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**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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<b>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</b>	<b>Docket No. 09-035-23</b>
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**PREFILED DIRECT TESTIMONY OF NEAL TOWNSEND**

**[RATE DESIGN]**

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The UAE Intervention Group (UAE) hereby submits the Prefiled Direct Testimony of Neal Townsend on rate design issues.

DATED this 22<sup>nd</sup> day of February, 2010.

/s/ \_\_\_\_\_  
Gary A. Dodge,  
Attorneys for UAE

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email  
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/s/ \_\_\_\_\_

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF UTAH**

**Direct Testimony of Neal Townsend**

**on behalf of**

**UAE**

**[Rate Design]**

**February 22, 2010**

**DIRECT TESTIMONY OF NEAL TOWNSEND**

**Introduction**

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

A. My name is Neal Townsend. My business address is 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

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

A. I am a Senior Consultant in the firm of Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

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

A. My testimony is being sponsored by the UAE Intervention Group (“UAE”).

**Q. Please describe your educational background.**

A. I received an MBA from the University of New Mexico in 1996. I also earned a B.S. degree in Mechanical Engineering from the University of Texas at Austin in 1984.

**Q. Please describe your professional experience and background.**

A. I have provided regulatory and technical support on a variety of energy projects at Energy Strategies since I joined the firm in 2001. Prior to my employment at Energy Strategies, I was employed by the Utah Division of Public Utilities as a Rate Analyst from 1998 to 2001. I have also worked in the aerospace and oil and natural gas industries.

1 **Q. Have you previously testified before this Commission?**

2 A. Yes, I have testified in several utility regulatory proceedings before the  
3 Utah Public Service Commission.

4 **Q. Have you testified before utility regulatory commissions in other states?**

5 A. Yes. I have testified before the Michigan Public Service Commission. A  
6 more detailed description of my qualifications is contained in Attachment A,  
7 attached to this testimony.

8

9 **Overview and Conclusions**

10 **Q. What is the purpose of your testimony in this phase of the proceeding?**

11 A. My testimony addresses: (1) RMP's proposed rate design for Rate  
12 Schedules 8 and 9; and (2) RMP's proposed rate design for Rate Schedule 6.

13 **Q. What conclusions and recommendations do you offer based on your  
14 analysis?**

15 A. I offer the following conclusions and recommendations:

16 (1) RMP's proposed rate design for Schedule 8 and 9 is generally  
17 reasonable; however, within each respective rate schedule, the time-of-use energy  
18 charges for each time period should be increased by the same percentage, rather  
19 than increasing the on-peak periods by a lower percentage than the off-peak  
20 periods, as would occur under RMP's proposal.

21 (2) RMP's proposed rate design for Schedule 6 reasonably aligns demand-  
22 related and energy-related charges with costs. In proportionately scaling these

1 charges down to reflect the Commission’s ordered revenue requirement, this same  
2 relationship should be retained.  
3

4 **Rate Design - Schedules 8 and 9**

5 **Q. Do you have any comments on RMP’s proposed rate design for Schedules 8  
6 and 9?**

7 A. Yes. The energy charges for both Schedules 8 and 9 are recovered on a  
8 time-of-use (“TOU”) basis. In its filed case, RMP’s proposed increase to the  
9 energy charges for both of these rate schedules retained the same absolute  
10 differential between on-peak and off-peak prices as in current rates.  
11 Mathematically, this means that on-peak rates would experience a smaller  
12 percentage increase than off-peak rates, as shown in Table TNT-1, below.  
13

14 **Table TNT-1**

15 **RMP’s Proposed Percentage Increase in Schedule 8 & 9 TOU Energy Rates**  
16 **(at RMP’s Proposed Revenue Requirement in its Rebuttal Filing)**

17

	Current	Proposed	Percent
<u>Schedule 8</u>	<u>Rate</u>	<u>Rate</u>	<u>Change</u>
19 Summer On-Peak (¢/kWh)	3.9189	4.0283	2.79%
20 Non-Summer On-Peak (¢/kWh)	3.0677	3.1771	3.57%
21 Summer/Non-Summer Off-Peak (¢/kWh)	2.6426	2.7520	4.14%

