

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

)
In the Matter of the Application of Rocky) DOCKET NO. 10-035-124
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)
)
In the Matter of the Application of Rocky) DOCKET NO. 09-035-15
Mountain Power for Approval of its)
Proposed Energy Cost Adjustment)
Mechanism)
)
In the Matter of the Application of the Utah) DOCKET NO. 10-035-14
Association of Energy Users for a Deferred)
Accounting Order Directing Rocky)
Mountain Power to Defer Incremental REC)
Revenue for Later Ratemaking Treatment)
)
In the Matter of the Application of the Utah) DOCKET NO. 11-035-46
Industrial Energy Consumers for a Deferred)
Accounting Order Directing Rocky)
Mountain Power to Defer Incremental REC)
Revenue for Later Ratemaking Treatment)
)
In the Matter of the Application of the Utah) DOCKET NO. 11-035-47
Office of Consumer Services for a Deferred)
Accounting Order Directing Rocky)
Mountain Power to Defer all Bonus)
Depreciation Allowed for 2010 through 2011) REPORT AND ORDER
by the Small Business Jobs Act as Amended)
)

ISSUED: September 13, 2011

SHORT TITLE

Rocky Mountain Power 2011 General Rate Case

SYNOPSIS

The Commission approves two stipulations which together resolve five separate dockets for Rocky Mountain Power. One stipulation addresses the revenue increase in the general rate case, and the alternative ratemaking treatment given to net power cost, wheeling revenue, and renewable energy credit (“REC”) revenue. The other stipulation addresses the spread of the revenue changes to rate schedules and changes in rates.

The Commission approves an increase in Rocky Mountain Power’s Utah jurisdictional annual revenue requirement of \$117.0 million based on a forecast test period of 12 months ending June 30, 2012, and an allowed rate of return on equity of 10.0 percent. This is a 6.9 percent increase in Rocky Mountain Power’s forecast of general business revenue in Utah.

Approximately 39 percent of the revenue increase will be collected from residential customers, 40 percent from commercial customers, and 20 percent from industrial customers. For residential customers taking single phase service, the monthly customer charge increases from \$3.75 to \$4.00, and the monthly minimum bill, from \$3.78 to \$7.00. Except for these changes and the residential time-of-day rate design change, the revenue increase will be applied on an equal percentage basis to all rate elements of all service schedules receiving a rate increase. Service on Schedule 25 for mobile home and house trailer park service is closed and remaining customers will be moved to appropriate service schedules.

The Commission modifies its prior order in Docket No. 09-035-15 by allowing certain prudent financial swap transactions to be included in the energy balancing account per the terms of the Settlement Stipulation. The monthly average costs in the energy balancing account are based on a forecast annual Utah jurisdictional net power cost of \$629.1 million and \$30.5 million annual Utah jurisdictional wheeling revenue. A revenue increase of \$60 million for deferred net power costs is approved. This amount will be recovered from customers through an annual \$20.0 million surcharge over three years beginning June 1, 2012.

The Commission approves a renewable energy credit (“REC”) revenue balancing account beginning September 21, 2011, to recognize the difference between the forecast of REC revenue in rates and the REC revenue actually received by the Company. On an annual basis, 100 percent of the difference will be credited or charged to customers through Schedule 98. Rates effective September 21, 2011, are based on a forecast of \$50.9 million in Utah jurisdictional REC revenue. Ratemaking treatment of this account balance will coincide with that of the energy balancing account approved in Docket No. 09-035-15.

Addressing issues raised in Docket Nos. 10-035-14 and 11-035-46, the Commission approves a customer credit of \$33.6 million for the revenue deferred or projected to be deferred from February 22, 2010, through September 20, 2011, from incremental REC revenue. This credit will be in place from September 21, 2011, through May 31, 2012, and will be allocated and credited to customers generally on the basis of Factor 10 and implemented through Schedule 98. The impact of the credit to the Utah jurisdiction during this time period is to reduce the revenue increase from 6.9 percent to 4.0 percent.

TABLE OF CONTENTS

APPEARANCES	iv
I. PROCEDURAL HISTORY	1
II. INTRODUCTION	18
III. COST-OF-SERVICE STIPULATION	19
A. COST OF SERVICE	20
B. RATE SPREAD	20
C. RATE DESIGN	21
D. POSITIONS OF THE PARTIES	23
E. DISCUSSION, FINDINGS, AND CONCLUSIONS	25
IV. SETTLEMENT STIPULATION	26
A. REVENUE REQUIREMENT	26
B. OTHER ISSUES	32
C. POSITIONS OF THE PARTIES	33
D. DISCUSSIONS, FINDINGS AND CONCLUSIONS	41
V. ORDER	52
APPENDIX: Stipulations, etc.	55

APPEARANCES:

