

- 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)	<u>DOCKET NO. 08-035-38</u>
)	<u>REPORT AND ORDER ON REVENUE REQUIREMENT</u>
)	
)	

ISSUED: April 21, 2009

SHORT TITLE

**Rocky Mountain Power 2009 General Rate Case
Phase I Order on Revenue Requirement Using a 2009 Forecast Test Period**

SYNOPSIS

The Commission approves the Stipulation Regarding Cost of Capital and the Stipulation Regarding Revenue Requirement. These stipulations increase Rocky Mountain Power's annual revenue requirement in Utah by \$45.0 million, or 3.34 percent, based on an allowed rate of return on equity of 10.61 percent and a capital structure with a 51.0 percent common equity component. The revenue increase is effective May 8, 2009, and will be implemented through a tariff rider on a uniform basis on customer bills until a final order is issued in the Cost of Service and Rate Design phase of this case.

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I. PROCEDURAL HISTORY

On April 7, 2008, Rocky Mountain Power (“Company”), a division of PacifiCorp, filed a letter indicating its notice of intent to file a general rate case on or soon after June 6, 2008. On July 17, 2008, the Company filed an application for a revenue increase of \$160.6 million. The application was based on actual results for the 12 months ending December 31, 2007, adjusted and forecasted for the 12 months ending June 30, 2009. The application included direct testimony on test year, capital structure and capital costs, load and resource forecasts, revenue requirement, cost of service, the spread of revenue requirement to rate schedules, and rate design. In response to the Company’s application, on July 17, 2008, the Utah Public Service Commission (“Commission”) issued a Notice of Scheduling Conference to be held on July 29, 2008.

Between July 22, 2008, and August 28, 2008, the following parties petitioned for leave to intervene in this case which the Commission granted: Questar Gas Company (“Questar”), the Kroger Company (“Kroger”), the Utah Ratepayers Association (“URA”), Wal-Mart Stores, Inc. (“Wal-Mart”); Fairchild Semiconductor, Holcim, Inc., Kennecott Utah Copper Corp., Kimberly-Clark Corp., Malt-O-Meal, Praxair, Inc., Proctor & Gamble, Inc., Tesoro Refining and Marketing Co., and Western Zirconium, collectively referred to as Utah Industrial Energy Consumers (“UIEC”); Nucor Steel-Plymouth, a Division of Nucor Corporation (“Nucor”); US Magnesium LLC (“US Mag”); the UAE Intervention Group (“UAE”), including the Utah Association of Energy Users, ATK Launch Systems, American Pacific Corporation, Chevron U.S.A., Inc., ConocoPhillips Gas and Power, Hexcel Corporation, IHC Health Services, Inc., IM Flash Technologies, LLC, May Foundry & Machine Company and Simplot Phosphates;

International Brotherhood of Electrical Workers, Local 57 (“IBEW Local 57”); Utah Clean Energy (“UCE”); Salt Lake Community Action Program (“SLCAP”); Western Resource Advocates (“WRA”); and Southwest Energy Efficiency Project (“SWEEP”).

The procedural complexity of this case is due to the Company filing for a revenue increase before a revenue requirement decision had been made by the Commission in the Company’s previous rate case, Docket No. 07-035-93.¹ This in turn provoked objections and motions regarding the adequacy and completeness of the Company’s current application, when the 240-day time period should begin,² and what the appropriate test year should be.

On July 27, 2008, a scheduling conference was held, and on August 1, 2008, a Scheduling Order was issued. This order set deadlines for intervention and adopted a schedule to begin the process dealing with motions regarding the Company’s application and test year issues. It also divided the case into two phases, a revenue requirement phase including cost of capital (Phase I), and a cost of service and rate design phase (Phase II). The order then set a schedule for the filing of testimony and established hearing dates for the revenue requirement phase.

On September 10, 2008, the Company filed its Supplemental Direct Testimony and Exhibits on revenue requirement, cost of service, revenue spread and rate design, which

¹ Docket No. 07-035-93, 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. The Report and Order on Revenue Requirement was issued on August 11, 2008, granting the Company a \$33.378 million increase in revenues effective August 13, 2008.

² See Utah Code §54-7-12(3)(c). (If the Commission does not issue an order within 240 days of the Company’s filing of an application, the Company’s proposed increase is final and not subject to refund.)

incorporated some of the Commission's decisions in the Report and Order on Revenue Requirement in Docket No. 07-035-93. The Company reduced its requested increase from \$160.6 million to \$114.5 million, based on a future test period ending June 30, 2009, the same test period used in its application of July 17, 2008.

Also on September 10, 2008, a hearing was held on the motions of the various parties claiming the Company's application was deficient and on issues regarding the 240-day time period. On September 23, 2008, the Commission issued its Order on Motions to Dismiss or Address 240-Day Time Period. The procedural history leading to this decision can be found in that order and need not be recounted here. This order permitted the Company to amend its application of July 17, 2008, (as it had done through its filing of September 10, 2008) only if the 240-day time period commenced with such a filing. On October 23, 2008, the Company filed a Petition for Reconsideration of Order on Motions to Dismiss or Address 240-Day Time Period, and subsequently the Division and UIEC filed responses. The Commission did not act on the Company's petition, thereby affirming its original decision by operation of law.

On October 7, 2008, a scheduling conference was held, and on October 14, 2008, the Commission issued a Scheduling Order for Revenue Requirement and Cost of Service/Rate Design. This order revised the schedule for revenue requirement excluding cost of capital, set a separate schedule for cost of capital, and established a schedule for the filing of testimony and set hearing dates for the cost of service and rate design phase.

On October 28, 2008, a hearing was held addressing test period issues. On October 30, 2008, the Commission issued its Order on Motion for Approval of Test Period. The procedural history leading to this decision can be found in that order and need not be recounted

here. This order required the use of a test period consisting of the 12 months ending December 2009, and an average-of-year rate base. The Company was ordered to file revised testimony by December 1, 2008.