22  
23

	Current	Proposed	Percent
<u>Schedule 9</u>	<u>Rate</u>	<u>Rate</u>	<u>Change</u>
24 Summer On-Peak (¢/kWh)	3.4643	3.5821	3.40%
25 Non-Summer On-Peak (¢/kWh)	2.6049	2.7227	4.52%
26 Summer/Non-Summer Off-Peak (¢/kWh)	2.1760	2.2938	5.41%

27  
28  
29

1 **Q. What is your assessment of RMP’s proposal for applying any rate increase to**  
 2 **the TOU energy charges for Schedules 8 and 9?**

3 A. I disagree with assigning smaller percentage increases to the on-peak  
 4 prices relative to the off-peak prices. This sends the wrong price signal by not  
 5 giving proper weight to the on-peak increase. Instead, I recommend that the same  
 6 percentage increase be applied to the on-peak and off-peak energy charges. For  
 7 comparison purposes, this approach is illustrated in Table TNT-2, below, using  
 8 RMP’s proposed energy revenue requirement for Schedules 8 and 9 found in the  
 9 Company’s rebuttal filing. The illustrative charges in Table TNT-2 are derived in  
 10 UAE Exhibit RD 1.1 (TNT-1).

11 **Table TNT-2**

12 **UAE- Proposed Percentage Increase**  
 13 **in Schedule 8 & 9 TOU Energy Rates**  
 14 (at RMP’s Proposed Revenue Requirement in its Supplemental Filing)

	Current	Proposed	Percent
<u>Schedule 8</u>	<u>Rate</u>	<u>Rate</u>	<u>Change</u>
Summer On-Peak (¢/kWh)	3.9189	4.0657	3.75%
Non-Summer On-Peak (¢/kWh)	3.0677	3.1826	3.75%
Summer/Non-Summer Off-Peak (¢/kWh)	2.6426	2.7415	3.74% <sup>1</sup>

	Current	Proposed	Percent
<u>Schedule 9</u>	<u>Rate</u>	<u>Rate</u>	<u>Change</u>
Summer On-Peak (¢/kWh)	3.4643	3.6323	4.85%
Non-Summer On-Peak (¢/kWh)	2.6049	2.7312	4.85%
Summer/Non-Summer Off-Peak (¢/kWh)	2.1760	2.2815	4.85%

27  
 1 <sup>1</sup> The slight difference in off-peak percentage increase is caused by rounding to achieve the target schedule revenue.



1 **Q. The Commission issued its Phase I revenue requirement, cost-of-service, and**  
 2 **rate spread order on February 18, 2010. Have you prepared a recommended**  
 3 **rate design for Schedules 8 and 9 at the Commission’s ordered revenue**  
 4 **spread?**

5 A. Yes. My recommended rates are derived in UAE Exhibit RD 1.2 (TNT-  
 6 2). In these proposed rates, I have maintained the customer charge as proposed by  
 7 RMP in its rebuttal testimony. The remaining charges are increased by  
 8 approximately the same percentage to achieve the ordered revenue for each  
 9 schedule. Table TNT-3 summarizes my recommended time-of-use energy  
 10 charges.

**Table TNT-3**

**UAEs Proposed Percentage Increase  
 in Schedule 8 & 9 TOU Energy Rates  
 (at the PSC’s Ordered Revenue Requirement)**

	Current	Proposed	Percent
<u>Schedule 8</u>	<u>Rate</u>	<u>Rate</u>	<u>Change</u>
Summer On-Peak (¢/kWh)	3.9189	4.0021	2.12%
Non-Summer On-Peak (¢/kWh)	3.0677	3.1328	2.12%
Summer/Non-Summer Off-Peak (¢/kWh)	2.6426	2.6986	2.12%

	Current	Proposed	Percent
<u>Schedule 9</u>	<u>Rate</u>	<u>Rate</u>	<u>Change</u>
Summer On-Peak (¢/kWh)	3.4643	3.5854	3.50% <sup>2</sup>
Non-Summer On-Peak (¢/kWh)	2.6049	2.6959	3.49%
Summer/Non-Summer Off-Peak (¢/kWh)	2.1760	2.2520	3.49%

<sup>2</sup> The slight difference in the summer on-peak percentage increase is caused by rounding to achieve the target schedule revenue.