Gregory B. Monson D. Matthew Moscon Stoel Rives LLP Yvonne R. Hogle PacifiCorp	For	PacifiCorp
Patricia Schmid Dahnelle Burton-Lee Assistant Attorneys General	"	Utah Division of Public Utilities
Paul H. Proctor Assistant Attorney General	"	Utah Office of Consumer Services
Gary A. Dodge Hatch, James & Dodge	"	UAE Intervention Group
F. Robert Reeder Vicky Baldwin Parsons Behle & Latimer	"	Utah Industrial Energy Consumers
Holley Rachel Smith Russell W. Ray, PLLC Ryan L. Kelly Kelly & Bramwell, P.C.	"	Wal-Mart Stores, Inc., and Sam's West Inc.
Kurt J. Boehm Boehm, Kurtz & Lowry	"	Kroger Co.
Bruce Plenk	"	AARP and Salt Lake Community Action Program
Gloria D. Smith	"	Sierra Club
Sophie Hayes	"	Utah Clean Energy
Karen S. White AFLOA/JACL-ULFSC	"	Federal Executive Agencies

I. PROCEDURAL HISTORY

The following procedural history for this comprehensive Report and Order is presented on a docket-by-docket basis in the sequence presented on the title page of this Report and Order.

Procedural History for Docket No. 10-035-124

On December 1, 2010, Rocky Mountain Power, a division of PacifiCorp, (“Company”) filed its notice of intent to file a general rate case on or about January 17, 2011. On January 24, 2011, the Company filed an Application for General Rate Increase (“Application”). In the Application, the Company requested authority to increase its retail rates by \$232.4 million, or approximately 12 percent, effective September 21, 2011, based on the forecast test period¹ ending June 30, 2012, a 13-month average rate base with a historical base period, and a return on equity of 10.5 percent. In addition, the Application requested modifications to the Company’s electric service schedules and electric service regulations. On January 24, 2011, the Company also filed correspondence regarding a Confidential Information Certificate which it desired parties execute prior to obtaining access to confidential information. On January 25, 2011, the Company filed replacement redacted and confidential versions of the testimony which should have been marked “confidential” in the Application but were not.

On January 26, 2011, the Commission issued an Action Request to the Division of Public Utilities (“Division”) with directions to review the Application pursuant to Utah Code Ann. § 54-7-12(2) to determine if it satisfied the requirements of a complete filing pursuant to

¹ The terms “test period” and “test year” are used interchangeably throughout this order.

Utah Administrative Code R746-700-1 through 23. On January 27, 2011, the Division filed a memorandum requesting the Commission to set a scheduling conference at the earliest opportunity.

Between January 27, 2011, and April 5, 2011, the following 17 parties petitioned for leave to intervene in this case which the Commission granted: Utah Association of Energy Users, ATK Aerospace Systems, American Pacific Corporation, Anadarko Petroleum Corporation, Chevron U.S.A., Inc., ConocoPhillips Company, Hexcel Corporation, IHC Health Services, Inc., IM Flash Technologies, LLC, May Foundry & Machine Company and Simplot Phosphates, collectively known as UAE Intervention Group (“UAE”); Kroger Co. (“Kroger”); Nucor Steel-Utah, a Division of Nucor Corporation (“Nucor”); Holcim, Inc., Kennecott Utah Copper LLC, 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”); Wal-Mart Stores, Inc. and Sam’s West, Inc. (collectively, “Wal-Mart”); Federal Executive Agencies (“FEA”); Utah Rural Telecom Association (“URTA”), on behalf of itself and URTA members All West Communications, Bear Lake Communications, Beehive Telephone Company, Carbon/Emery Telcom, Central Utah Telephone, Direct Communications Cedar Valley, Emery Telcom, Gunnison Telephone, Hanksville Telcom, Manti Telephone, Skyline Telecom, South Central Utah Telephone Association, Strata Networks, and Union Telephone (collectively referred to as “URTA”); Comcast Cable Communications, LLC, on behalf of its operating subsidiaries and affiliates (“Comcast”); Utah Clean Energy (“UCE”); US Magnesium LLC (“US Magnesium”); Western Resource Advocates (“WRA”); Sierra Club; AARP; Salt Lake Community Action Program (“SLCAP”); Utah Farm Bureau Federation

(“Farm Bureau”); International Brotherhood of Electrical Workers, Local 57 (“IBEW Local 57”); and Qwest Corporation (“Qwest”).

On February 3, 2011, the Commission issued a Notice of Scheduling Conference to be held February 9, 2011. On February 7, 2011, UIEC filed a Motion Challenging Completeness of Filing and Proposed Test Year (“UIEC Motion”) and the Division filed a memorandum indicating it found that the Company’s filing satisfies the Commission’s filing requirements. The Division, however, did find some instances where certain responses to filing requirements were not in compliance or were in partial compliance with Utah Administrative Code R746-700-1.E.1. The Division did not believe that these discrepancies constituted a substantial deficiency in the Company’s filing and, therefore, did not challenge the completeness of the Company’s filing. On February 8, 2011, the Company filed the Division’s suggested additional backup information.

On February 9, 2011, the Commission issued a Notice of Technical Conference to be held February 15, 2011, to address the ratemaking treatment of costs associated with the Klamath hydroelectric system. On February 10, 2011, UAE filed a Request for Prompt Test Period Hearing and Expedited Consideration (“UAE Request”). On February 15, 2011, the Company filed a response in opposition to both the UIEC Motion and the UAE Request (“RMP Response”). In addition, the Division filed a response to the UIEC Motion.

