

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the
Voluntary Request of Rocky
Mountain Power for Approval
of Resource Decision to
Acquire Natural Gas Resources.

Docket No. 12-035-102

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HEARING  
(Non-confidential portion)

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TAKEN AT:	Heber M. Wells Building 160 East 300 South, Room 451 Salt Lake City, Utah 84111
DATE:	Monday, April 1, 2013
TIME:	10:00 a.m. to 10:48 a.m.
REPORTED BY:	Michelle Mallonee, RPR

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APPEARANCES

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RON ALLEN, CHAIRMAN

PUBLIC SERVICE COMMISSION OF UTAH

THAD LEVAR, COMMISSIONER

PUBLIC SERVICE COMMISSION OF UTAH

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Hearing (Non-confidential portion)

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April 1, 2013

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PROCEEDINGS

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(10:06 a.m.)

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PRESIDING OFFICER CLARK: All right. We'll be on the record.

7

Good morning. My name is David Clark. Seated with me on the stand today is Chairman Ron Allen, who has asked me to serve as the presiding officer today, and also Commissioner Thad LeVar. And we're here in Docket 12-035-102, In the Matter of the Voluntary Request of Rocky Mountain Power for Approval of Resource Decision to Acquire Natural Gas Resources.

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And we have a couple of preliminary matters to address at the outset. This hearing is being streamed, consistent with the Commission's customary practice. A great deal of the information, or at least key components of the information that has been provided to the Commission, is confidential in nature. And that includes the summary of testimony, or a portion of the summary of the testimony, that Ms. Stacy Kusters is going to offer.

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So our approach today will be to, in accordance with the terms of the stipulation, receive all of the prefiled testimony into the record. And then we will hear from three witnesses: One from the Applicant, one from the Division, one

1 from the Office. Ms. Kusters' summary of testimony, which
2 she'll give orally this morning, includes confidential information.
3 At the point that she comes to that portion of her statement, we
4 will discontinue the streaming. And that portion will last five
5 minutes or less. When it's concluded, we will begin the
6 streaming again. And we anticipate that the remainder of the
7 hearing and all of the hearing, but for that one confidential
8 piece of the summary, will be public today and will be streamed.
9 And if for some reason that becomes unworkable, then we'll
10 address that when the time comes.

11 So let's begin by addressing all of the prefiled
12 testimony. The stipulation before us includes the parties'
13 request that we receive all of the prefiled testimony in evidence.

14 Is there any objection to doing so without it being
15 sponsored by witnesses under oath?

16 MR. SOLANDER: No objection.

17 MR. JENSEN: No objection.

18 MS. SCHMID: No objection.

19 PRESIDING OFFICER CLARK: Then it's received
20 in evidence.

21 (All prefiled testimony was received into evidence.)

22 PRESIDING OFFICER CLARK: Let's have the
23 counsel enter their appearance, then we'll turn to Rocky
24 Mountain Power to begin its presentation.

25 MR. SOLANDER: Daniel Solander, attorney for

1 Rocky Mountain Power on behalf of the applicant. And I have
2 with me at counsel table Stacey J. Kusters, director of
3 origination for PacifiCorp.

4 MS. SCHMID: Patricia E. Schmid for the Attorney
5 General's office on behalf of the Division of Public Utilities. And
6 with me is the Division's witness, Mr. Douglas D. Wheelwright.

7 PRESIDING OFFICER CLARK: Thank you.

8 MR. JENSEN: Jerrold Jensen on behalf of the
9 Office of Consumer Services. I'm an attorney in the Attorney
10 General's Office. And with me at the stand--or at the table here
11 is Cheryl Murray, the witness for the Office of Consumer
12 Services.

13 PRESIDING OFFICER CLARK: Thank you. Any
14 other appearances?

15 Mr. Solander.

16 MR. SOLANDER: Thank you. Rocky Mountain
17 Power would call Ms. Kusters to offer testimony in support of
18 the settlement stipulation that was filed with the Commission on
19 March 28.

20 PRESIDING OFFICER CLARK: Thank you.

21 Would you raise your right hand, please, Ms.
22 Kusters. Do you solemnly swear that the testimony you are
23 about to give shall be the truth, the whole truth, and nothing but
24 the truth?

25 MS. KUSTERS: Yes.

1 PRESIDING OFFICER CLARK: Thank you. And if
2 you'd just note for us when you come to the confidential portion
3 of your summary, we'll take a brief break at that moment to
4 discontinue the stream.