Also on October 30, 2008, the Second Scheduling Order on Revenue Requirement and Cost of Service/Rate Design was issued (“October 30, 2008, Scheduling Order”). This order revised the schedule for revenue requirement, maintained the schedule for the rate of return, and vacated the schedule for cost of service and rate design.

Between November 3 through 5, 2008, the Company proposed a revised schedule and other parties submitted comments and requests for clarification on other issues. On November 6, 2008, the Commission issued the Third Scheduling Order for Revenue Requirement and Cost of Service/Rate Design (“November 6, 2008, Scheduling Order”). This order adopted the Company’s proposed revisions to the schedule for revenue requirement. It also required the base period for the construction of the forecast test year shall be the 12 months ending June 30, 2008, rather than the 12 months ending December 31, 2007. The latter was used by the Company in its initial and supplemental direct testimonies.

On December 8, 2008, in accordance with the decision in Order on Motion for Approval of Test Period and the November 6, 2008, Scheduling Order, the Company filed its Second Supplemental Direct Testimony and Exhibits on revenue requirement, cost of service, revenue spread and rate design. The Company raised its requested increase from \$114.5 million to \$116.1 million, based on a future test period ending December 31, 2009.

On January 8, 2009, in accordance with the schedule set for rate of return in the October 30, 2008, Scheduling Order, the Division and Committee filed testimony on rate of return.

The schedule for the cost of service and rate design phase of the case had previously been vacated in the October 30, 2008, Scheduling Order. On January 5, 2009, a scheduling conference was held, and the Commission issued a Scheduling Order on January 27, 2009, setting the schedule for the filing of testimony and set hearing dates for the cost of service and rate design phase.

On February 12, 2009, in accordance with the schedule set for revenue requirement in the November 6, 2008, Scheduling Order, the Division, Committee and UAE filed direct testimony on revenue requirement.

On February 23, 2009, the Company filed the Stipulation Regarding Cost of Capital and a motion for its approval. On February 24, 2009, the Commission issued its Fifth Scheduling Order. This order stayed the rate of return portions of the October 30, 2008, Scheduling Order, converted the rate of return hearing set for March 12, 2009, into a hearing on the stipulation, and required those parties intending to oppose the stipulation to give notice of their opposition by March 6, 2009. Also on February 24, 2009, the Commission issued its Notice of Hearing on Cost of Capital Stipulation.

On February 26, 2009, the Division filed supplemental direct testimony on net power costs in the revenue requirement portion of the case. On March 9, 2009, in accordance with the schedule set for revenue requirement in the November 6, 2008, Scheduling Order, the Company, the Division, and the Committee filed rebuttal testimony on revenue requirement.

On March 12, 2009, in accordance with the schedule set for rate of return in the Fifth Scheduling Order, the hearing on the Stipulation Regarding Cost of Capital was held. No opposition to the stipulation was made by any party, and the Commission approved the stipulation from the bench, as proposed, without modification.

On March 23, 2009, the Company filed the Stipulation Regarding Revenue Requirement. It also filed a motion for approval of the stipulation, to suspend filing surrebuttal testimony and a joint issues list, and to set a hearing date for the stipulation. On this same date, the Commission issued its Order Suspending Surrebuttal Testimony and Joint Issues List and Notice of Hearing. This order set a date and gave notice for a hearing on the stipulation for March 31, 2009, and required those parties intending to oppose the stipulation to give notice of their opposition by March 25, 2009. The following day the Commission issued an erratum order clarifying the time for the public witness portion of the hearing. On March 31, 2009, the hearing on the Stipulation Regarding Revenue Requirement was held. This concludes the procedural history and we now turn to the stipulations presented in this case.

II. STIPULATION REGARDING COST OF CAPITAL

A. Overview

The parties to the Stipulation Regarding Cost of Capital are the Company, the Division and the Committee. No testimony on cost of capital was filed by any other party.

The Company updated its proposed cost of capital in its Second Supplemental Direct Testimony. The proposed capital structure, derived from the Company's 2009 budget, consists of 51.5 percent common equity, 0.3 percent preferred equity and 48.2 percent long-term debt. The cost of debt (the weighted average costs at December 31, 2008, and December 31,

2009) is 6.23 percent, the cost of preferred equity is 5.41 percent, and the proposed cost of common equity is 11 percent. This results in the Company's overall cost of capital of 8.69 percent.

In its direct testimony, the Division recommends a capital structure (based on values as of September 30, 2008) of 50.82 percent common equity, 0.37 percent preferred equity and 48.81 percent long-term debt. The proposed cost of debt, which adjusts the costs of the Company's forecasted issuance on December 2009, is 6.07 percent. The Division accepts the Company's cost of preferred equity, but proposes a cost of common equity of 10.75 percent. This results in the Division's overall cost of capital of 8.45 percent.

In its direct testimony, the Committee recommends approval of the Company's proposed capital structure. Like the Division, the Committee adjusts the Company's forecasted debt issuance, and proposes a 6.08 percent cost of debt. The Committee also accepts the Company's cost of preferred equity, but proposes a cost of common equity of 10.00 percent. This results in the Committee's overall cost of capital of 8.10 percent.

As a result of settlement negotiations, the Company, the Division and the Committee agree to a capital structure of 51 percent common equity, 0.3 percent preferred equity, and 48.7 percent long-term debt. In addition, these parties agree to a 6.02 percent cost of debt, a 5.41 percent cost of preferred stock, and a 10.608 percent cost of common equity. This results in an overall cost of capital cost of 8.358 percent. The parties to this stipulation agree this capital cost shall be applied in this proceeding to the calculations of revenue requirement and the consequent revenue change. The Stipulation Regarding Cost of Capital is included as Appendix I to this order.