On February 16, 2011, UAE filed a reply in support of its request for an early test period hearing and in response to the RMP Response. On February 17, 2011, UIEC filed a reply in Support of its Motion and in response to the RMP Response. On February 23, 2011, the Commission issued a Scheduling Order setting the procedural schedule for this docket.

On March 8, 2011, the Commission issued an Order Scheduling Surrebuttal Testimony in Test Year Inquiry Phase which clarified the Commission will not receive surrebuttal testimony presented orally on the witness stand. Rather parties were provided the opportunity to file test period surrebuttal testimony with the Commission and serve it on all parties no later than Monday, March 21, 2011. The Company, Division, Office of Consumer Services (“Office”), UAE, and UIEC filed direct and rebuttal test-year testimony on March 9, 2011, and March 17, 2011, respectively. The Company, Division, Office, and UIEC filed surrebuttal testimony on March 21, 2011. On March 24, 2011, the Commission, in a duly noticed hearing, heard testimony and evidence on the selection of the best test year for this case. On March 30, 2011, the Commission issued an Order on Test Period in which the Commission determined July 1, 2011, through June 30, 2012, using average period rate base, shall be the test period in this docket. The Commission also directed the Company to file, by April 15, 2011, its semi-annual results of operations report for calendar year 2010 and an updated class cost-of-service study using this data.

On March 31, 2011, UAE filed a Motion to Compel Production of Documents in Response to UAE Data Request 2.1, Request for Extended Testimony Filing Deadline Regarding Contested Projects, and Request for Expedited Treatment (“Motion to Compel”). On April 5, 2011, the Company filed a response in opposition to UAE’s Motion to Compel. On April 7, 2011, UAE filed a memorandum in response to the Company’s April 5, 2011, response and in support of its Motion to Compel. In addition, on April 7, 2011, the Commission issued an Order Shortening Time for Reply and a Notice of Hearing scheduled for April 14, 2011, to hear

argument on UAE's Motion to Compel. On April 12, 2011, the Office filed a memorandum in support of UAE's Motion to Compel.

At the duly noticed hearing on April 14, 2011, the Hearing Officer directed the Company to disclose all material that is reasonably called for under Data Request 2.1 to UAE and the other participants who have requested it, except for the arbitrator's decision.

On April 18, 2011, as directed in the Commission's March 31, 2011, Order on Test Period, the Company filed its Results of Operations Report and Utah Jurisdiction Class Cost of Service Study, both for the period ending December 31, 2010.² On April 26, 2011, the Commission issued an Order to Compel Discovery directing the Company, among other things, to disclose the arbitration decision referenced in Data Request 2.1 to UAE and any other requesting parties within seven calendar days of the date of the order.

On May 3, 2011, pertaining to the Company's proposed modifications to Electric Service Schedule No. 4, "Pole Attachments" ("Schedule 4") contained in its Application, URTA filed a Motion to Dismiss, Motion to Strike, or Alternatively, Motion to Open a Separate Rulemaking Docket ("URTA Motion"). On May 4, 2011, the Commission issued an Order Shortening Time for Response to Motion and Notice of Oral Argument scheduled for May 12, 2011. On May 10, 2011, the Company and Division each filed responses opposing the URTA Motion, Qwest filed a response in support of the URTA Motion and requesting the Commission to dismiss portions of the Company's rate case that relate to pole attachment issues, and strike the applicable testimony, and Comcast filed a response in support of the URTA Motion.

² On May 5, 2011, in response to a April 28, 2011, letter from the Commission, these documents were resubmitted based upon monthly state loads at the time of actual monthly system coincident peaks in calendar year 2010.

On May 11, 2011, the Division, Office, FEA, and Wal-Mart filed direct testimony on rate of return and capital structure. In addition, UIEC filed a Motion to Compel Data Responses (“UIEC Motion to Compel”) pertaining to UIEC Data Requests 10.3, 12.9, 19.2, 19.9, 19.11, 20.5, 20.9 through and including 20.27, 20.30, 20.31. The UIEC Motion to Compel also requested an extension of filing deadline and expedited treatment.

On May 12, 2011, the Commission issued an Order pertaining to back-up information for net power cost adjustments and directing the Division, and inviting any interested party, to address in direct testimony interjurisdictional cost allocation mechanisms. On May 16, 2011, UIEC filed a Request for Clarification and Expedited Treatment pertaining to the Commission May 12, 2011, Order to which the Commission responded on May 19, 2011.

On May 18, 2011, pursuant to the Commission’s February 23, 2011, Scheduling Order, the Division, URTA, Comcast, and Qwest filed testimony pertaining to the Company’s proposed revision to Schedule 4. On May 24, 2011, the Commission issued an Interim Order on Motion to Compel Discovery addressing the UIEC Motion to Compel.

On May 26, 2011, direct testimony on revenue requirement was filed by the Division, Office, UAE, UIEC, U.S. Magnesium, IBEW Local 57, and WRA. In addition, the Company filed its opposition to the UIEC Motion to Compel.