1 **Rate Design – Schedule 6**

2 **Q. Do you have any comments on RMP's proposed rate design for Schedule 6?**

3 A. Yes. As shown in UAE Exhibit RD 1.3 (TNT-3), I have examined the  
4 relationship between RMP's proposed demand charge and the demand-related  
5 costs caused by Schedule 6, as well as the relationship between RMP's proposed  
6 energy charge and the energy-related costs that are allocated to this rate schedule.  
7 I have concluded that, at RMP's proposed revenue requirement, the Company's  
8 proposed Schedule 6 demand charge lines up well with the demand-related costs  
9 caused by the customers on this rate schedule; similarly, the Company's proposed  
10 Schedule 6 energy charge, while slightly over-weighted, lines up well with  
11 Schedule 6 energy costs. Therefore, I am supportive of RMP's proposed rate  
12 design for Schedule 6 at the Company's proposed revenue requirement. As the  
13 Company's proposed revenue requirement has been reduced by the Commission,  
14 the Company's proposed demand and energy charges should be scaled back  
15 proportionately to reflect the approved Schedule 6 revenue requirement. This  
16 would retain the proper alignment of charges with cost classification in the final  
17 rate design.

18 **Q. Does this conclude your direct testimony?**

19 A. Yes, it does.

# ATTACHMENT A

## Resume

**Neal Townsend**  
**Energy Strategies, LLC**  
**215 S. State Street, Suite 200**  
**Salt Lake City, Utah 84111**

### **Work Experience:**

Senior Consultant, Energy Strategies (2001 – Present)

Rate Analyst, Utah Division of Public Utilities (1997 – 2001)

### Other

Systems Engineer, Morton Thiokol, Inc.

Assistant Engineer, Schafer Engineering

Graduate/Research Assistant, University of New Mexico

### **Education:**

University of New Mexico, Masters of Business Administration, 1996

University of Texas, Austin, B.S., Mechanical Engineering, 1984

### **Regulatory Testimony:**

#### State of Utah

<u>Docket #</u>	<u>Title</u>	<u>Activity</u>
09-035-T08	In the Matter of Rocky Mountain Power Advice No. 09-08, seeking an Adjustment to the DSM Tariff Rider, Schedule 193	Support of Stipulation
04-035-42	In the Matter of the Application of PacifiCorp For Approval of its Proposed Electric Rate Schedules and Electric Service Regulations	Derivation of Prudence Disallowance

## ATTACHMENT A

03-035-14	In the Matter of the Application of PacifiCorp For Approval of an IRP Based Avoided Cost Methodology For QF Projects Larger than 1 MW	Derivation of Methodology for Establishing QF Avoided Cost Pricing
99-057-20	In the Matter of the Application of Questar Gas Company for an Increase In Rates and Charges	Revenue Requirement and Class Cost of Service Modeling, Proposed CO <sub>2</sub> Plant Disallowance Mechanism
99-035-10	In the Matter of the Application of PacifiCorp For Approval of its Proposed Electric Rate Schedules and Electric Service Regulations	Interjurisdictional Cost Allocation and Class Cost of Service Modeling
98-057-12	In the Matter of the Application of Questar Gas Company for Approval of a Natural Gas Processing Agreement	Assessment of Application, Revenue Requirement Modeling

### State of Michigan

U-15645	In the Matter of the Application of Consumers Energy Company for Authority to Increase Its Rate for the Generation and Distribution of Electricity and Other Relief	Rate Spread, Class Cost of Service
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**UAE's Illustrative Schedule 8 and 9 Rate Design at RMP's Rebuttal Revenue Requirement**