B. Discussion, Findings and Conclusions

The Company, the Division and the Committee agree the Stipulation Regarding Cost of Capital is just, reasonable and in the public interest. The Company, the Division and the Committee all provide testimony recommending the Commission approve this stipulation. No other party provides testimony on cost of capital. At the hearing held on March 12, 2009, on the Company's motion to approve the stipulation, no party appeared in opposition. Given the Utah statutory provisions in Utah Code §54-7-1, which encourage informal resolution of matters brought before the Commission, at the conclusion of the cost of capital hearing the Commission approved the stipulation as proposed, without modification. After examining the stipulation and the evidence contained in the record, the Commission concludes that its terms are just and reasonable and it is just and reasonable in result. The Commission's approval of the Stipulation Regarding Cost of Capital, as in similar cases, is not intended to alter any existing Commission policy nor to establish any precedent by the Commission.

III. STIPULATION REGARDING REVENUE REQUIREMENT

A. Overview

Four parties, the Company, the Division, the Committee and UAE, provided direct testimony on revenue requirement. Three parties, the Company, the Division, and the Committee, filed rebuttal testimony on revenue requirement. In rebuttal testimony, the Company proposes a revenue increase of \$57.4 million and the Division approximately \$46 million. The Committee responds to and revises specific revenue requirement adjustments but does not provide an overall revenue requirement change. On March 17 and 18, 2009, settlement conferences were held to discuss revenue requirement issues. The settlement negotiations

resulted in the Stipulation Regarding Revenue Requirement, signed by the Company, the Division, the Committee, UIEC, UAE, Kroger, and WAL-MART (the “Parties”). The Stipulation Regarding Revenue Requirement and its Attachment 1, entitled Master Data Requests and Due Dates, are included as Appendix II to this order. Of the intervenors who did not sign the stipulation, only the URA opposes the stipulation. Without modifying its terms in any way, the following is a brief summary of the Stipulation Regarding Revenue Requirement.

The Stipulation Regarding Revenue Requirement is an agreement among the Parties to increase the Company’s Utah revenue requirement and Utah customer rates by \$45 million. While the Parties agree on the general categories of cost to be adjusted in arriving at the agreed increase, the stipulation states there is no overall agreement as to specific adjustments because different parties relied upon different adjustments in supporting the \$45 million increase.

The Parties also agree the revenue increase will be effective May 8, 2009, and implemented through a tariff rider rate applied to customers’ monthly bills. The existing tariff rider rate, Schedule 97, is 2.96 percent. The \$45 million revenue increase equates to a 3.34 percent increase in the revenues from customers to which Schedule 97 applies.³ A new tariff rider rate, Schedule 98, will replace the current Schedule 97, and will be 6.4 percent, i.e., the existing 2.96 percent in Schedule 97 times the 3.34 percent increase resulting from this case.

³ The Schedule 97 tariff rider rate does not apply to special contracts or Schedule 33, Generation Replacement Services. The schedules to which the tariff rider rate applies can be found on the Company’s website at www.pacificorp.com/Regulatory_Rule_Schedule/Regulatory_Rule_Schedule83751.pdf.

Schedule 98 will apply until a final order has been issued in the cost of service and rate design phase of this case.

By the terms of the stipulation, the Company is to file a revised class cost of service study by April 30, 2009, in Phase II of this proceeding based on certain adjustments reducing the Company's rebuttal position of a \$57.4 million revenue increase to the stipulation's \$45 million increase. These adjustments are reductions in net power costs of \$7.4 million, operations and maintenance expenses of \$2.5 million, property taxes of \$1.4 million, and rate base of \$1.1 million. In order to incorporate these cost reductions into the Company's revised class cost of service study, they are identified by account and allocation factor.

In addition, the stipulation contains several other agreements among the Parties dealing with contentious issues arising in this case. The issue of moving to full normalization for deferred taxes is deferred and will be addressed in a separate docket.⁴ The annual capacity factor for the Rolling Hills wind project will be no less than 33.8 percent for the purpose of modeling net power costs in any test period ending on or before December 31, 2011. The stipulated revenue requirement does not include any consideration of funds received by the Company from the Energy Trust of Oregon pursuant to the funding of the Goodnoe Hills wind project, hence Utah will retain its full share of renewable energy credits associated with this project. The Company may write off Utah's portion of the Goose Creek regulatory liability as proposed by the Company. Rulemaking under the 2009 Amendments to Utah Code §54-7-12 will address rules governing updates to filed positions introduced during a rate case proceeding.

⁴ In paragraph 12.a., the stipulation cites Docket No. 89-999-02. Docket No. 09-035-03, In the Matter of the Division of Public Utilities' Review and Audit of Rocky Mountain Power's Deferred Tax Normalization Method was opened for this purpose, and a protective order issued on February 4, 2009.

The Company agrees to request a new docket be opened on natural gas price risk management (hedging strategies)⁵ and to establish a work group to discuss net power cost modeling issues related to planned outages.

Finally, the Company will file a notice of intent to file its next rate case 30 days prior to the expected date of such filing. At the time of filing its notice of intent to file its next rate case, the Company will file a motion for the issuance of a protective order. Issuance of a protective order will allow the Company to provide responses to Master Data Request A at the same time it files its general rate case application. Assuming issuance of a protective order, the Company will also provide access to its net power cost model, GRID, and related information to intervenors who have signed the protective order, with the exception of the Master Data Requests as provided in Attachment 1 to the Stipulation Regarding Revenue Requirement. Within 30 days of filing its next rate case, the Company will provide responses to Master Data Request B.