5 MS. KUSTERS: Thank you.

6 STACEY J. KUSTERS, having been first duly sworn,
7 was examined and testified as follows:

8 DIRECT EXAMINATION

9 BY-MR.SOLANDER:

10 Q. Could you please state your name and your position
11 with Rocky Mountain Power?

12 A. Stacey Kusters. I'm employed by PacifiCorp as the
13 director of origination in commercial and trading. My business
14 address is 825 NE Multnomah Street, Portland, Oregon, 97232.

15 Q. And are you the same Stacey Kusters who prefiled
16 testimony in this proceeding, both in support of the application
17 and in support of the stipulation?

18 A. Yes, I am.

19 Q. Do you have any additions or corrections to that
20 testimony at this time?

21 A. Yes. However, it's more of a clarification.

22 The example that's noted on Footnote 1 on page 2
23 of the stipulation indicates that the first fixed price--

24 Q. I'm sorry to interrupt.

25 A. That's all right.

1 Q. Is this confidential?

2 A. No, it's not.

3 --indicates that the first fixed price would cover
4 April 2013 to March 2014, 12 months; and the second would
5 cover April 2014 to March 2015, 12 months; and the third would
6 cover the remaining of the ten-year period.

7 To align with the calendar years for the first two
8 years, the Company would request it bids as follows: Price 1,
9 April 13 or May 13, depending on when we receive the order
10 from the Commission, through December of 2013, roughly be
11 eight or nine months, be Price No. 1. Price 2 would be January
12 2014 to December of 2014, 12 months. And then the third price
13 would be the January 2015 through March of 2023, the
14 remaining. And I don't believe any of the parties to the
15 stipulation have any objections to this clarification.

16 Q. What is the purpose of the testimony that you are
17 going to present to the Commission today?

18 A. I will briefly review the history of events and the
19 key elements of the stipulation entered into by the three signing
20 parties, including Rocky Mountain Power; Utah Division of
21 Public Utilities, the "Division"; and the Utah Office of Consumer
22 Services, the "Office." I will also reconfirm Rocky Mountain
23 Power's support of the stipulation and the Company's belief the
24 stipulation is in the public interest.

25 Q. Can you recount the key events that led to the

1 agreement of the stipulation that's being presented here today?

2 A. Sure. It's worth beginning by noting the agreement
3 really began as a result of the hedging collaborative workshops
4 involving the Company and several parties, which included all
5 the parties that are signators to the stipulation. The hedging
6 collaborative workshop involved several meetings in late 2011
7 and early 2012, which took place as a result of the stipulated
8 settlement in the 2011 general rate case.

9 That hedging collaborative resulted in the Company
10 agreeing to shorten its standard hedging horizon to 36 months,
11 which was previously 48 months. And it also added specific
12 minimum and maximum percentage hedged natural gas for each
13 of the three forward 12-month periods to complement the
14 Company's other risk metrics. However, notable for this
15 proceeding, the hedging collaborative also highlighted interest
16 in pursuing longer term natural gas hedges to take advantage of
17 the perceived low natural gas prices.

18 To serve that interest, the Company committed to
19 issue a long-term natural gas Request for Proposal and
20 submitted the bid to more of an exhaustive internal and external
21 review, given that it would be outside of the boundaries of the
22 36-month horizon and may also result in increasing the natural
23 gas hedge percentages above the maximum limits inside the
24 36-month period. As a result, the Company issued the Request
25 for Proposal on May 4, 2012.