Test Period Forecasted Loads, RMP Rebuttal Target Annual Revenues, UAE Proposed Prices  
Each Energy Rate Element Increased by an Equal Percentage

**Schedule 8 Blocking  
Large General Service - Distribution Voltage**

<b>Schedule 8 - Composite</b>							
Rate Component	Forecasted Units 6/30/10	Current		Proposed		Percent Change	
		Prices	Revenues	Prices	Revenues		
Customer Charge	3,283	\$27.00	\$88,641	\$55.00	\$180,565	103.70%	
Facilities Charge	4,527,748	\$3.69	\$16,707,390	\$3.83	\$17,341,275	3.79%	
On-Peak kW: May-Sep	1,922,144	\$12.07	\$23,200,278	\$12.53	\$24,084,464	3.81%	
On-Peak kW: Oct-April	2,508,971	\$8.70	\$21,828,048	\$9.03	\$22,656,008	3.79%	
Voltage Discount	1,716,399	(\$0.88)	(\$1,510,431)	(\$0.91)	(\$1,561,923)	3.41%	
On-Peak kWh: May-Sep	240,701,778	\$0.039189	\$9,432,862	\$0.040657	\$9,786,212	3.75%	
On-Peak kWh: Oct-April	559,914,390	\$0.030677	\$17,176,494	\$0.031826	\$17,819,835	3.75%	
Off-Peak kWh: May-Sep	626,280,454	\$0.026426	\$16,550,087	\$0.027415	\$17,169,479	3.74%	
Off-Peak kWh: Oct-Apr	524,365,111	\$0.026426	\$13,856,872	\$0.027415	\$14,375,470	3.74%	
<b>Sub-Total</b>	<b>1,951,261,732</b>		<b>\$117,330,241</b>		<b>\$121,851,385</b>	<b>3.85%</b>	
<b>Adjustment</b>		<b>0.00%</b>	<b>\$0</b>	<b>0.00%</b>	<b>\$0</b>	<b>0.00%</b>	
<b>Total</b>			<b>\$117,330,241</b>		<b>\$121,851,385</b>	<b>3.85%</b>	
<b>DSM Adjustment</b>		<b>4.60%</b>	<b>\$5,393,114</b>	<b>4.60%</b>	<b>\$5,596,858</b>	<b>3.78%</b>	
<b>Total with DSM Adjustment</b>			<b>\$122,723,355</b>		<b>\$127,448,243</b>	<b>3.85%</b>	

**Schedule 9 Blocking  
General Service - High Voltage**

<b>Schedule 9 - Composite</b>							
Rate Component	Forecasted Units 6/30/10	Current		Proposed		Percent Change	
		Prices	Revenues	Prices	Revenues		
Customer Charge	1,793	\$183.00	\$328,119	\$200.00	\$358,600	9.29%	
Facilities Charge	6,760,603	\$1.65	\$11,154,995	\$1.73	\$11,695,843	4.85%	
On-Peak kW: May-Sep	2,825,640	\$10.40	\$29,386,656	\$10.90	\$30,799,476	4.81%	
On-Peak kW: Oct-April	3,843,734	\$7.05	\$27,098,325	\$7.39	\$28,405,194	4.82%	
On-Peak kWh: May-Sep	384,941,621	\$0.034643	\$13,335,533	\$0.036323	\$13,982,234	4.85%	
On-Peak kWh: Oct-April	1,013,941,762	\$0.026049	\$26,412,169	\$0.027312	\$27,692,777	4.85%	
Off-Peak kWh: May-Sep	1,173,186,109	\$0.021760	\$25,528,530	\$0.022815	\$26,766,241	4.85%	
Off-Peak kWh: Oct-Apr	1,105,678,360	\$0.021760	\$24,059,561	\$0.022815	\$25,226,052	4.85%	
<b>Total</b>	<b>3,677,747,852</b>		<b>\$157,303,888</b>		<b>\$164,926,417</b>	<b>4.85%</b>	
<b>Adjustment</b>		<b>0.00%</b>	<b>\$0</b>	<b>0.00%</b>	<b>\$0</b>	<b>0.00%</b>	
<b>Total</b>			<b>\$157,303,888</b>		<b>\$164,926,417</b>	<b>4.85%</b>	
<b>DSM Adjustment</b>		<b>4.61%</b>	<b>\$7,236,583</b>	<b>4.61%</b>	<b>\$7,586,576</b>	<b>4.84%</b>	
<b>Total with DSM Adjustment</b>			<b>\$164,540,471</b>		<b>\$172,512,993</b>	<b>4.85%</b>	