B. Discussion, Findings and Conclusions

The Parties to the Stipulation Regarding Revenue Requirement state they held settlement conferences to discuss the revenue requirement issues in this phase of the case. The Parties agree the Stipulation Regarding Revenue Requirement is in the public interest and all of its terms and conditions, considered together as a whole, will produce fair, just and reasonable Utah electric utility rates and allow the Company a reasonable opportunity to earn its allowed

⁵ On April 9, 2009, the Company filed a request to open a docket, schedule a technical conference, and issue a protective order in this matter, to which the Commission assigned Docket No. 09-035-21.

rate of return. The Company, the Division and the Committee provide testimony recommending the Commission approve the Stipulation.

The Company testifies all intervenors were invited to participate in the settlement conferences and the negotiations were undertaken in good faith by the signing parties. The Division testifies it issued 80 sets of data requests involving some 500 questions. In addition to assigning eleven members of its staff to this case, the Division also employed a consulting group who logged over 600 hours on this case. The Division notes its rebuttal position is not significantly different from the revenue increase resulting from the stipulation. The Committee employed one consulting group for accounting issues and another consulting group for net power cost issues. Witnesses from both of these consulting groups have appeared before this Commission several times and have participated in the Company's prior rate cases. We conclude the Company's application has been subject to comprehensive and competent review and analysis.

Only URA opposes the Stipulation Regarding Revenue Requirement, claiming settlements are bad public policy and harm ratepayers. In rate cases over the past several years, URA argues the Company asks for about twice the amount for which it is willing to settle, and about four times the amount it receives in a litigated case. Based on this past experience and given the current stipulation, URA claims a reasonable revenue increase in this proceeding is between \$22.5 and \$29 million. In addition, URA states ratepayers at large have had an inadequate opportunity to respond to the notice of the hearing on this stipulation. The arguments put forth here by URA are in part similar to those made by Mr. Roger Ball in regard to the

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consideration of the stipulation on revenue requirement in Docket No. 06-035-21.⁶ There we stated approval of a stipulation is dependent upon its own terms and the reasons given for and against the reasonableness of those terms in relation to their application during the period in which rates resulting from the stipulation will be charged. Approval is based upon applicable law applied to the facts in evidence and not the number of previous stipulations, or past ratios of revenue requirement requests to Commission's final orders.

Our consideration of the Stipulation Regarding Revenue Requirement is directed by Utah statutory provisions in Utah Code §54-7-1 encouraging informal resolution of matters brought before the Commission. After examining the Stipulation Regarding Revenue Requirement and the evidence contained in the record, we conclude its terms are just and reasonable and it is just and reasonable in result. Based upon the foregoing, we approve the Stipulation Regarding Revenue Requirement. Our approval of the Stipulation Regarding Revenue Requirement, as in similar cases, is not intended to alter any existing Commission policy, does not establish any precedent by the Commission, nor constitute acceptance of the treatment of any specific adjustment or modeling changes used by any party.

⁶ See pages 12-15 in Report and Order, issued December 1, 2006, in Docket No. 06-035-21, In the Matter of the Application of PacifiCorp for Approval of its Proposed Electric Service Schedules and Electric Service Regulations.

VIII. ORDER

Wherefore, pursuant to our discussion, findings and conclusions made herein, we order:

1. The Stipulation Regarding Cost of Capital is approved.
2. The Stipulation Regarding Revenue Requirement is approved.
3. PacifiCorp shall file appropriate tariff revisions increasing Utah jurisdictional revenues by \$45 million effective May 8, 2009.
4. The tariff revisions shall reflect the determinations and the decisions contained in this Order. The Division shall review the tariff revisions for compliance with the terms of the approved stipulations and this Order.
5. The terms and conditions of the stipulations do not alter previous Commission requirements for filing Semi-Annual Results of Operations.

This Report and Order on Revenue Requirement constitutes final agency action on Phase I of Rocky Mountain Power's July 17, 2008, Application and its December 8, 2008, Amended Application. Pursuant to Utah Code 63G-4-301 and 54-7-15, agency review or rehearing of this order may be obtained by filing a request for review or rehearing with the Commission within 30 days after the issuance of the order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission fails to grant a request for review or rehearing within 20 days after the filing of a request for review or rehearing, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a Petition for Review with the Utah Supreme Court within 30 days after final agency action. Any Petition for Review must comply

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with the requirements of Utah Code 63G-4-401 through -403 and the Utah Rules of Appellate Procedure.

DATED at Salt Lake City, Utah, this 21st day of April, 2009.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
G#61698

then currently effective rates (without reference to revenue increases requested in the Company's 2007 rate case (Docket No. 07-035-93)) for a total revenue requirement in the approximate amount of \$1.592 billion. On September 10, 2008, Rocky Mountain Power filed supplemental testimony to reflect the Commission's revenue requirement order in Docket No. 07-035-93, adjust net power costs, introduce an amended cost of service study, and update the proposed rate spread.

4. On August 1, 2008, the Commission issued an order establishing the procedural schedule for this proceeding. On August 26, 2008, September 29, 2008, and September 30, 2008, the Commission issued orders amending that schedule. On October 14, 2008, the Commission issued an additional scheduling order for the Revenue Requirement and Cost of Service/Rate Design portion of this proceeding. On October 30, 2008 and November 6, 2008, the Commission issued orders modifying the Revenue Requirement and Cost of Service/Rate Design procedural schedule. On January 27, 2009, the Commission issued a scheduling order amending the schedule for the Rate Design/Cost of Service phase of this proceeding.

5. On October 28, 2008, the Commission held a hearing on Rocky Mountain Power's Motion to Determine Test Year wherein Rocky Mountain Power sought approval to use a test period ending June 2009. On October 30, 2009, the Commission issued an order approving a test period ending December 2009 using average rate base. Rocky Mountain Power subsequently filed supplemental direct testimony and exhibits with the Commission on December 8, 2008, which included a revised revenue increase request of \$116.1 million, a cost of capital request of 8.69% and return on equity of 11.0% with a 51.5% common equity component.