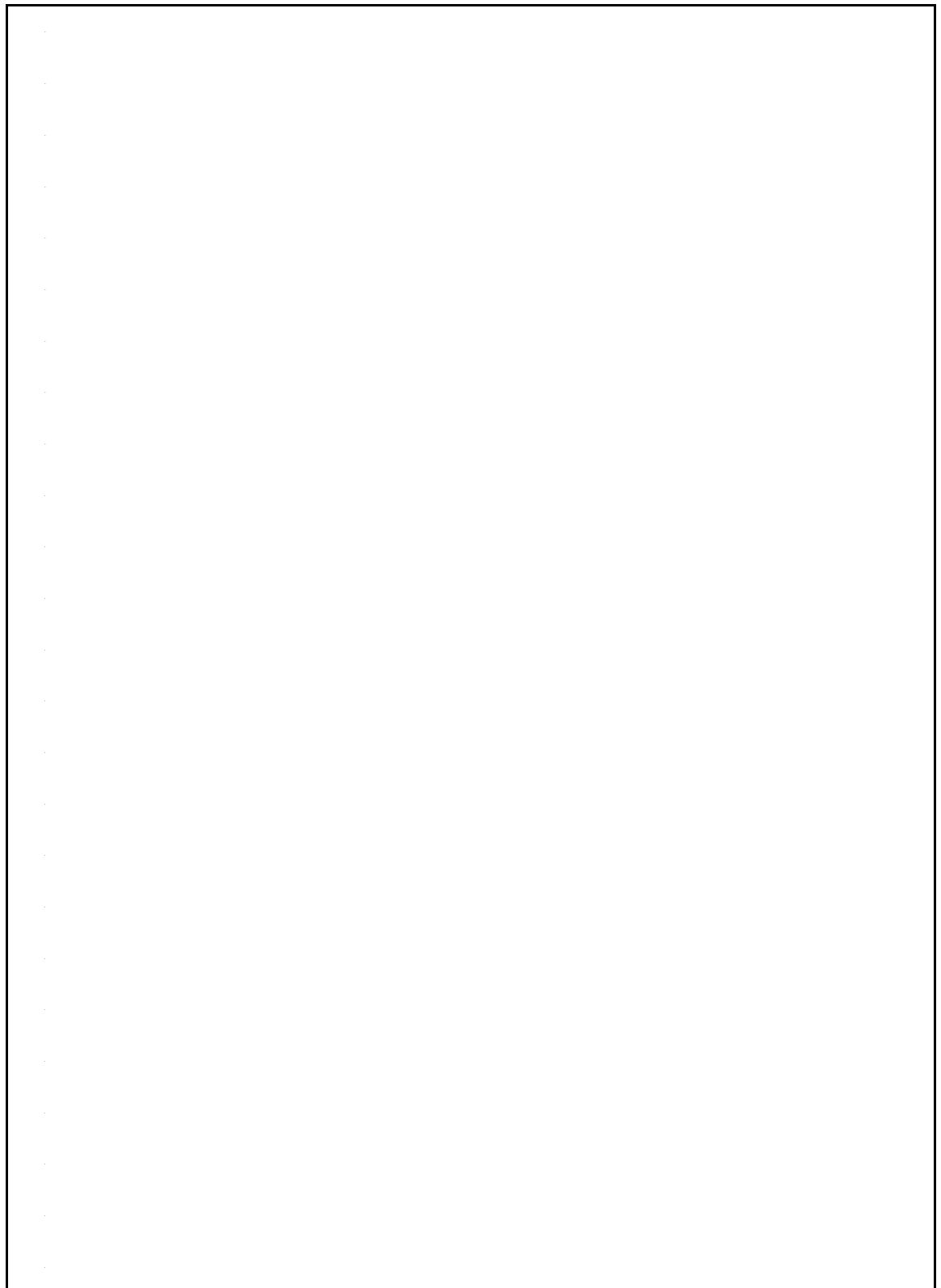
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On November 15, 2012, Rocky Mountain Power filed a Voluntary Request for Proposal for approval of the resource decision to enter into contracts to acquire natural gas resources up to a maximum amount of MMBTUs per day, as set forth in the application resulting from the gas Request for Proposal. And I will now go off the record for the confidentiality.

