 68, filed July 20, 2010, which addresses the customer savings associated with the Company's decision in February 2009 to terminate the Lake Side II resource selected in the last RFP and to rely on FOTs instead.

incentive to reduce NPC for customers. In the extreme potential event where loads exceeded the forecast used to set rates, generation and transmission forced outages exceeded normalized outages in rates, and power prices escalated materially above forecast prices in rates and the Company's hedged positions, the Company would expect scrutiny on whether it managed the event prudently.

Q. Please explain why Mr. Gimble's proposal that natural gas fuel costs, natural gas hedging costs and market purchases be excluded from the ECAM would result in perverse incentives that would harm customers.

A. Mr. Gimble's proposal includes all wholesale revenues in the ECAM, while at the same time excludes certain variables that are linked to the Company's ability to make wholesale sales. Mr. Gimble's proposal results in forcing increased NPC due to the perverse incentive for the Company to forego opportunities to run its natural gas generation resources more or make wholesale purchases at levels above the forecast used to establish rates even when it is economical to do so and would reduce NPC. Under Mr. Gimble's proposal, the Company would incur the incremental cost of natural gas purchases, wholesale purchased power or both and receive no offsetting wholesale sales revenues, while customers would bear no incremental costs but receive all of the benefit of the incremental wholesale revenues.

Q. Please explain why excluding REC revenues from the ECAM, as proposed by Mr. Peterson, Mr. Gimble, Mr. Higgins and Ms. Kelly would result in perverse incentives that would harm customers.

A. RECs and energy are generated from the same resources that comprise NPC.

Consistent with the fundamental justification for recovering NPC through an ECAM, REC revenues are volatile, unpredictable and largely outside the control of the Company. Consistent with the energy component of renewable energy production, the volumetric aspect of REC production is primarily dependent upon highly volatile, unpredictable and uncontrollable wind. Similar to elements of NPC, the price aspect of REC revenues is volatile, unpredictable and largely out of the company's control. Therefore, it is logical to include REC revenues in an ECAM. Including REC revenues in an ECAM with a double prudence review as proposed by the Company provides the best assurance that customers will realize the actual value of RECs.

Q. Does this conclude your testimony?

A. Yes.