6. On January 8, 2009, the Division of Public Utilities filed testimony with the Commission which included a recommended cost of capital of 8.45% and return on equity of 10.75% applied to the common equity component of 50.82%, together with 0.37 % preferred equity component for Rocky Mountain Power's capital structure. On January 8, 2009, the Committee of Consumer Services filed testimony with the Commission which included a recommended cost of capital of 8.10% and return on common equity of 10.0%, and did not oppose Rocky Mountain Power's proposed capital structure. No testimony on cost of capital was filed by the Utah Industrial Energy Consumers, the UAE Intervention Group, or any other party to this proceeding.

7. On February 4 and 9, 2009, the Parties held settlement conferences to discuss cost of capital issues in the 2008 General Rate Case.

8. As a result of the settlement negotiations, the Parties have reached a compromise on cost of capital, including return on equity, the cost of preferred stock, the cost of debt and the capital structure as described in the terms of the Stipulation below and as agreed to in the other matters specified herein.

III. TERMS OF STIPULATION

9. Cost of Capital. The Parties agree that Rocky Mountain Power's weighted cost of capital should be set at 8.358%. This cost of capital produces a return on equity of 10.608% with a 51% equity component for its capital structure. The Parties agree that this return shall be applied to the calculations of revenue requirement in this proceeding in the final determination of the revenue increase allowed by the Commission. Specifically, the cost of capital is agreed to as follows:

PacifiCorp Weighted Average Cost of Capital

	<u>Rate</u>	<u>Capital Structure</u>	<u>Weighted Rate</u>
Common Stock	10.608%	51.000%	5.410%
Preferred Stock	5.410%	0.300%	0.016%
Long-term Debt	<u>6.020%</u>	<u>48.700%</u>	<u>2.932%</u>
WACC		<u>100.00%</u>	<u>8.358%</u>

IV. GENERAL TERMS AND CONDITIONS

10. All negotiations related to this Stipulation are privileged and confidential and no Party shall be bound by any position asserted in negotiations. Neither the execution of this Stipulation nor the order adopting this Stipulation shall be deemed to constitute an admission or acknowledgment by any Party of any liability, the validity or invalidity of any claim or defense, the validity or invalidity of any principle or practice, or the basis of an estoppel or waiver by any Party other than with respect to issues resolved by this Stipulation; nor shall they be introduced or used as evidence for any other purpose in a future proceeding by any Party except a proceeding to enforce the approval or terms of this Stipulation.

11. The Company, the Division and the Committee each agree to make one or more witnesses available to explain and support this Stipulation to the Commission. Such witnesses will be available for examination. So that the record in this docket is complete, the Parties may move for admission of evidence, comments, position statements or exhibits that have been filed on the issues resolved by this Stipulation; however, notwithstanding the admission of such documents, the Parties shall support the Commission's approval of the Stipulation. As applied to the Division and

the Committee, the explanation and support shall be consistent with their statutory authority and responsibility.

12. The Parties agree that if any person challenges the approval of this Stipulation or requests rehearing or reconsideration of any order of the Commission approving this Stipulation, each Party will use its best efforts to support the terms and conditions of the Stipulation. As applied to the Division and Committee, the phrase “use its best efforts” means that they shall do so in a manner consistent with their statutory authority and responsibility. In the event any person seeks judicial review of a Commission order approving this Stipulation, no Party shall take a position in that judicial review opposed to the Stipulation.

13. Except with regard to the obligations of the Parties under the two immediately preceding paragraphs of this Stipulation, this Stipulation shall not be final and binding on the Parties until it has been approved without material change or condition by the Commission. This Stipulation is an integrated whole, and any Party may withdraw from it if it is not approved without material change or condition by the Commission or if the Commission’s approval is rejected or materially conditioned by a reviewing court. If the Commission rejects any part of this Stipulation or imposes any material change or condition on approval of this Stipulation or if the Commission’s approval of this Stipulation is rejected or materially conditioned by a reviewing court, the Parties agree to meet and discuss the applicable Commission or court order within five business days of its issuance and to attempt in good faith to determine if they are willing to modify the Stipulation consistent with the order. No Party shall withdraw from the Stipulation prior to complying with the foregoing sentence. If any Party withdraws from the Stipulation, any Party retains the right to seek

additional procedures before the Commission, including cross-examination of witnesses, with respect to issues addressed by the Stipulation and no Party shall be bound or prejudiced by the terms and conditions of the Stipulation.

14. The Parties may execute this Stipulation in counterparts each of which is deemed an original and all of which only constitute one original.

IN WITNESS WHEREOF, the Parties hereto have caused this Stipulation to be executed by their duly authorized representatives as of the date first herein written.

ROCKY MOUNTAIN POWER
/s/ Mark C. Moench
Mark C. Moench
Senior Vice President & General Counsel

UTAH DIVISION OF PUBLIC UTILITIES
/s/ Michael Ginsberg
Michael Ginsberg
Patricia Schmid
Assistant Attorneys General

UTAH COMMITTEE OF CONSUMER SERVICES
/s/ Paul Proctor
Paul Proctor
Assistant Attorney General

APPENDIX II: Stipulation Regarding Revenue Requirement

**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.	DOCKET NO. 08-035-38 STIPULATION REGARDING REVENUE REQUIREMENT
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1. This Stipulation (“Stipulation”) in the Revenue Requirement Phase of Docket 08-035-38 is entered into by and among the parties whose signatures appear on the signature pages hereof (collectively referred to herein as the “Parties”).