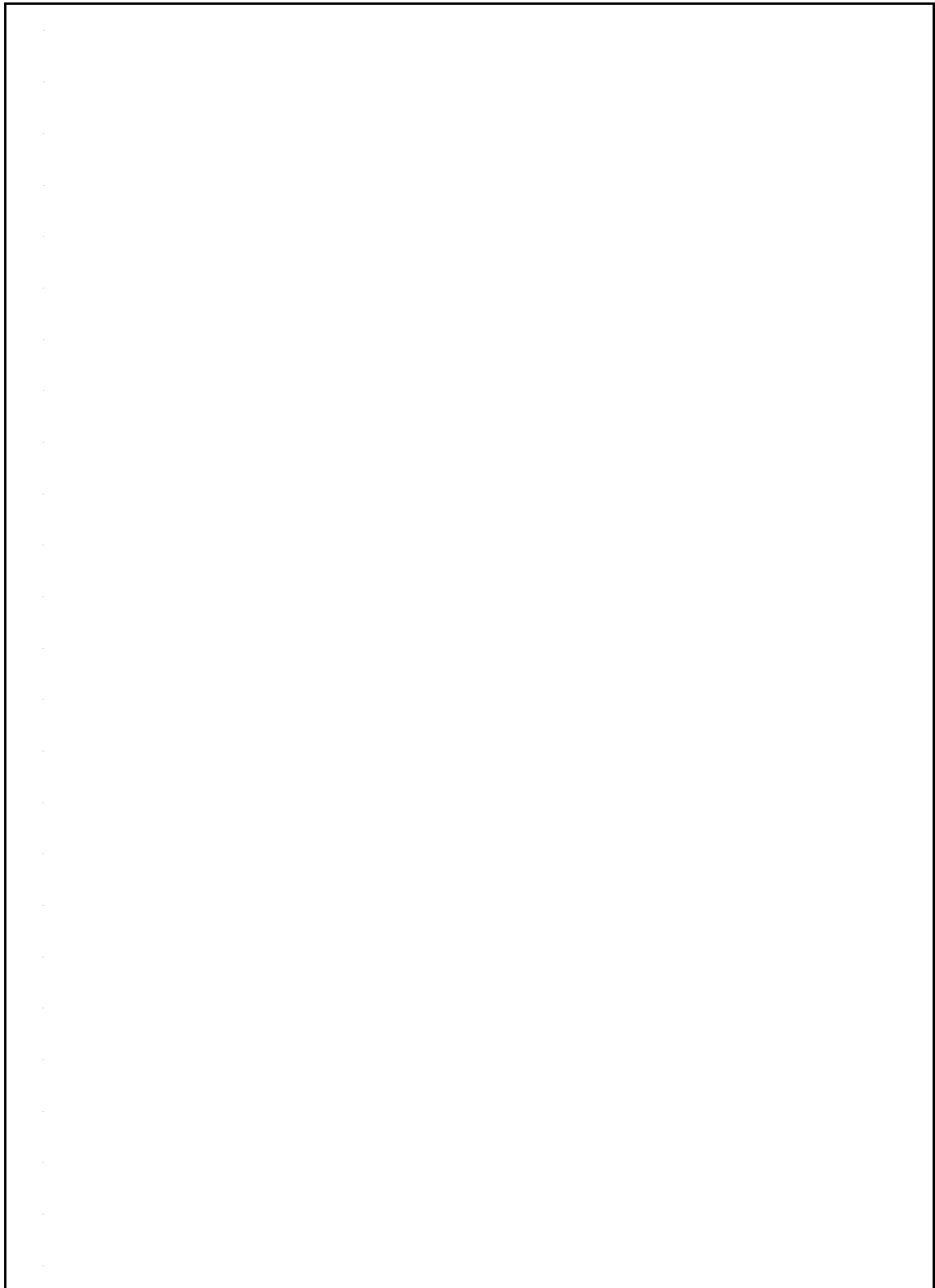
PRESIDING OFFICER CLARK: Okay. We'll discontinue the streaming at this point.

(Page 12 line 20 through page 16 line 9 is marked "Confidential" and is transcribed under separate cover.)