On June 1, 2011, the Sierra Club filed direct testimony on revenue requirement, and the Commission issued an Order addressing the URTA Motion in which the Commission transferred consideration of the Company’s rate-related pole attachment testimony to Docket No. 10-035-97, “In the Matter of the Consolidated Applications of Rocky Mountain Power for Approval of Standard Reciprocal and Non-Reciprocal Pole Attachment Agreements.” On June

2, 2011, direct testimony on cost of service, rate spread and rate design was filed by the Division, Office, UAE, UIEC, Kroger, Wal-Mart, UCE, Farm Bureau, and collectively by SLCAP and AARP. In addition, the Company filed supplemental direct testimony in this docket and a Motion for Determination of Ratemaking Treatment of Deferred Accounts (“Motion for Ratemaking Treatment”) in Docket Nos. 09-035-14, 10-035-14, and 10-035-124, requesting the Commission determine the ratemaking treatment for the Company’s deferred accounts for incremental net power costs and incremental REC revenue specified in the Commission-approved Stipulation and Joint Motion for Deferred Accounting Orders so that the Company may begin amortization of both accounts as of the date the rates set in Docket No. 10-035-124 go into effect.

On June 6, 2011, UIEC filed a reply memo in support of its Motion to Compel. On June 8, 2011, the Company and Division filed rebuttal testimony on cost of capital and capital structure issues. In addition, the Division filed corrected and supplemental cost of service direct testimony. On June 9, 2011, the Commission issued an Errata to Order on URTA Motion to Dismiss Pole Attachment Issues or for Alternative Relief. In addition, the Company filed a Notice of Withdrawal of Testimony and Filing of Supplemental Testimony accompanied by supplemental direct testimony. On June 16, 2011, UIEC filed a response in opposition to the Company’s Motion on Deferred Accounts. On June 20, 2011, the Division, Office, and UAE filed responses to the Company’s Motion on Deferred Accounts and the Commission issued an Order Amending Schedule.

On June 21, 2011, UIEC filed a motion to strike testimony and exhibits associated with the assets not used and useful as of the rate-effective date (“UIEC Motion on Used and

Useful”). On June 27, 2011, the Company filed its Reply to the responses pertaining to its Motion on Deferred Accounts and the Division and Office filed surrebutal testimony on cost of capital and capital structure issues. On June 28, 2011, the Commission issued its Order on UIEC Motion to Compel Discovery and on June 29, 2011, the FEA filed surrebutal testimony on cost of capital issues.

On June 30, 2011, the Company filed rebuttal testimony on revenue requirement in which it decreased its requested revenue requirement increase from \$232.4 million to \$188.1 million. In addition, the Division, Office, UAE UIEC, and IBEW Local 57 filed rebuttal testimony on revenue requirement issues and UAE filed a motion for a one-week delay in the rebuttal testimony filing date on cost of service, rate spread and rate design.

On July 5, 2011, the Division filed a motion requesting: the Commission compel the Company to respond to data requests; permission to use the response in either surrebutal or in a summary statement at hearing; and expedited consideration. In addition the Commission issued an Order Amending Schedule for Filing Rebuttal Testimony, the Company filed an unopposed motion to vacate the cost of capital hearing scheduled for July 11, 2011, and to admit filed testimony, and UIEC responded to the Company’s Reply. On July 6, 2011, the Commission issued an Order Vacating Cost of Capital Hearing and Admitting Testimony and Exhibits, the Division filed a Response to UIEC’s Motion on Used and Useful, and the Company filed a response to UIEC’s Motion on Used and Useful. On July 7, 2011, the Company filed a reply to UIEC’s July 5th unauthorized response. On July 14, 2011, the Stipulation on Cost of Service, Rate Spread and Rate Design was filed by the Company, Division, Office, UAE, UIEC, Kroger, Wal-Mart, Nucor, FEA, AARP, and SLCAP.

On July 18, 2011, UIEC filed a reply in support of its Motion on Used and Useful. On July 19, 2011, the following parties filed surrebuttal testimony on revenue requirement issues: The Company, Division, Office, UAE, UIEC, WRA, and US Magnesium. On July 20, 2011, the Company filed a response to the Division's July 5th motion. On July 21, 2011, the Division filed a motion to modify the hearing schedule to receive public witness testimony from July 28, 2011, to August 8, 2011, which the Commission granted on July 26, 2011. On July 26, 2011, the Company filed, and the Commission granted, a motion to vacate the revenue requirement hearing dates of July 27 through August 2, 2011, and to hold a hearing commencing August 3, 2011, to consider the approval of a settlement stipulation. This order also set procedural dates for parties wishing to file issue statements in opposition to the Settlement Stipulation.

On July 28, 2011, the Settlement Stipulation resolving revenue requirement and other issues was filed by the Company, Division, Office, UAE, UIEC, Kroger, and IBEW Local 57. Additional signature pages to the Settlement Stipulation were filed by Wal-Mart and FEA on August 1, 2011, and AARP on August 2, 2011. On August 1, 2011, the Commission issued a hearing schedule to consider the Stipulation on Cost of Service, Rate Spread and Rate Design. Also on August 1, 2011, US Magnesium filed a statement regarding the Settlement Stipulation issues and witnesses and Sierra Club filed its Issue Statement and Witness List in Preparation for Hearing in Opposition to Stipulation to Settle Revenue Requirement.