I. INTRODUCTION

2. The terms and conditions of this Stipulation are set forth herein. The Parties represent that this Stipulation is in the public interest and recommend that the Public Service Commission of Utah (the “Commission”) approve the Stipulation and all of its terms and conditions. The Parties agree that the Commission may make findings of fact and reach conclusions of law based on this Stipulation and issue an appropriate order thereon.

II. BACKGROUND

3. On July 17, 2008, Rocky Mountain Power (“Rocky Mountain Power” or “Company”) filed an application, together with revenue requirement, cost of service, rate spread

and rate design testimony, requesting approval of an increase in its retail electric utility service rates in Utah in the amount of \$160.6 million above the then-currently effective rates (without reference to revenue increases requested in the Company's 2007 rate case (Docket No. 07-035-93)) for a total revenue requirement in the approximate amount of \$1.592 billion. On September 10, 2008, Rocky Mountain Power filed supplemental testimony to reflect the Commission's revenue requirement order in Docket No. 07-035-93, adjust net power costs, introduce an amended cost of service study, and update the proposed rate spread.

4. On August 1, 2008, the Commission issued an order establishing the procedural schedule for this case. On August 26, 2008, September 29, 2008, and September 30, 2008, the Commission issued orders amending the schedule. On October 14, 2008, the Commission issued an additional scheduling order for the Revenue Requirement and Cost of Service/Rate Design portion of this case. On October 30, 2008 and November 6, 2008, the Commission issued orders modifying the Revenue Requirement and Cost of Service/Rate Design procedural schedule. On January 27, 2009, the Commission issued a scheduling order amending the schedule for the Rate Design/Cost of Service phase of this case.

5. On October 28, 2008, the Commission held a hearing on Rocky Mountain Power's Motion to Determine Test Year wherein Rocky Mountain Power sought approval to use a test period ending June 2009. On October 30, 2009, the Commission issued an order approving a test period ending December 2009, using average rate base. Rocky Mountain Power subsequently filed supplemental direct testimony and exhibits with the Commission on December 8, 2008, which included a revised revenue increase request of \$116.1 million, a cost

of capital request of 8.69% and return on equity of 11.0% with a 51.5% common equity component.

6. On February 4 and 9, 2009, certain Parties held settlement conferences to discuss cost of capital issues in the 2008 General Rate Case.

7. As a result of the settlement negotiations, certain Parties reached a compromise on cost of capital at issue in this case. The settlement resulted in a return on equity of 10.61 percent and a capital structure with a 51.0 percent common equity component. The Commission held hearings on March 12, 2009 and approved the cost of capital stipulation from the bench.

8. On March 17 and 18, 2009, the Parties held settlement conferences to discuss revenue requirement issues in the 2008 General Rate Case. On March 18, 2009, notice was provided to all intervenors advising all parties who filed revenue requirement testimony and others that the parties had reached an agreement in principle, and that a draft stipulation would be circulated. On March 19, 2009 a copy of the draft stipulation was circulated to all intervenors.

9. As a result of the settlement negotiations, the Parties have agreed to the revenue requirement in this case and other matters specified herein, which settlement is predicated on the assumption that the Commission timely issues a written order approving the ROE stipulation.

III. TERMS OF STIPULATION

10. Revenue Requirement. The Parties agree that, under this Stipulation and upon Commission approval, the Company's Utah revenue requirement and Utah customer rates will

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increase by \$45.0 million on May 8, 2009. The adjustments reducing the Company's rebuttal revenue requirement included in RMP__ (SRM-1R) to the agreed upon increase are shown in the table below:

	Revenue Requirement Increase (\$ millions)	Account /Allocation
Company Rebuttal Case	\$ 57.4	
Net Power Costs	(7.4)	555/SG
O&M	(2.5)	920/SO
Rate Base	(1.1)	303/SO
Property Taxes	(1.4)	408/GPS
Settlement Revenue Requirement	\$ 45.0	

While the Parties agreed on the general categories of costs to be adjusted in arriving at the agreed revenue requirement increase, there is no overall agreement as to the specific revenue requirement adjustments which led to the stipulated revenue requirement increases because different parties relied upon different adjustments in supporting the agreed upon \$45.0 million increase. The adjustments reflected in the table above and the associated account and allocation information therein will be the basis for the Company's revised cost of service study filed within 30 days of the hearing date of this Stipulation, unless the Commission does not approve the Stipulation.

11. Rate Implementation. The Parties agree that the \$45.0 million increase effective May 8, 2009 will be implemented through a new Schedule 98, Tariff Rider Rate, and Schedule 97 will be terminated and merged into Schedule 98. The Parties agree that the new Schedule 98 rider will equal 6.40 percent and will be applied to all tariff customers' bills effective with service on and after May 8, 2009. The 6.40 percent rate is the result of a 3.34 percent (\$45.0 million) increase applied to current rates including the current 2.96 percent Schedule 97 rider. Schedule 98 will apply until

the Commission issues a final order in the Cost of Service/Rate Design phase of this case. In the event that Cost of Service/Rate Design phase of this case is completed prior to May 8, 2009, the Parties agree that the Commission's findings in that phase of the case will supersede this rate implementation plan.

12. New Dockets and Task Force. The Parties agree to establish new dockets, work groups and task forces as set forth below:

a. The Parties agree that the issue of moving to full normalization on basis differences for deferred taxes will be deferred to and addressed in Docket No. 08-999-02.

b. Rocky Mountain Power agrees to, within 10 days from the date of the hearing of this Stipulation, request that the Commission open a docket on natural gas price risk management, and issue a protective order therein. In addition, Rocky Mountain Power agrees to request that the Commission promptly schedule technical conferences to allow interested parties to pursue discovery and review the Company's policies and procedures and other aspects of natural gas price risk management, prior to the filing of the Company's next general rate case.

c. Rocky Mountain Power agrees to invite the Parties to participate in a work group and promptly schedule work group meetings to discuss modeling issues related to planned outages within 10 days of the hearing of this Stipulation and prior to the filing of the next general rate case.

