EXPLANATION OF CERTAIN CONTRACT ISSUES RELATED TO THE MASTER ELECTRIC SERVICE AGREEMENT BETWEEN ROCKY MOUNTAIN POWER AND KENNECOTT UTAH COPPER LLC DATED OCTOBER 18, 2010

Background

On October 18, 2010 the Company filed a petition for approval of a one year Electric Service Agreement ("Agreement") between Rocky Mountain Power and Kennecott Utah Copper LLC ("Kennecott").

Purpose of this Explanatory Memorandum

The Company desires to address in detail the rate adjustment mechanism described in Sections 4.1, 4.8 and 4.10 of the Agreement. The rate adjustment mechanism determines how the rates contained in the Agreement change over the one year term of the Agreement.

Analysis: Kennecott's Unique Load Characteristics

Kennecott owns and operates a 162 MW power plant and two co-generation facilities with nameplates of 31.8 MW and 7.54 MW. Kennecott is also a large consumer of electric power and energy. Kennecott has historically utilized its large generating capabilities to reduce its reliance on Rocky Mountain Power for supply of electric power and energy during the months of March through October. Furthermore, Kennecott's usage pattern is such that it has a flatter load profile than the Utah Schedule No. 9 tariff class load profile, meaning Kennecott uses less on peak as a percentage of the total usage

than the tariff class and more off peak as a percentage of the total usage than the tariff class.

Attachment 1 illustrates the difference for the test period July 2009 through June 2010. In all months in this period, Kennecott's ratio of on peak usage to total usage is lower than the tariff class ratio of on peak usage to total usage, and Kennecott's ratio of off peak usage to total usage is higher than the tariff class ratio of off peak usage to total usage. In addition to the on peak and off peak ratio differences, Attachment 1 illustrates how Kennecott's usage (the amount of electric power and energy it takes from Rocky Mountain Power) is greatly reduced March through October. Kennecott's average monthly usage for the March through October period is 21.4% of the average monthly usage for the November through February period.

In summary, Kennecott uses less energy during the summer months than the winter months, and Kennecott has a flatter load profile than the typical Utah Schedule No. 9 customer.

Analysis: Why A One-Year Rate Adjustment Mechanism is Required

The Company believes Kennecott, like all customers, should be required to pay its fair share of costs incurred by the Company in order to provide service of electric power and energy on its behalf. The initial rates in the Agreement are set to the now current Utah Schedule No. 31 rates (with the exception of the Schedule 193 surcharge, which is addressed in Section 4.6 of the Agreement). Schedule 31 is the Back-Up, Maintenance, and Supplementary Power tariff under which customers with generation behind the meter that is used to offset their own retail load can purchase back-up service in the event their generation is not operating. Under Schedule 31, a customer can elect to have no back up

service in place if it does not intend to run its generation, and the rates for service become identical to the Schedule 9 rates.

While the Schedule 31 and Schedule 9 rates include rate designs that incorporate the different cost characteristics of on peak and off peak usage as well as summer and winter usage, Kennecott desires that this one-year Agreement include assurance that rate changes allocated to Kennecott in 2011 adequately take into account Kennecott's unique load characteristics. In particular, Kennecott desires that energy related charges be allocated in a manner that reflects Kennecott's unique seasonal usage pattern and its flatter-than-tariff-class load profile.

The proposed rate adjustment mechanism in the Agreement is intended to be a short term arrangement, put in place in this one year contract primarily to address the current uncertainty around the Company's ECAM design. The mechanism is not intended to be a long term solution. However, for this one year contract, the parties agreed some adjustment mechanism is reasonable on a short term basis while current Utah regulatory proceedings are resolved.