During the pendency of this case, in addition to receiving testimony from intervenors, the Commission also received many e-mail comments from the public.

On August 3, 2011, a duly noticed hearing was conducted. At this hearing, the Commission heard testimony and evidence on the Settlement Stipulation. On August 8, 2011, a duly noticed hearing was conducted in which the Commission heard testimony and evidence on the Stipulation on Cost of Service, Rate Spread and Rate Design. The Commission also heard public witness testimony addressing issues in the general rate case. In a Memorandum Decision issued on August 11, 2011, the Commission approved both the Settlement Stipulation and the Stipulation on Cost of Service, Rate Spread and Rate Design.

Procedural History for Docket No. 09-035-15

The complete procedural history up to the date of the issuance of the Commission's March 3, 2011, Corrected Report and Order approving an energy balancing account ("EBA") for the Company can be found in that order ("March EBA Order"). The following procedural history pertains to the two issues resolved herein, i.e., ratemaking for deferred net power costs and rehearing regarding whether swaps should be included in the EBA.

On February 9, 2010, the Company filed a motion requesting deferred accounting treatment for the difference between certain net power costs allowed in the rates to be established in the Company's general rate case, Docket No. 09-035-23,³ and certain actual net power costs incurred after February 18, 2010. Between February 23, 2010, and February 24, 2010, the Division, Office, UAE, and UIEC filed memoranda in opposition to the Company's motion. On March 8, 2010, the Company filed a response to the parties' opposition to its

³ See *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*.

motion. On February 22, 2010, UAE filed an application for deferred accounting of incremental REC revenue in Docket No. 10-035-14. The UAE application sought a deferred accounting order to preserve the ability of parties to argue for or against the use of deferred REC revenue as a credit to ratepayers in a future ratemaking proceeding.

On May 4, 2010, various parties filed a Stipulation and Joint Motion for Deferred Accounting Orders in Docket Nos. 09-035-15 and 10-035-14 and Scheduling in Docket No. 09-035-15 requesting the Commission grant the Company motion and UAE application to establish net power cost and REC revenue deferred accounting orders, respectively (“Deferred Accounting Stipulation”). The Deferred Accounting Stipulation specified the parties’ intention that the requested accounting orders create no presumption regarding future ratemaking treatment of the deferred amounts. On June 29, 2010, the Commission conducted a hearing on the Deferred Accounting Stipulation. Most parties to the case joined in the stipulation, and no party opposed it. On July 14, 2010, the Commission issued a Report and Order on Deferred Accounting Stipulation approving the Deferred Accounting Stipulation.

On April 18, 2011, the Company filed a Petition for Clarification and Reconsideration or Rehearing (“Petition on Reconsideration”) of the March EBA Order. On May 2, 2011, the Division, Office, UAE and UIEC filed responses either supporting or opposing various aspects of the Company’s Petition on Reconsideration.

On May 9, 2011, the Commission issued an Order on Petition for Clarification and Reconsideration or Rehearing and Notice of Scheduling Conference granting limited rehearing on the issue of whether swap transactions should be included in the EBA and specifying a scheduling conference to be held on May 19, 2011. The Commission further

indicated the broader issue of the Company's hedging strategies and policies would not be considered in this docket but remained a proper subject of examination in any docket in which the Company seeks recovery of specific hedging transaction costs. On May 24, 2011, the Commission issued a procedural schedule for rehearing the issue of whether swap transactions should be included in the EBA.

On June 2, 2011, the Company filed the Motion for Ratemaking Treatment in Docket Nos. 09-035-14, 10-035-14, and 10-035-124, requesting the Commission determine the ratemaking treatment for the Company's deferred accounts for incremental net power costs and incremental REC revenue specified in the Deferred Accounting Stipulation so that the Company may begin amortization of both accounts as of the date the rates set in Docket No. 10-035-124 go into effect. On June 16, 2011, UIEC filed a response to the Company's Motion for Ratemaking Treatment and on June 20, 2011, the Division, Office, and UAE filed responses to the Company's Motion for Ratemaking Treatment.

On June 27, 2011, the Company filed its Reply to the responses of the Division, Office, UAE, and UIEC regarding its Motion for Ratemaking Treatment. On July 5, 2011, UIEC responded to the Company's Reply and on July 7, 2011, the Company filed a Reply to UIEC's unauthorized response. On June 29, 2011, the Division filed its Preliminary Report of the EBA Pilot Program Evaluation Plan.

On July 14, 2011, the Company filed direct testimony associated with rehearing. On July 27, 2011, the Commission issued a Notice of Hearing to examine a proposed settlement stipulation affecting this and other dockets, commencing on August 3, 2011. On July 28, 2011, the Settlement Stipulation resolving the ratemaking treatment of net power cost and REC

revenue deferred accounts and whether swap transactions should be included in the EBA, as well as other issues, was filed by the Company, Division, Office, UAE, UIEC, Kroger, and IBEW Local 57. Additional signature pages to the Settlement Stipulation were filed by Wal-Mart and FEA on August 1, 2011, and AARP on August 2, 2011.