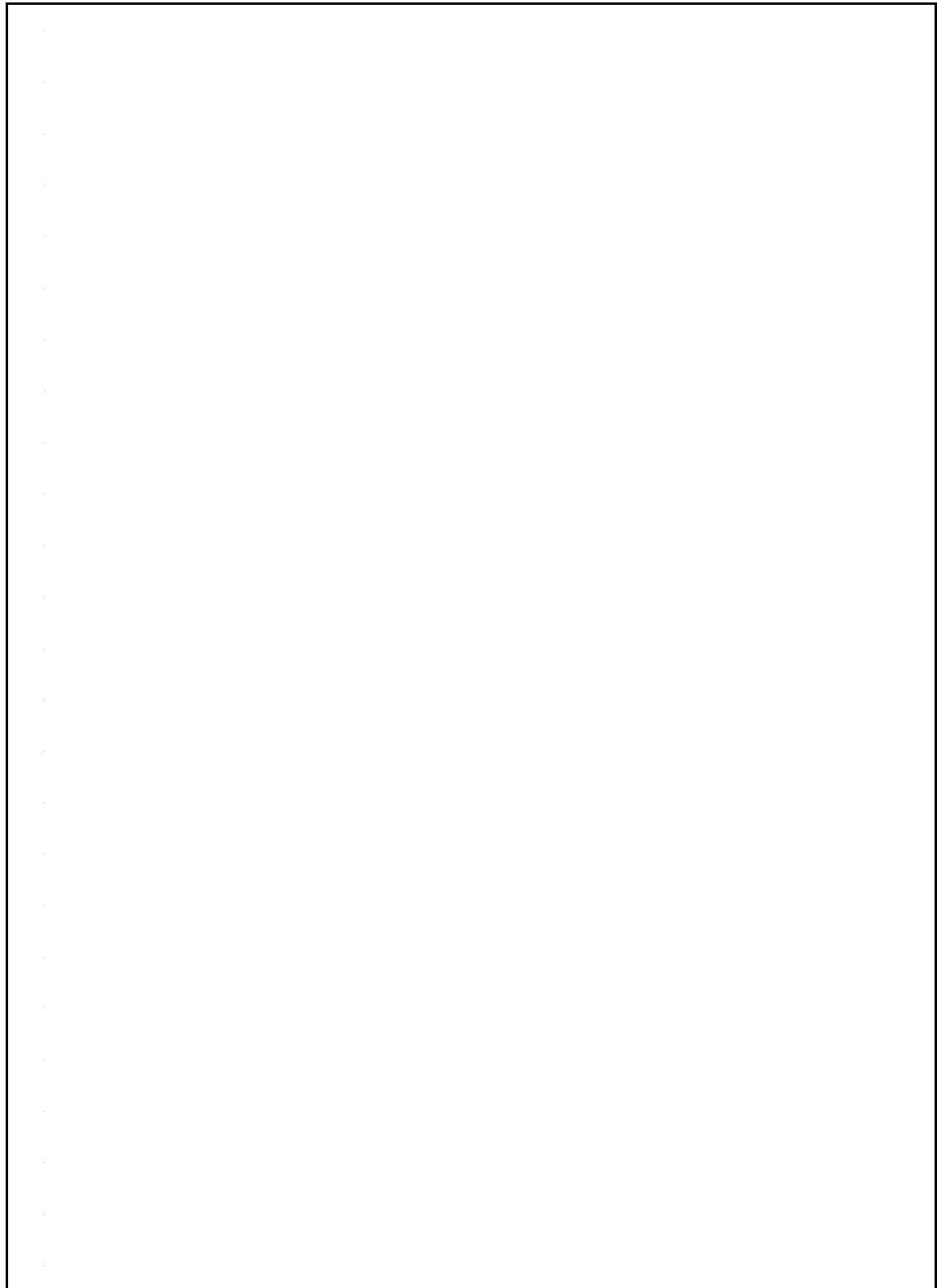
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(End of confidential section.)

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PRESIDING OFFICER CLARK: Thank you. We'll recommence the streaming, then. Thank you.

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MS. KUSTERS: Although the levelized prices I just noted represent a ten-year levelized value that govern the maximum price thresholds, the bids will be priced at market for the price through 2014 and will be a levelized price for the remainder of the term ending in 2023. This is done to avoid causing an improper harm or gain to customers or shareholders during the period the Company has not--has agreed not to file a general rate case through 2014, but also recognizing the energy balancing account that remains in effect.

The parties will convene a workshop prior to October 31 of 2013 to discuss potential changes to the Company's process in evaluating bids for future gas RFPs, if any, to secure additional long-term gas resources. Some of the specific issues to be addressed are outlined in the stipulation. And parties agree that the list is not exhaustive, so additional potential changes are up for discussions as well.

In addition, the general terms and conditions of the stipulation, the remaining paragraphs of the stipulation, contain the general terms, which are associated with most stipulations presented before the Commission. They represent the obligations of the parties to the stipulation and to each other.

1 As with most stipulations, the agreements--the agreement was
2 reached through negotiations and a common agreement. Each
3 party became comfortable with the agreement in different ways.

4 With that background, the parties recommended
5 that the Commission approve the stipulation and all of its terms
6 and conditions. The parties request that the Commission make
7 finding of fact and reach conclusion of law based on the
8 evidence in this docket and that the Commission issue an
9 appropriate bench order therein.

10 Q. Does that conclude your summary?

11 A. Yes. I want to thank the parties for working
12 together to reach this agreement, and getting here took a lot of
13 work and flexibility from everybody.

14 I restate the Company's support for the stipulation.
15 It was negotiated in good faith. And I believe the stipulation is
16 in the public interest. I recommend that the Commission issue a
17 bench order approving the stipulation as filed because time is of
18 the essence. Thank you. That concludes my comments.

19 MR. SOLANDER: Ms. Kusters is available for
20 questions from the Commission.

21 PRESIDING OFFICER CLARK: Thank you, Mr.
22 Solander. We'll hear from all of the witnesses and then address
23 them as a panel at the conclusion of their testimony.