Analysis: How the Rate Adjustment Mechanism Works

The rate adjustment mechanism in the Agreement is contained in Sections 4.1, 4.8 and 4.10. At a high level, the rates in the Agreement change coincident with any changes to Schedules 9 and 31. There is no lag in the implementation of the changes. The changes to Schedules 9 and 31 are applicable to Kennecott but are subject to the ratios contained in the table in Section 4.10 of the Agreement. The changes for all kW (demand) related billing components are equal to the changes for the applicable kW related billing components for Schedules 9 and 31 because the ratios for "kW" in the table in Section

4.10 are 100%. The changes for all kWh (energy) related billing components are based on the changes for the applicable kWh related billing components for Schedules 9 and 31 but are subject to the ratios found in the "kWh" section of the table in Section 4.10. Below is the table in Section 4.10 of the Agreement:

	KWh		KW
	On-Peak Ratio	Off-Peak Ratio	KW Ratio
January 2011	92.10%	106.86%	100.00%
February	94.68%	104.74%	100.00%
March	84.00%	114.85%	100.00%
April	86.98%	113.20%	100.00%
May	44.04%	139.47%	100.00%
June	51.15%	115.38%	100.00%
July	76.64%	107.45%	100.00%
August	85.56%	104.47%	100.00%
September	78.95%	106.60%	100.00%
October	131.05%	84.66%	100.00%
November	90.11%	109.26%	100.00%
December 2011	97.19%	102.53%	100.00%

The "kWh" ratios in Section 4.10 were developed using the test period data July 2009 through June 2010. The On-Peak Ratio represents Kennecott's on peak usage as a percentage of its total usage in relation to Schedule 9's on-peak usage as a percentage of Schedule 9's total usage. The Off-Peak Ratio represents Kennecott's off-peak usage as a percentage of its total usage in relation to Schedule 9's off-peak usage as a percentage of Schedule 9's total usage. These calculations are found in previously discussed Attachment 1. For any kWh related billing component change to Schedules 9 and 31, the rate change for Kennecott under the Agreement will be the applicable change to Schedules 9 and 31 multiplied by the applicable ratio in the table in Section 4.10. For example, if the January on peak energy (kWh) charge for Schedule 9 increased by $.005 per kWh, Kennecott's rate would increase by $.004605 per kWh ($.005 per kWh x

92.10%). As a second example, if the January off peak energy (kWh) charge for Schedule 9 increased by $.005 per kWh, Kennecott's rate would increase by $.005343 per kWh ($.005 per kWh x 106.86%).

For demand (kW) related billing components, the ratio is 100%, so the changes to charges in Schedules 9 and 31 would be applicable at 100%.

The ratios apply only to the incremental change in rates and not to the base rates. The changes are effective at the same time as the effective dates for Schedules 9 and 31.

Analysis: How the Rate Adjustment Mechanism Impacts Kennecott's Rates

The Company prepared an example of how the rate adjustment mechanism in the Agreement impacts Kennecott's rates. The Company used the example ECAM calculation explained by Company witness William R. Griffith in his rebuttal testimony in Docket No. 09-035-15 as an example of a rate change. Mr. Griffith's rebuttal testimony and the corresponding exhibits are included as Attachment 2. Mr. Griffith's ECAM testimony includes an example that calculates example rate increases for Schedule 9 customers as a result of an ECAM. The Company prepared an analysis that shows how those example Schedule 9 rate increases apply to Kennecott's rates in the Agreement. The analysis also compares the rate increases that would apply to Kennecott in the Agreement to the rate increases that would apply to Kennecott if it were a regular Schedule 9 tariff customer. This analysis is included as Attachment 3. The analysis shows that, using the ECAM example in Mr. Griffith's testimony, the difference between the rate change for Kennecott under the Agreement and the Schedule 9 rate change is .7%, meaning Kennecott's rate change would be .7% higher under the Agreement than under Schedule 9. While this difference is very small based on the test period data and

assumptions, it could change based on the customer's actual usage characteristics or Commission-ordered rate changes.

Conclusion

Kennecott desires that its Agreement include assurance that future rate changes allocated to Kennecott adequately take into account Kennecott's unique load characteristics. Due to uncertainty regarding several rate design issues in 2011, the parties have agreed to a temporary rate adjustment mechanism in the Agreement. As demonstrated in the example described in this memo, the mechanism provides a reasonable method under which Kennecott's rates adjust under the Agreement.