On August 3, 2011, a duly noticed hearing was conducted in which the Commission heard testimony and evidence on the Settlement Stipulation. On August 11, 2011, the Commission issued its Memorandum Decision approving the Settlement Stipulation, vacating the remaining procedural schedule for rehearing the issue of whether swap transactions should be included in the EBA, and rendering moot all pending motions regarding the ratemaking treatment of the net power cost deferred account balance.

Procedural History for Docket No. 10-035-14

The procedural history up to the Commission's approval of a Deferred Accounting Stipulation in Docket No. 10-035-14 can be found in the Commission's July 14, 2010, Order Approving Settlement Stipulation. The following procedural history pertains to issues resolved herein.

On December 21, 2010, the Commission approved a settlement stipulation in this docket as well as the major plant additions ("MPA") Docket Nos. 10-035-13⁴ and 10-035-89⁵ establishing, in part, a \$3.0 million monthly rate credit, provided to customers through Electric

⁴ See *In the Matter of the Application of Rocky Mountain Power for Alternative Cost Recovery for Major Plant Additions of the Ben Lomond to Terminal Transmission Line and the Dave Johnston Generation Unit 3 Emissions Control Measure*.

⁵ See *In the Matter of the Application of Rocky Mountain Power for Alternative Cost Recovery for Major Plant Additions of the Populus to Ben Lomond Transmission Line and the Dunlop I Wind Project*.

Service Schedule No. 98, "REC Revenues Credit" ("Schedule 98"), to account for additional renewable energy certificate revenues not currently reflected in rates ("MPA Stipulation"). The MPA Stipulation stated the actual amount of sur-credit realized by customers would be booked against the deferred REC balancing account approved in Docket No. 10-035-14, but final disposition and ratemaking treatment of any balance should be resolved in another appropriate docket.

On June 2, 2011, the Company filed the Motion for Ratemaking Treatment in Docket Nos. 09-035-15, 10-035-14, and 10-035-124, requesting the Commission determine the ratemaking treatment for the Company's deferred accounts for incremental net power costs and incremental REC revenue specified in the Deferred Accounting Stipulation so that the Company may begin amortization of both accounts as of the date the rates set in Docket No. 10-035-124 go into effect. On June 16, 2011, UIEC filed a response to the Company's Motion for Ratemaking Treatment and on June 20, 2011, the Division, Office, and UAE filed responses to the Company's Motion for Ratemaking Treatment.

On June 27, 2011, the Company filed its Reply to the responses of the Division, Office, UAE, and UIEC regarding its Motion for Ratemaking Treatment. On July 5, 2011, UIEC responded to the Company's Reply and on July 7, 2011, the Company filed a Reply to UIEC's unauthorized response.

On July 27, 2011, the Commission issued a Notice of Hearing to examine a proposed settlement stipulation affecting this and other dockets commencing on August 3, 2011. On July 28, 2011, the Settlement Stipulation resolving the ratemaking treatment of the deferred REC revenue and other issues was filed by the Company, Division, Office, UAE, UIEC, Kroger,

and IBEW Local 57. Additional signature pages to the Settlement Stipulation were filed by Wal-Mart and FEA on August 1, 2011, and AARP on August 2, 2011.

On August 3, 2011, a duly noticed hearing was conducted in which the Commission heard testimony and evidence on the Settlement Stipulation. On August 11, 2011, the Commission issued its Memorandum Decision approving the Settlement Stipulation, rendering moot all pending motions regarding the ratemaking treatment of the REC revenue deferred account balance.

Procedural History for Docket No. 11-035-46

On March 21, 2011, UIEC filed an application for a deferred accounting order for REC revenue (“REC Application”) to defer for later ratemaking treatment all revenues from 2009 recovered by the Company prior to February 22, 2010 (the date upon which the deferred order in Docket No. 10-035-14 took effect), in connection with sale of RECs, in any form, that are in excess of the REC value embedded in Utah rates. On April 18, 2011, UAE filed a petition to intervene in support of UIEC’s REC Application. On April 20, 2011, the Company filed a motion to dismiss and a response to UIEC’s REC Application and the Division filed comments requesting a scheduling conference in this matter. On April 21, 2011, the Office filed a response agreeing with the Division’s April 20th recommendation and requesting that the time for filing responses to the Company’s motion to dismiss be stayed pending the establishment of a schedule for addressing the application.

On April 27, 2011, the Commission issued a Notice of Scheduling Conference to be held on May 4, 2011, and on April 28, 2011, the Commission issued an Order clarifying that

responses to the Company's motion to dismiss shall be filed within 15 calendar days of the service date of the motion.

On May 5, 2011, UAE filed a response in opposition to the Company's motion to dismiss UIEC's application for deferred accounting and UIEC filed its Response to the Company's Motion to Dismiss and Response to Application. On May 9, 2011, the Commission issued an order granting intervention of UAE and on May 16, 2011, the Commission issued a scheduling order in this docket setting the procedural schedule for this matter and the Company filed its reply to UIEC's and UAE's responses in opposition to the Company's Motion to Dismiss. On June 20, 2011, the Commission issued an Order Denying Motion to Dismiss.