24 So any other information or evidence from the
25 Applicant?

1 MR. SOLANDER: That concludes the Applicant's
2 case.

3 PRESIDING OFFICER CLARK: Thank you, Mr.
4 Solander.

5 Ms. Schmid.

6 MS. SCHMID: Thank you. The Division would like
7 to call Mr. Douglas Wheelwright as its witness. May Mr.
8 Wheelwright please be sworn?

9 PRESIDING OFFICER CLARK: Do you solemnly
10 swear that the testimony you are about to give shall be the
11 truth, the whole truth, and nothing but the truth?

12 MR. WHEELWRIGHT: Yes.

13 PRESIDING OFFICER CLARK: Thank you.

14 DOUGLAS D. WHEELWRIGHT, having been first
15 duly sworn, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY-MS.SCHMID:

18 Q. Could you please state your full name, business
19 address, and employer for the record.

20 A. Douglas D. Wheelwright. I'm a technical consultant
21 with the Division of Public Utilities. The address is 160 East
22 300 South.

23 Q. Have you participated in this docket on behalf of
24 the Division?

25 A. Yes, I have.

1 Q. Did you prepare and cause to be filed the direct
2 testimony in redacted and confidential form that was filed on
3 March 5th of this year?

4 A. Yes, I did.

5 Q. Do you have a summary to present in support of the
6 stipulation on behalf of the Division?

7 A. Yes, I do.

8 Q. Please proceed.

9 A. Thank you, Commissioners. The Division of Public
10 Utilities supports PacifiCorp's effort to secure long-term natural
11 gas resources and supports the settlement stipulation as
12 outlined by the Company. This recommendation matches
13 previous findings and recommendations from the collaborative
14 report on the Company's hedging practices filed with the
15 Commission almost exactly one year ago.

16 As part of the RFP process in this docket, the
17 Company received competitive bids from multiple vendors
18 covering various time periods and different product types. The
19 Division's evaluation of the bids and the Division's filed
20 testimony supports the conclusions reached in the stipulation
21 agreement.

22 While there has been a slight increase in the
23 current market price, the American Gas Association recently
24 projected the price of natural gas to be between \$4 and \$6
25 through the year 2022, due to the abundant supply currently

1 available.

2 Execution of the proposed contract would represent
3 a small portion of the total natural gas requirement each year
4 and would not adversely impact the hedging percent guidelines
5 established through the collaborative process.

6 If the refreshed bids are not within the approved
7 limits, the agreement will allow the Company a period of time to
8 monitor market conditions, obtain updated pricing, and execute
9 the agreement.

10 If the initial refreshed bids do not fall within the
11 approved limit and subsequent refreshed bids do, as with any
12 pre-approval, the Company should exercise judgment going
13 forward and execute any agreement in a prudent manner.

14 The Division believes the proposed stipulation is in
15 the public interest and recommends that the Commission
16 approved the agreement. Thank you.

17 MS. SCHMID: That concludes the Division's
18 comments in support of the stipulation.

19 PRESIDING OFFICER CLARK: Thank you.

20 Mr. Jensen.

21 MR. JENSEN: We have one witness, Cheryl
22 Murray. May I have her sworn?

23 PRESIDING OFFICER CLARK: Do you solemnly
24 swear that the testimony you are about to give shall be the
25 truth, the whole truth, and nothing but the truth?

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MS. MURRAY: Yes.

PRESIDING OFFICER CLARK: Thank you.

CHERYL MURRAY, having been first duly sworn,
was examined and testified as follows:

DIRECT EXAMINATION

BY-MR.JENSEN:

Q. Ms. Murray, will you state your name and position,
please.

A. Cheryl Murray. I'm a utility analyst with the Office
of Consumer Services.

Q. And have you filed direct testimony in this matter?

A. Yes, I have.

Q. Do you have any corrections that you would like to
make to that testimony?

A. No, I do not.

Q. Do you have a summary prepared of that
testimony?

A. Yes, I do.

PRESIDING OFFICER CLARK: Ms. Murray, just
before you start, can you bring the microphone a little closer?
Thank you.

BY MR. JENSEN:

Q. You may begin.

A. Good morning, Mr. Chairman, Commissioners.

In order to determine positions that would be in the

1 best interests of the ratepayers we represent, the Office
2 conducted a full review of the policy implications and technical
3 issues surrounding the Company's request. The Office asserts
4 that preapproval under the statute must be based on a clear
5 demonstration of ratepayer benefits. In order to help us
6 ascertain if ratepayers would likely derive benefits from Rocky
7 Mountain Power entering into contracts resulting from the
8 Company's request for proposals, the Office retained expert
9 consultants to review the bidding and evaluation process that's
10 used by the Company.