## UAE's Recommended Schedule 8 and 9 Rate Design at Utah PSC's Ordered Revenue Requirement

Test Period Forecasted Loads, PSC Ordered Annual Revenues, UAE Proposed Prices  
 Each Energy Rate Element Increased by an Equal Percentage

### Schedule 8 Blocking Large General Service - Distribution Voltage

Schedule 8 - Composite							
Rate Component	Forecasted Units 6/30/10	Current		Proposed		Percent Change	
		Prices	Revenues	Prices	Revenues		
Customer Charge	3,283	\$27.00	\$88,641	\$55.00	\$180,565	103.70%	
Facilities Charge	4,527,748	\$3.69	\$16,707,390	\$3.77	\$17,069,610	2.17%	
On-Peak kW: May-Sep	1,922,144	\$12.07	\$23,200,278	\$12.33	\$23,700,036	2.15%	
On-Peak kW: Oct-April	2,508,971	\$8.70	\$21,828,048	\$8.88	\$22,279,662	2.07%	
Voltage Discount	1,716,399	(\$0.88)	(\$1,510,431)	(\$0.90)	(\$1,544,759)	2.27%	
On-Peak kWh: May-Sep	240,701,778	\$0.039189	\$9,432,862	\$0.040021	\$9,633,126	2.12%	
On-Peak kWh: Oct-April	559,914,390	\$0.030677	\$17,176,494	\$0.031328	\$17,540,998	2.12%	
Off-Peak kWh: May-Sep	626,280,454	\$0.026426	\$16,550,087	\$0.026986	\$16,900,804	2.12%	
Off-Peak kWh: Oct-Apr	524,365,111	\$0.026426	\$13,856,872	\$0.026986	\$14,150,517	2.12%	
<b>Sub-Total</b>	1,951,261,732		\$117,330,241		\$119,910,559	2.20%	
<b>Adjustment</b>		0.00%	\$0	0.00%	\$0	0.00%	
<b>Total</b>			<u>\$117,330,241</u>		<u>\$119,910,559</u>	<u>2.20%</u>	
<b>DSM Adjustment</b>		4.60%	\$5,393,114	4.60%	\$5,507,580	2.12%	
<b>Total with DSM Adjustment</b>			<u>\$122,723,355</u>		<u>\$125,418,139</u>	<u>2.20%</u>	

