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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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, Consisting of a General Rate Increase of Approximately $161.2 Million Per Year, and for Approval of a New Large Load Surcharge	**Docket No. 07-035-93** **POST-HEARING MEMORANDUM OF THE UAE INTERVENTION GROUP RE: REVENUE REQUIREMENT**

The UAE Intervention Group (UAE) submits this post-hearing memorandum on revenue requirement issues. UAE submitted testimony in support of several revenue requirement adjustments. Rocky Mountain Power (RMP or Company) directly or effectively accepted many of UAE's proposed adjustments. This memorandum will briefly address a UAE adjustment that has been accepted by the Company but that will require a final calculation, UAE-supported adjustments that have not been fully accepted, certain net power cost (NPC) adjustments that may effectively have been adopted through the Company's acceptance of the Division's rebuttal NPC proposal, and rate of return.

I. Domestic Production Activities Deduction.

Mr. Higgins recommended a Domestic Production Activities Deduction ("DPAD") or Section 199 deduction than differed from that used by the Company. In rebuttal, the Company agreed that, once a final revenue requirement is determined, the DPAD should be re-calculated. Mr. Higgins estimated that the Domestic Production Activity Deduction will become applicable in this case if the ultimate rate increase is $15.8 million or more.

At the hearing, the Company accepted Mr. Higgins' DPAD estimates and agreed that the Commission should apply a final reduction to the Company's Utah revenue requirement to account for the Domestic Production Activity Deduction after the final revenue requirement increase (excluding DPAD) has been determined. This agreed-to revenue requirement decrease will be $0 if the revenue requirement increase is below $15.8 million, increasing on a straight-line basis to $995,604 if the revenue requirement increase is $84.4 million. The formula for applying this final revenue requirement adjustment is as follows: (-1) x [(Final RR - $15,815,890) / ($84,528,566 - 15,815,890)] x $995,604. A worksheet showing the application of this formula is attached to the UT GRC Joint Issues List (Post Hearing) submitted to the Commission on June 13, 2008.

II. Amortization Period for Sales of SO_2 Allowances.

RMP sells excess SO_2 allowances each year. In Docket No. 97-035-01, certain Utah parties stipulated that revenues from sales of SO_2 allowances should be amortized over four years. However, RMP Exhibit (SRM-1S), p. 3.2.1, demonstrates that sales of SO_2 allowances occur with regularity, negating the need for such a lengthy amortization period. For example, revenues from sales of SO_2 allowances were $14.6 million in 2007 and are projected at $15.9 million in 2008.

While the four-year amortization period may have been reasonable in 1997, under current conditions the amortization period should be shortened to permit customers to realize the benefits of these sales more quickly. The amortization of SO_2 allowance sales acts as a smoothing mechanism for including related revenue in results of operations. A three-year amortization period accomplishes this smoothing function, and has the additional benefit of matching the benefits of these sales with the appropriate customers better and sooner. UAE thus recommends that the amortization period for sales of SO_2 allowances made after January 1, 2008 be reduced to three years and that the amortization schedules for the remaining unamortized balances as of December 31, 2007 for SO_2 sales made before January 1, 2008 be accelerated to a three-year schedule. Adoption of this amortization change would create a $1,859,962 reduction in Utah revenue requirement in this case.

III. Net Power Costs

Mr. Higgins proposed a number of net power cost adjustments. For example, Mr. Higgins disagreed with GRID model inputs that constrain Currant Creek's operation to at and above 340 MW, which is significantly more than the actual minimum run level of the facility and the minimum run level of 115 MW that RMP represented to the Commission in the Currant Creek certification proceeding in 2003.

In its rebuttal testimony, RMP presented two alternatives for calculating net power costs. Alternative 1 reflected RMP's full or partial acceptance of various adjustments proposed by other parties. Alternative 2 reflects the Division's rebuttal NPC number. Under Alternative 2, RMP claims to have accepted a "commitment logic workaround" designed to prevent systematic uneconomic dispatch of the West Valley, Currant Creek, and Lake Side units. For purposes of this proceeding, UAE has accepted that the Company's proposed workaround logic under NPC Alternative 2 would address UAE's concern about the minimum operating level of Currant Creek. However, to the extent net power costs are calculated under NPC Alternative 1, UAE's Currant Creek adjustment is $1,915,162. Also, UAE reserves the right to argue in future rate proceedings that the GRID model should calculate net power costs using the same 115 MW minimum operating level for Currant Creek that RMP relied upon in selecting itself as the winning bidder to its RFP 2003A and which the Company represented in justifying its selection decision to the Commission.

Mr. Higgins also pointed out that the GRID model erroneously dispatches certain call options when they are "out of the money." In other words, the model incorrectly assumes that these contracts would be called upon even when doing so would increase net power costs -- a scenario that would not occur in real life. RMP agreed that these contracts should not be dispatched in a manner that increases net power costs. Removing these contracts in months in which failure to remove them would cause net power costs to increase results in a decrease in Utah net power costs of $81,458 under NPC Alternative 2. Under NPC Alternative 1, the removal of these contracts results in a Utah revenue requirement decrease of $1,859,962.

IV. Rate of Return

UAE did not sponsor rate of return testimony in this docket. However, UAE is concerned with the Company's suggestion that risks faced by the Company as a result of the multi-state nature of the Company's service territory should be considered in setting the Company's authorized return. The Company agreed to bear the risks of inconsistent interstate allocations and should not be rewarded with a higher authorized return as a result of that risk that it offered -- and was ordered -- to bear.

V. Other UAE Issues

Based on new information provided by RMP, UAE withdrew one of the adjustments proposed in its direct testimony (Marengo Wind O&M). RMP ultimately accepted, in whole or significant part, the other adjustments proposed by UAE, including a corrected 2008 labor expense ($190,753), a Glenrock/Seven Mile Wind O&M adjustment ($550,445), a Lakeside O&M adjustment (subsumed in the CCS plant overhaul adjustment) and the Sunnyside contract update ($1,570,000).

DATED this 19th day of June, 2008.

/s/ ______________________________
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 19th day of June, 2008, to the following:

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