11 Our consultants concluded that the Company
12 conducted a robust and reasonable process. Although they
13 recommended some improvements for future processes of this
14 type, the current process was not compromised without these
15 improvements.

16 Under the current circumstances, the Office
17 supports the acquisition of long-term natural gas contracts as
18 described in the stipulation. With the acquisition parameters
19 identified in the stipulation and the agreement to conduct a
20 working group to understand and identify improvements for
21 future RFPs, the Office asserts that the Company has
22 adequately demonstrated sufficient benefit to customers and
23 that the stipulation will result in just and reasonable rates.

24 The Office supports this stipulation and
25 recommends that the Commission approve it. That concludes

1 my summary. Thank you.

2 PRESIDING OFFICER CLARK: Thank you.

3 I have a few questions. And I'm going to attempt to
4 do this in a way that does not specify any confidential
5 information or call it forth from any of the witnesses. But if I fail
6 in that, I'm counting on counsel to advise me.

7 QUESTIONS BY THE COMMISSION

8 PRESIDING OFFICER CLARK: First question is for
9 Ms. Kusters, but I invite any of the other witnesses to comment
10 on her answer when she concludes.

11 Regarding paragraph 4 of the stipulation, there's a
12 reference to forward price curves. How often does the Company
13 refresh those?

14 MS. KUSTERS: So the Company refreshes our
15 official forward price curve on a quarterly basis. However, our
16 forward price curves, themselves, are updated daily.

17 PRESIDING OFFICER CLARK: Is there a point in
18 time in the quarter when that regularly occurs?

19 MS. KUSTERS: It's at the end of each of the
20 quarters we've looked at, you know, from the three providers
21 that we have. And I won't mention them since that is also
22 confidential. But we look and review the updates from those
23 three providers and determine whether there's anything that
24 materially has changed, not just on the market side, but more of
25 the fundamentals going forward. But on a daily basis, we're

1 continuously updating our forward price curves.

2 PRESIDING OFFICER CLARK: In that same
3 paragraph, there's a reference to one or more contracts
4 potentially being executed. And then there's a daily volume.
5 And am I correct in reading the daily volume to be the maximum
6 of the total of all of the contracts together?

7 MS. KUSTERS: That's correct.

8 Can I offer one clarification to my summary?

9 PRESIDING OFFICER CLARK: Certainly.

10 MS. KUSTERS: Thank you. When I stated the
11 ten-year term, depending on when we start, we want to ensure
12 that we fulfill the ten-year term overall. So if we start the
13 contract in May, then it will be ten years from May of 2013. I
14 just wasn't sure if I was clear on that.

15 PRESIDING OFFICER CLARK: Thank you.

16 My next question is really for the counsel who are
17 present.

18 The statute that we're operating under, 54-17-402,
19 which provides the process for voluntary request for resource
20 decision, requires the Commission to include in its order
21 findings as to the approved projected costs of a resource
22 decision.

23 Is it counsel's view that the daily prices that are
24 contained in the stipulation satisfy that requirement?

25 MR. SOLANDER: That would be Rocky Mountain

1 Power's view, yes.

2 MS. SCHMID: It would also be the view of the
3 Division.

4 MR. JENSEN: We share that opinion.

5 PRESIDING OFFICER CLARK: And now to Ms.
6 Kusters.

7 Would you just review for the record the math that
8 would be involved in identifying a total cost, at least assuming
9 the maximum volume and prices that are involved? And we
10 don't need precise numbers, but what would the formula be used
11 there? Is there anything that's uncertain about how we would
12 arrive at a total cost?

13 MS. KUSTERS: No, there's nothing uncertain. We
14 would take the total amount by day, MMBTUs, times the price,
15 times the term.

16 PRESIDING OFFICER CLARK: Thank you. Those
17 are all my questions.

18 Mr. Chairman?

19 CHAIRMAN ALLEN: I have question, probably for
20 the Company, but if anybody else wants to add it.

21 Ms. Kusters, you said there is going to be a
22 workshop the parties are going to convene in the fall, October, I
23 believe. Is that going to be a public meeting, or is it just going
24 to be between the parties?

25 MS. KUSTERS: It will be prior to the October 31

1 date, and we would invite all the stakeholders as part of the
2 process to participate.

3 CHAIRMAN ALLEN: Great. That's my only
4 question. Thank you.

5 PRESIDING OFFICER CLARK: Mr. LaVar?

6 COMMISSIONER LEVAR: I have nothing else.

7 PRESIDING OFFICER CLARK: Anything before we
8 take a brief recess? We'll be off the record.

9 (A break was taken from 10:34 a.m. to 10:41 a.m.)

