BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for The Determination of Rates and Conditions for Back-up and Supplemental Service to Kennecott Utah Copper Corporation	**DOCKET NO. 09-035-__**

DIRECT TESTIMONY OF PAUL H. CLEMENTS

August 11, 2009

Q. Please state your name, business address and position with PacifiCorp dba Rocky Mountain Power (the Company).

A. My name is Paul H. Clements. My business address is 201 S. Main, Suite 2300, Salt Lake City, Utah 84111. My present position is Originator/Power Marketer for PacifiCorp Energy. PacifiCorp Energy and Rocky Mountain Power are divisions of PacifiCorp (the Company).

QUALIFICATIONS

Q. Please briefly describe your education and business experience.

A. I have a B.S. in Business Management from Brigham Young University. I have been employed with PacifiCorp for five years as an originator/power marketer responsible for negotiating qualifying facility contracts, negotiating interruptible retail special contracts, negotiating renewable energy contracts, and managing wholesale energy and capacity contracts with other utilities and power marketers. I also worked in the merchant energy sector for 10 years in pricing and structuring, origination, and trading roles for Duke Energy and Illinova.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. I will be presenting information in support of the one year electric service agreement ("ESA") between Rocky Mountain Power and Kennecott Utah Copper LLC dated August 5, 2009 for which the Company seeks approval in this docket. I will first provide a brief overview of the contract structure and terms. I will then provide some background on why the parties executed a one year contract.

Finally, I will provide a more detailed explanation of the key terms and conditions of the new agreement.

CONTRACT OVERVIEW

Q. Please provide a brief overview of the contract structure and terms.

A. The parties executed, subject to Commission approval, a one year electric service agreement for calendar year 2010. The intent of the parties was to execute a new one year ESA with terms and conditions as if the existing agreement were extended an additional year. Therefore, the ESA is very similar in structure and in terms to the existing agreement. The retail rates in the new agreement were modified to reflect the rates Kennecott would be subject to if the existing agreement had been extended an additional year and the rate adjustment mechanism in that agreement had been applied to the additional year. The rates in the new agreement are referent to Schedule 31 and Schedule 9 rates and represent a 3.17% increase to Kennecott's calendar year 2009 rates. The other material contract terms and conditions remain unchanged from the existing agreement. The only significant modification is the inclusion of new contract language addressing the following three items: 1) a potential energy cost adjustment mechanism, 2) potential demand side management related costs, and 3) costs attributable to potential future greenhouse gas laws and regulations. The parties also intend to execute and file at the Commission in a separate proceeding a new one year qualifying facility power purchase agreement.

BACKGROUND ON CONTRACT TERM ISSUE

Q. Kennecott and the Company have typically executed longer term agreements, with the last agreement being five years in length. Why have the parties executed only a one year ESA?

A. Two significant issues led to the parties agreeing to a one year agreement as opposed to a longer term contract at this time. Kennecott owns and operates a power plant which operates from March through October each year. The output of the plant is used to offset Kennecott's own electrical usage. There is some uncertainty in what the future fuel costs of the Kennecott plant will be. In addition to fuel cost uncertainty, the proposed federal legislation on greenhouse gases also raises uncertainty around the cost of operating coal units in the future. Due to these uncertainties, among others, the parties agreed it would not be prudent to enter into a longer term ESA.

DETAILED EXPLANATION OF KEY CONTRACT TERMS

Q. What are the significant contract terms that you will be summarizing in this section of your testimony?

A. I will summarize the following significant contract terms: contract rates, rate adjustment mechanism, curtailment provisions, energy cost adjustment mechanism language, demand side management costs language, and greenhouse gas costs language.

Q. How were the contract rates in the proposed 2010 ESA determined?

A. The parties agreed to execute a new ESA that reflected the terms and conditions that would exist had the existing agreement been extended an additional year. Due to the uncertainties described earlier in my testimony, the parties agreed it would be prudent and practical to extend the terms and conditions of the existing agreement an additional year to allow the parties to obtain greater certainty regarding the most ideal contract structure and terms in the years beyond 2010 prior to executing a longer term agreement. Therefore, the contract rates in the proposed ESA were calculated utilizing the rate adjustment mechanism in the existing agreement as if the existing agreement were extended an additional year.

Q. How does the rate adjustment mechanism in the existing agreement work?

A. The rate adjustment mechanism in the existing Kennecott ESA calls for a calculation of new rates at the end of each calendar year with the new rates becoming effective on January 1st of the next calendar year. The various components of the contract rates are adjusted by taking the average value of the applicable monthly Schedule 9 and Schedule 31 charges for the period from July 1 of the previous year to June 30 of the current year and comparing them to the average value of the same components for the prior 12 month period. The rates are then increased on January 1st by the difference in the averages for the two time periods.

Q. Where can the specific contract rates for the proposed ESA be found?

A. The specific contract rates are included in Exhibit 1 of the ESA.

Q. Can you provide the calculation that was performed to determine the proposed ESA rates?

A. Yes. A detailed calculation of the proposed ESA rates is included as Exhibit 1 to my testimony. The calculation utilizes the rate adjustment mechanism I described earlier in my testimony. The 2010 rates are, on average, 3.17% higher than the 2009 rates.

Q. What curtailment provisions are included in the proposed ESA?

A. Section 6.1.3 of the proposed ESA contains provisions that allow the Company to curtail Kennecott if necessary to maintain service to other firm Utah customers receiving firm service from the Company. Such a curtailment can be called for at the Company's discretion pursuant to prudent electrical practice. Section 5 also allows for the parties to agree to additional curtailment terms and conditions that are mutually acceptable to the parties at any time during the term of the agreement.

Q. How do the curtailment provisions benefit the Company and other customers?

A. The curtailment provisions allow the Company to curtail Kennecott's load first during a time of system emergency. Since Kennecott is a large load, averaging approximately 175 megawatts while on the system four months of the year, the Company may, while Kennecott is on the system, be able to avoid curtailing other firm customers in the event of a system emergency since it will be able to curtail Kennecott first. Furthermore, the parties can agree to additional curtailment scenarios as needed to provide additional operational benefit and flexibility to the Company during the term of the agreement.

Q. Please describe the new contract language addressing an energy cost adjustment mechanism.

A. In response to the recent Company filing regarding an energy cost adjustment mechanism ("ECAM"), the parties agreed to include language in the proposed ESA that addresses how a potential ECAM will apply to Kennecott. The language states, in summary, that Kennecott will pay its portion of any Commission determined ECAM surcharges. The language further acknowledges that customers, including Kennecott, should be treated fairly based on their usage and cost-causing characteristics.

Q. Please describe the new contract language addressing demand side management costs.

A. The parties agreed to include in the ESA language that states, in summary, that Kennecott will be subject to demand side management surcharges if so ordered by the Commission.

Q. Please describe the new contract language addressing potential future greenhouse gas related costs.

A. In response to potential future greenhouse gas related legislation or costs, the parties agreed to include language that states, in summary, that Kennecott will agree to be charged and to pay Kennecott's proportionate share of any and all greenhouse gas costs as ordered by the Commission in any proceeding addressing the matter. While the parties do no expect such costs to be applicable to this one year agreement, the Company intends to include this or similar language in all retail special contracts. However, the ESA acknowledges that this and other provisions are subject to renegotiation in future agreements.

Q. Does this conclude your testimony?

A. Yes.