13. Rolling Hills. For purposes of modeling net power costs in general rate cases, the Parties agree that the annual average capacity factor for Rolling Hills will be 33.8 percent for any test period or portion of a test period utilized in a general rate case ending on or before December 31, 2011. Rocky Mountain Power agrees to provide wind met data from on-site monitoring for this

period. Rocky Mountain Power acknowledges that inclusion of Rolling Hills in rate base in this case does not preclude any prudence challenge in any future case; provided however, that the Parties agree not to challenge the prudence of Rolling Hills based directly or indirectly on capacity factor issues except in a proceeding involving a test period that ends after December 31, 2011. In the event any party proposes a higher capacity factor and the Commission accepts the higher capacity factor in a general rate case based upon collected wind data provided by the Company, then the Company is relieved of the obligation to use 33.8 percent as a fixed capacity factor as set forth above.

If an Energy Cost Adjustment Mechanism (ECAM), is established in Utah, in Docket No. 09-035-15 or otherwise, the Parties agree that 33.8 percent will be used as a minimum capacity factor in the calculations of actual net power costs incurred in the ECAM methodology for Rolling Hills through December 31, 2011.

14. Goodnoe Hills ETO Funding. The Parties agree that the overall revenue requirement in this Stipulation does not include any consideration of funds received by Rocky Mountain Power from the ETO pursuant to the project funding agreement for the Company's Goodnoe Hills wind plant. As a result, if the Stipulation is approved, Utah will retain its full share of renewable energy credits associated with Goodnoe Hills.

15. Next Case Filing Requirements. In relation to the filing of Rocky Mountain Power's next general rate case, the Company agrees to:

a. Provide responses to Master Data Request A concurrently with the filing of the general rate case and Master Data Request B within 30 days of the date of filing of the general rate case.

b. File a notice of intent to file the next rate case at least 30 days prior to the expected date of such filing.

c. In conjunction with the notice of intent filing, file with the Commission a motion for issuance of a protective order and draft protective in order to give the Commission the opportunity to issue the protective order prior to the date Rocky Mountain Power files its next rate case.

d. Assuming the Commission has issued a protective order prior to the filing of the next general rate case, Rocky Mountain Power agrees to provide access to the GRID model, input database, net power costs report and work papers used in creation of GRID inputs and results developed for the case, to intervenors who have signed said protective order at the time of filing of the rate case, consistent with and subject to the Master Data Requests content and timing identified in Paragraph 15.a. above, with the exception of the Master Data Requests attached hereto as Attachment 1. The Company agrees to provide responses to such Master Data Requests as noted in Attachment 1.

16. Rulemaking Under Senate Bill 75. The Parties agree that the discussions and comments submitted in connection with rulemaking that will be undertaken pursuant to Senate Bill 75 will also address appropriate rules governing the introduction of updates to filed positions during a general rate case proceeding including, without limitation, symmetry, timing and fairness to parties. The Parties will jointly ask the Commission to issue rules on such issues.

17. Goose Creek Regulatory Liability. The Parties agree that, upon Commission approval of this Stipulation, the Company may write-off Utah's portion of the Goose Creek

regulatory liability referred to as adjustment 8.2 in Mr. Steven R. McDougal's testimony in this docket in Exhibit RMP__(SRM-2SS).

18. Regulatory Assets. Certain expenses incurred by the Company have been deferred as regulatory assets on the Company's balance sheet. This Commission has previously issued orders allowing the deferral and amortization of these regulatory assets and subsequent recovery in rate proceedings. This Stipulation does not alter or impair the recovery of these regulatory assets previously deferred by the Commission orders under FAS 71.

19. The Parties will file a request with the Commission that the hearing, and the filing of sur-rebuttal testimony and the joint issues matrix due Monday, March 23, 2009 be suspended, and that a Stipulation hearing be scheduled for Tuesday March 31, 2009.

IV. GENERAL TERMS AND CONDITIONS

20. All negotiations related to this Stipulation are privileged and confidential and no Party shall be bound by any position asserted in negotiations. Neither the execution of this Stipulation nor the order adopting this Stipulation shall be deemed to constitute an admission or acknowledgment by any Party of any liability, the validity or invalidity of any claim or defense, the validity or invalidity of any principle or practice, or the basis of an estoppel or waiver by any Party other than with respect to issues resolved by this Stipulation; nor shall they be introduced or used as evidence for any other purpose in a future proceeding by any Party except a proceeding to enforce the approval or terms of this Stipulation.

21. The Parties respectfully request of the Commission that all of the prefiled testimony in this Docket be admitted into the record without witnesses being called or sworn at the proceeding.

The Company, the Division and the Committee each agree to make one or more witnesses available to explain and support this Stipulation to the Commission. Such witnesses will be available for examination. So that the record in this Docket is complete, the Parties may move for admission of evidence, comments, position statements or exhibits that have been filed on the issues resolved by this Stipulation; however, notwithstanding the admission of such documents, the Parties shall support the Commission's approval of the Stipulation and the Commission order approving the Stipulation. As applied to the Division and the Committee, the explanation and support shall be consistent with their statutory authority and responsibility.

22. The Parties agree that if any person challenges the approval of this Stipulation or requests rehearing or reconsideration of any order of the Commission approving this Stipulation, each Party will use its best efforts to support the terms and conditions of the Stipulation. As applied to the Division and Committee, the phrase "use its best efforts" means that they shall do so in a manner consistent with their statutory authority and responsibility. In the event any person seeks judicial review of a Commission order approving this Stipulation, no Party shall take a position in that judicial review opposed to the Stipulation.