10 PRESIDING OFFICER CLARK: On the record.

11 Couple of preliminary items.

12 First, if I could ask the Applicant to submit a
13 revised page with that new Footnote 1 language. Would that be
14 all right? Just to make sure that we have a very clear record of
15 that.

16 MS. KUSTERS: Absolutely.

17 PRESIDING OFFICER CLARK: Thank you.

18 And then a question that's principally for the
19 Division and the Office.

20 The testimony, that is the prefiled testimony that
21 we've received into evidence, addresses a variety of scenarios
22 and revenue requirement impacts that are presented--
23 forecasted.

24 Could you relate your support of the agreement to
25 this prefiled testimony? In other words, is it your anticipation

1 that the objectives that the Applicant describes in the prefiled
2 testimony will be achieved or even superceded through the
3 adjustments and the arrangements that were initially proposed
4 that the stipulation brings into play?

5 MR. WHEELWRIGHT: I'm not sure I understand
6 what your question is. I believe that the agreement to purchase
7 long-term natural gas is in the interest of ratepayers and the
8 Company. Securing a fixed-price agreement for the long term
9 would--if we compared the forecast natural gas price with the
10 contract price, and if we can secure that for a period of time, I
11 think it makes sense. I think that we have a greater likelihood
12 that we will see an increase spike upwards in natural gas prices.
13 And having a portion of that locked in at a fixed price, I believe,
14 makes sense.

15 Is that what you're looking for or what--does that
16 answer your question?

17 PRESIDING OFFICER CLARK: Yes. And given the
18 prices in the stipulation, the volumes in the stipulation, you're
19 anticipating, then, that within those specified parameters, this
20 arrangement would benefit customers --

21 MR. WHEELWRIGHT: Yes.

22 PRESIDING OFFICER CLARK: --and therefore be
23 in the public interest?

24 MR. WHEELWRIGHT: Yes. Yes. This is
25 advantageous to customers. If we look historically at the price

1 the Company has been paying historically, this is--it would be
2 beneficial to customers to secure this price.

3 PRESIDING OFFICER CLARK: Ms. Murray,
4 anything to add to that?

5 MS. MURRAY: We have a similar view, I think.
6 When we have been looking at gas prices recently, I think it's
7 been fairly widely accepted that they are currently at a pretty
8 low level. We realize that there are going to be ups and downs
9 in that pricing. And so with the help of our consultants, we
10 looked at what do we think would be reasonable to capture
11 some of the benefits of the current low prices? And also the
12 amount, the MMBTUs per day, that would be reasonable. And
13 with the numbers in the stipulation, we think that, overall, it will
14 result in a good result for ratepayers.

15 PRESIDING OFFICER CLARK: Thank you.
16 Ms. Kusters, anything to add to those?

17 MS. KUSTERS: No, I support them. I think it is, I
18 think--as part of our hedging going forward, it is a small
19 percentage of our total requirement. It's roughly ten percent.
20 To have ten percent locked in for the next ten years at a
21 reasonable price, I think the Company supports that as one of
22 our objectives overall from a hedging standpoint.

23 PRESIDING OFFICER CLARK: Thank you.

24 Recognizing the fact that time is of the essence in
25 reaching a decision on this matter, and we appreciate the

1 recommendations and testimony of the parties today, the
2 Commission approves the settlement stipulation as amended
3 and will issue a written order to that effect in due course. But
4 our order is effective today.

5 And is there any clarification that's necessary, or
6 do counsel have anything further before we conclude the
7 hearing?

8 MR. SOLANDER: No, thank you. We will file the
9 revised footnote language as soon as possible.

10 MS. SCHMID: The Division has nothing further.

11 MR. JENSEN: Nothing further.

12 PRESIDING OFFICER CLARK: Thank you. Then
13 we're adjourned.

14 (The hearing concluded at 10:48 a.m.)

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CERTIFICATE

State of Utah)

ss.

County of Salt Lake)

I, Michelle Mallonee, a Registered Professional Reporter in and for the State of Utah, do hereby certify:

That the proceedings of said matter was reported by me in stenotype and thereafter transcribed into typewritten form;

That the same constitutes a true and correct transcription of said proceedings so taken and transcribed;

I further certify that I am not of kin or otherwise associated with any of the parties of said cause of action, and that I am not interested in the event thereof.

Michelle Mallonee, RPR, CSR