### Schedule 9 Blocking General Service - High Voltage

Schedule 9 - Composite							
Rate Component	Forecasted Units 6/30/10	Current		Proposed		Percent Change	
		Prices	Revenues	Prices	Revenues		
Customer Charge	1,793	\$183.00	\$328,119	\$200.00	\$358,600	9.29%	
Facilities Charge	6,760,603	\$1.65	\$11,154,995	\$1.71	\$11,560,631	3.64%	
On-Peak kW: May-Sep	2,825,640	\$10.40	\$29,386,656	\$10.76	\$30,403,886	3.46%	
On-Peak kW: Oct-April	3,843,734	\$7.05	\$27,098,325	\$7.30	\$28,059,258	3.55%	
On-Peak kWh: May-Sep	384,941,621	\$0.034643	\$13,335,533	\$0.035854	\$13,801,697	3.50%	
On-Peak kWh: Oct-April	1,013,941,762	\$0.026049	\$26,412,169	\$0.026959	\$27,334,856	3.49%	
Off-Peak kWh: May-Sep	1,173,186,109	\$0.021760	\$25,528,530	\$0.022520	\$26,420,151	3.49%	
Off-Peak kWh: Oct-Apr	1,105,678,360	\$0.021760	\$24,059,561	\$0.022520	\$24,899,877	3.49%	
<b>Total</b>	3,677,747,852		\$157,303,888		\$162,838,956	3.52%	
<b>Adjustment</b>		0.00%	\$0	0.00%	\$0	0.00%	
<b>Total</b>			<u>\$157,303,888</u>		<u>\$162,838,956</u>	<u>3.52%</u>	
<b>DSM Adjustment</b>		4.61%	\$7,236,583	4.61%	\$7,490,344	3.51%	
<b>Total with DSM Adjustment</b>			<u>\$164,540,471</u>		<u>\$170,329,300</u>	<u>3.52%</u>	

## Comparison of RMP's Schedule 6 Cost-of-Service Results and RMP's Proposed Revenues by Cost Classification

(At RMP's Requested Rebuttal Revenue Increase)

<b>Customer-Related Costs:</b>	<b>COS<sup>1</sup></b>	<b>Customer-Related Revenues:</b>	<b>Rate Design Amounts<sup>2</sup></b>
Distribution-Meter	\$ 1,966,139	Schedule 6 - Customer Charge	\$ 7,202,880
Distribution-Service	3,076,377	Schedule 6B - Customer Charge	15,660
<b>Total</b>	<b>\$ 5,042,517</b>	Schedule 6A - Customer Charge	1,131,345
		<b>Total</b>	<b>\$ 8,349,885</b>
 Average Customers <sup>2</sup>	 15,463	 Average Customers <sup>2</sup>	 15,463
 <b>\$ Charge/Month</b>	 <b>\$ 27.18</b>		 <b>\$ 45.00</b>
 <b>Energy-Related Costs:</b>		 <b>Energy-Related Revenues:</b>	
Generation-Energy	\$ 169,761,519	Schedule 6 - Demand-Related	\$ 172,676,414
Transmission-Energy	6,710,701	Schedule 6B - Demand-Related	199,885
<b>Total</b>	<b>\$ 176,472,220</b>	Schedule 6A - Demand-Related	14,803,596
		<b>Total</b>	<b>\$ 187,679,895</b>
 Annual kWh <sup>2</sup>	 5,821,309,801	 Annual kWh <sup>2</sup>	 5,821,309,801
 <b>\$ Charge/kWh</b>	 <b>0.030315</b>		 <b>0.032240</b>
 <b>Demand-Related Costs:</b>		 <b>Demand-Related Revenues:</b>	
Generation-Demand	\$ 111,893,151	Schedule 6 - Energy-Related	\$ 218,886,338
Transmission-Demand	28,236,703	Schedule 6B - Energy-Related	303,582
Distribution-Substation	20,537,686	Schedule 6A - Energy-Related	8,377,979
Distribution- P & C	56,846,879	<b>Total</b>	<b>\$ 227,567,899</b>
Distribution-Transformer	11,601,337		
<b>Total</b>	<b>\$ 229,115,756</b>		
 Billing kW <sup>2</sup>	 17,642,580	 Billing kW <sup>2</sup>	 17,642,580
 <b>\$ Charge/kW</b>	 <b>\$ 12.99</b>		 <b>\$ 12.90</b>
 Total Customer, Energy, Demand	\$ 410,630,493		
Retail-Total	745,130		
Misc - Total	1,537,137		
 <b>Total Revenue Requirement</b>	 <b>\$ 412,912,760</b>		 <b>\$ 423,597,679</b>

1. Source: RMP COS UT Jun 2010 (MSP)\_Rebuttal.xls

2. Source: Rebuttal Exhibit RMP\_(WRG-4R).xlsx.