23. Except with regard to the obligations of the Parties under the two immediately preceding paragraphs of this Stipulation, this Stipulation shall not be final and binding on the Parties until it has been approved without material change or condition by the Commission. This Stipulation is an integrated whole, and any Party may withdraw from it if it is not approved without material change or condition by the Commission or if the Commission's approval is rejected or materially conditioned by a reviewing court. If the Commission rejects any part of this Stipulation

or imposes any material change or condition on approval of this Stipulation or if the Commission's approval of this Stipulation is rejected or materially conditioned by a reviewing court, the Parties agree to meet and discuss the applicable Commission or court order within five business days of its issuance and to attempt in good faith to determine if they are willing to modify the Stipulation consistent with the order. No Party shall withdraw from the Stipulation prior to complying with the foregoing sentence. If any Party withdraws from the Stipulation, any Party retains the right to seek additional procedures before the Commission, including cross-examination of witnesses, with respect to issues addressed by the Stipulation and no Party shall be bound or prejudiced by the terms and conditions of the Stipulation.

24. The Parties may execute this Stipulation in counterparts each of which is deemed an original and all of which only constitute one original.

25. The Parties agree that this Stipulation is in the public interest and that all of its terms and conditions, considered together as a whole, will produce fair, just and reasonable Utah retail electric utility rates that provide Rocky Mountain Power a reasonable opportunity to earn its authorized return.

BASED ON THE FOREGOING, the Parties request that the Commission issue an order approving this Stipulation and adopting the terms and conditions of this Stipulation.

Respectfully submitted this 23rd day of March, 2009.

ROCKY MOUNTAIN POWER

/s/ Mark C. Moench

Mark C. Moench

Senior Vice President & General Counsel

UTAH DIVISION OF PUBLIC UTILITIES

/s/ Michael Ginsberg

Michael Ginsberg

Patricia Schmid

Assistant Attorney General

UTAH COMMITTEE OF CONSUMER SERVICES

/s/ Paul H. Proctor

Paul H. Proctor

Assistant Attorney General

UTAH INDUSTRIAL ENERGY CONSUMERS

/s/ F. Robert Reeder

F. Robert Reeder

Vicki M. Baldwin

Parsons Bahle & Latimer

UAE INTERVENTION GROUP

/s/ Gary A. Dodge

Gary Dodge

Hatch, James & Dodge

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THE KROGER COMPANY

/s/ K. Boehm

Kurt J. Boehm, Esq.

Boehm, Kurtz & Lowry

WAL-MART STORES

/s/ Holly R. S.

Holly Rachel Smith

Russell W. Ray, PLCC

**ATTACHMENT 1 TO
2008 UTAH GRC STIPULATION REGARDING
REVENUE REQUIREMENT**

Master Data Requests and Due Dates***

Data Requests Due Concurrent with Filing

GRID. Please identify the GRID pro-forma period.

GRID. Please list and explain all modeling or logic changes to the methodology used to compute data inputs or any other type of enhancement to the GRID model that have been implemented since the most recent Utah rate case. Please provide a statement of the direction of change in net power cost resulting from each such change and documentation describing each change.

GRID. Please provide electronic workpapers for the ECD calculation proposed by PacifiCorp. (i.e. provide the JAM study.)

GRID Outages. Identify the four-year period used to compute the outage rates used in GRID.

Data Requests Due 7 Days After Date of Filing

GRID. Please provide all documents, workpapers or other information relied upon by the Company in determining the market caps used in GRID for the Pro-Forma Period. Please provide this information electronically in excel spreadsheets with all formulas intact.

GRID. Please provide the current topology maps in GRID. Please explain all the differences that have been made to the topology since the last rate case and explain why the changes were made.

GRID Outages. Please provide workpapers showing the computation of the outage rates used in GRID. Include all backup data showing each outage (planned or unplanned, etc) and duration (planned or unplanned) considered in the four year period, including NERC cause code, type of event duration, energy lost, etc. Please provide workpapers showing the derivation of any seasonal outage rate assumptions used. Please provide this information electronically and in the case of excel spreadsheets with all formulas intact.

GRID Outages. Please explain how PacifiCorp determines the duration and timing of Planned Outages in the GRID model studies.

GRID Forward Curve. Please provide the date and a copy of the forward price curve, showing monthly heavy load hour and light load hour and hourly scalars, used in creating the Test Year GRID studies.

GRID Contracts. Please provide workpapers showing all short-term firm transactions modeled in the test year GRID study. Please provide the information in the same format as that provided in CCS 8.32 in Docket No. 04-035-42.

GRID Contracts. Please provide workpapers detailing the individual short-term firm contracts included in the test year GRID study. Please provide all pertinent information for the contracts, including the counterparty, the date the transaction was effected, the delivery dates, the amount and cost of energy delivered, the product type (i.e. flat, 6x16, etc), the delivery point, etc. Please provide this information electronically, and in the case of excel spreadsheets with all formulas intact.

GRID Hydro. Please provide a table showing the annual hydro energy inputs for all hydro plants modeled in GRID for each 365 day study for their respective study period. Demonstrate that the amount of energy for these hydro units equals the amount of hydro energy in the model outputs, either in the hydro dispatch exports, or in the GRID summary reports.

GRID Hydro. Please provide monthly or weekly (as is most convenient for PacifiCorp) hydro energy available under current system configurations and regulatory requirements for each individual hydro unit modeled in GRID.

GRID Generation. Please provide the start date and termination date, for each of the long-term firm purchase or sales contracts modeled in GRID.

Net Power Cost General. Please provide all documents concerning the development of test year wheeling expenses and revenues modeled in GRID or included elsewhere in the Company's filing.

Net Power Cost General. Please provide the heat rate curves for each unit and workpapers used to develop the curves.

***All other responses to MDR A and B will remain on the schedule as stipulated in Paragraph 15.a of the Stipulation Regarding Revenue Requirement.