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Rocky Mountain Power announces changes in its Utah business

SALT LAKE CITY, Utah, Sept. 2, 2008 — Rocky Mountain Power must change the way it serves its Utah customers due to a recent rate decision issued by the Public Service Commission of Utah. Previously, the company had sought to balance three elements of utility operations: (1) service reliability to current customers; (2) ability to serve growing loads of new and current customers; and (3) low rates. After analyzing the commission's order, the company determined the commission did not provide sufficient revenue to support the electric service levels needed to meet Utah's growing demand for electricity. The commission has signaled by its order that the primary policy of the state is to keep rates low. To achieve this state policy objective and live within the budget set by the commission, Rocky Mountain Power will be making significant changes in the way it conducts business in Utah.

In its August order the commission granted Rocky Mountain Power a 2.7 percent tariff increase against a request for a 5.6 percent increase. The company's request for additional revenue reflected the cost to serve its Utah customers during calendar year 2008. It also reflected the cost associated with supporting the state's economic development and environmental goals while satisfying its regulatory commitments. The \$38 million disallowed by the commission is required to respond to growth and to operate the company in the manner that Rocky Mountain Power previously believed customers expect and deserve. Consequently, today the company will be making a legal challenge to the commission's order by filing a petition for reconsideration of the commission's order requesting formal review of its decision regarding recovery of the company's power costs, property taxes, costs associated with generation overhauls, test year and return on equity.

"For more than a decade, Utah has enjoyed one of the fastest-growing economies in the United States," said Richard Walje, president of Rocky Mountain Power. "Growth does not come without significant challenges. The company has been investing billions of dollars to ensure sufficient generation, transmission and distribution capacity is available to meet this growth. The cost of providing for increased electric consumption by existing customers and the cost of providing service to new customers has exceeded the revenue the company receives from these customers. In response, we have aggressively managed our controllable costs through business efficiencies and energy efficiency programs designed to mitigate the impacts of growth and other cost reduction measures. However, these efforts have not fully offset the increased costs of serving existing and new electrical demand in Utah."

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The cost of coal, natural gas and purchased electricity is increasing rapidly. As a result, the cost of electricity Rocky Mountain Power purchases and generates to serve customers in Utah is increasing sharply – up between \$16 million and \$20 million every six months. The costs incurred to purchase and generate electricity to serve the company's Utah customers during the first five months of 2008 exceeded the amount of revenue provided by the commission in its August order. That order currently creates a shortfall in net power cost recovery of \$16 million in Utah for the company. The order also does not take into account the higher level of fuel and purchased power costs that will be incurred by the company to serve customers over the next year. This will increase the company's shortfall by an additional \$27 million. In addition to increases in net power costs, the costs for critical commodities have had double- and triple-digit increases since 2001 – steel at 350 percent, copper at 349 percent and diesel fuel at 209 percent.

Unfortunately, the amount of revenue provided the company in the commission's order does not reflect the true cost of providing electrical service, and as a result the company is unable to continue its current approach to providing service.

Therefore, effective Sept. 15, 2008, Rocky Mountain Power will implement a hiring freeze directed at positions dedicated to serving customers in Utah. In addition, the company will:

- Further curtail the use of contractors;
- Limit overtime to the restoration of power only when employee or public safety is threatened;
- Seek relief and work with appropriate parties to reduce Utah property tax payments to the level allowed by the commission, as well as explore other options;
- Eliminate discretionary maintenance, discontinue funding of research associated with renewable and clean coal technology, and discontinue support for economic development activities;
- Review the level and types of corporate philanthropy; and
- Ultimately consider curtailing electric service when the cost of purchasing electricity to serve customers in Utah is prohibitive and exceeds the funding the commission provided to purchase and generate electricity to serve customers.

The company continues to investigate additional actions that can be taken to reduce costs, including changes in the operations of the company's customer contact centers, while remaining in compliance with all local, state and federal regulations.

While these actions are necessary given the recent commission order, the primary driver of price increases – growth in the demand for electricity – must be addressed if the policy to maintain low prices inherent in the commission's order is to be achieved. Consequently, Rocky Mountain Power will aggressively work with elected officials and the commission to reduce the growth in Utah's demand for electricity.

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Requests will be submitted to the Public Service Commission of Utah and, if necessary, to elected officials to mandate customer participation in electricity demand-management programs, to eliminate line extension allowances for new customers, to institute marginal pricing for large industrial customers and to send appropriate pricing signals to customers through the use of an energy cost adjustment mechanism similar to the commission-allowed adjustment Questar uses in establishing natural gas prices.

The company is evaluating the impact these changes will have on the projected growth in the demand for electricity, and will recommend other policy changes, if necessary, to ensure the delivery of safe, adequate service to customers in Utah.

Unfortunately, these actions are necessary to bring the cost of providing service in Utah in line with the revenue the company will receive based on the commission's recent decision.

"The employees and management of Rocky Mountain Power are committed to serving our Utah customers to the best of our ability and we regret the impact the recent decision of the commission will have on the level of service we are able to provide," Walje said.

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