On July 14, 2011, UIEC filed a motion for extension of its direct testimony filing date and on July 18, 2011, filed a request for expedited treatment of this motion. On July 19, 2011, the Commission issued its Order Granting Extension of Direct Testimony Filing Date. On July 27, 2011, the Commission issued a Notice of Hearing to examine a proposed Settlement Stipulation affecting this and other dockets commencing on August 3, 2011. On July 28, 2011, a Settlement Stipulation resolving UIEC's REC Application and other issues was filed by the Company, Division, Office, UAE, UIEC, Kroger, Wal-Mart, IBEW Local 57, FEA and AARP.

On August 3, 2011, a duly noticed hearing was conducted in which the Commission heard testimony and evidence on the Settlement Stipulation. On August 11, 2011, the Commission issued its Memorandum Decision approving the Settlement Stipulation, effectively vacating the procedural schedule for UIEC's REC Application.

Procedural History for Docket No. 11-035-47

On March 22, 2011, the Office filed an Application for Deferred Accounting Order for 2010-2011 Bonus Depreciation in which it requested the Commission enter a deferred accounting order pursuant to Utah Code Ann. § 54-4-23, ordering and directing the Company to defer for later ratemaking treatment, the impacts of bonus depreciation on the accumulated deferred income tax offset to rate base which result from the tax benefits available to the Company under The Small Business Jobs Act of 2010 and The Reid-McConnell Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010. In addition, the Office requested the Commission set a scheduling conference in this docket. On April 14, 2011, the Division filed comments concurring with the Office's request. The Division also recommended that the Commission close the previously opened investigative dockets into the impacts of bonus depreciation, Docket Nos. 10-057-21⁶ and 10-035-127.⁷

On April 18, 2011, UAE filed a Petition to Intervene in support of the Application for Deferred Accounting Order. On April 21, 2011, the Company filed a Motion to Dismiss and Response Opposing Office's Application ("Motion to Dismiss Application"). On April 27, 2011, the Commission issued a Notice of Scheduling Conference to be held on May 4, 2011.

On May 3, 2011, UIEC filed a Petition for Leave to Intervene in this matter. On May 9, 2011, the Division, Office, and UAE filed responses to the Company's Motion to Dismiss Application and the Commission issued an Order granting intervention to UAE in this

⁶ See *In the Matter of an Investigative Docket to Explore the Issues Surrounding the Extensions of Bonus Depreciation*.

⁷ See *In the Matter of an Investigative Docket to Explore the Issues Surrounding the Extension of Bonus Depreciation*.

matter. On May 16, 2011, the Commission issued an order setting the procedural schedule in this matter. On May 19, 2011, the Company filed a reply to the Office, Division, and UAE responses in opposition to its Motion to Dismiss Application. On May 24, 2011, the Commission issued an order granting intervention to UIEC in this matter.

On June 2, 2011, the Commission issued an Order Denying Motion to Dismiss. On July 26, 2011, the Commission issued an Order Staying Proceeding Indefinitely. On July 27, 2011, the Commission issued a Notice of Hearing to examine a proposed settlement stipulation affecting this and other dockets commencing on August 3, 2011. On July 28, 2011, the Settlement Stipulation resolving issues associated with the Office's application in this docket and other issues was filed by the Company, Division, Office, UAE, UIEC, Kroger, and IBEW Local 57. Additional signature pages to the Settlement Stipulation were filed by Wal-Mart and FEA on August 1, 2011, and AARP on August 2, 2011.

On August 3, 2011, a duly noticed hearing was conducted in which the Commission heard testimony and evidence on the Settlement Stipulation. On August 11, 2011, the Commission issued its Memorandum Decision approving the Settlement Stipulation, effectively vacating the procedural schedule for the Office's application in this docket.

II. INTRODUCTION

Following its initial Application, the Company filed rebuttal testimony on revenue requirement, reducing its initial \$232.4 million request to a \$188.1 million Utah jurisdictional revenue increase. This request is based on a forecast test period ending June 30, 2012, using a 13-month average rate base, and allocates total Company costs to Utah using

rolled-in allocation results, without the additional adjustments contained in the Revised Protocol method approved in Docket No. 02-035-04.⁸

Following the filing of surrebuttal testimony, the Company and certain parties filed two stipulations for Commission consideration. The Company and ten other parties first filed the Stipulation on Cost of Service, Rate Spread and Rate Design (“Cost-of-Service Stipulation”) addressing the spread of any revenue change to classes and rate elements. The Company and nine other parties then filed the Settlement Stipulation addressing general rate case revenue requirement issues as well as issues raised in the four other dockets contained in the title page of this order. The Settlement Stipulation also applies the Cost-of-Service Stipulation terms, thus presenting the stipulated spread of the revenue increase to classes of customers and rate elements.

We briefly describe aspects of the stipulations, summarize parties’ comments, and provide our discussion, findings and conclusions on the stipulations. We begin with the Cost-of-Service Stipulation because it contains agreements which are referred to, and relied upon, in the Settlement Stipulation.

III. COST-OF-SERVICE STIPULATION

Without modifying its terms in any way, we briefly highlight major features of the Cost-of-Service Stipulation which is included in the Appendix to this Report and Order. The eleven parties to the Cost-of-Service Stipulation are identified on page 8 of the Procedural

⁸ See *In the Matter of the Application of PacifiCorp for an Investigation of Inter-jurisdictional Issues*.

History section of this Report and Order (and collectively referred to in this section of the Report and Order as the “Parties”).

A. COST OF SERVICE

For the purposes of Docket No. 10-035-124 only, the Parties agree to withdraw and to not contest any cost-of-service issues or disputes raised by parties in this docket.

B. RATE SPREAD

For the purposes of Docket No. 10-035-124 only, the Parties agree to spread any rate increase granted to the Company in this docket in accordance with the column labeled “Stipulated Percentage of Revenue Requirement Increase” of Exhibit A, “Stipulation Rate Spread” which is attached to the Cost-of-Service Stipulation. Roughly, this allocates any revenue increase as follows: 39 percent to residential customers, 40 percent to commercial customers, 20 percent to industrial customers, and one percent to all other customer groups.

Parties agree to allocate and credit to customers any deferred REC revenue on the basis of the F10 allocation factor⁹ in the Company’s cost-of-service study in this docket, and to implement the credit through Schedule 98. For the cases in which no cost-of-service study is prepared, i.e., Electric Service Schedule No. 21, “Electric Furnace Operations - Limited Service, No New Service” (“Schedule 21”) and Electric Service Schedule No. 31, “Back-up, Maintenance, and Supplementary Power” (“Schedule 31”), and Special Contract Customer 3, the Parties agree the system average percentage change will be used for Schedules 21 and 31, and

⁹ Factor 10 allocates certain costs or revenues to each schedule based on 75 percent of each schedule’s demand (a schedule’s contribution to the sum of the 12 monthly Utah jurisdictional peaks, coincident with the system peaks) plus 25 percent of each schedule’s energy (a schedule’s contribution to annual Utah jurisdictional energy usage).

the percentage change to Electric Service Schedule No. 9, “General Service High Voltage” (“Schedule 9”) will be used for Special Contract Customer 3. Parties further agree the results of the F10 allocation will be adjusted pro rata for all customer groups to accommodate these adjustments.

C. RATE DESIGN

For the purposes of Docket No. 10-035-124 only, the Parties agree the applicable rate increases should be applied on an equal percentage basis to all rate elements of all schedules receiving a rate increase with the following exceptions.

1. For residential customers taking single-phase service through Electric Service Schedules Nos. 1, 2 and 3, Residential Service (“Schedule 1”), Residential Service - Optional Time-of-Day Rider - Experimental (“Schedule 2”), and Residential Service Low-Income Lifeline Program Residential Service - Optional for Qualifying customers (“Schedule 3”), Parties agree to increase the monthly customer charge from \$3.75 to \$4.00, and to increase the monthly minimum bill from \$3.78 to \$7.00.
2. For residential customers taking three-phase service through Schedules 1, 2, and 3, Parties agree the Commission should apply a new monthly customer charge of \$8.00, and increase the monthly minimum bill from \$11.34 to \$14.00.
3. Parties agree all residential energy charges should be adjusted on an equal percentage basis to achieve the remaining targeted revenue requirement change.

4. The Division agrees to request one or more technical conferences in this docket prior to the end of 2011 to explore issues, calculation methodologies and policies regarding residential customer charges and minimum bills.
5. Parties agree to a specific tariff language change to the “Application” section of Schedules 1 and 3 in order for this section to conform to the Company’s current billing practice for master-metered residential customers. This language is attached to the Cost-of-Service Stipulation as Exhibit C.
6. Parties agree the design of the on-peak surcharge and the off-peak surcredit for Schedule 2 “Time-of-Day” should be as proposed by the Division as follows:
4.13 cents per kilowatt hour on peak and -1.5487 cents per kilowatt hour off peak.

Parties also agree to: close Electric Service Schedule No 25, “Mobile Home and House Trailer Park Service” (“Schedule 25”) and to move the customers to Electric Service Schedule No. 6, “General Service Distribution Voltage” (“Schedule 6”) or Electric Service Schedule No. 23, “General Service Distribution Voltage Small Customer” (“Schedule 23”); and reduce the Company’s revenue requirement by \$1.0 million to account for additional special contract revenue from the two customers for whom test period revenue was assumed to remain at 2011 levels in Exhibit A to the Cost-of-Service Stipulation.

Though Parties are not able to agree on each specific component of the Cost-of-Service Stipulation, all of the Parties agree it is just and reasonable in result and in the public interest. Further, the Parties agree no part of the Cost-of-Service Stipulation or the formulae and

methodologies used in developing the same, or a Commission Order approving it, shall be considered precedential in any future cost allocation case.

D. POSITIONS OF THE PARTIES

Eleven parties signed the Cost-of-Service Stipulation and no party opposed its approval. UCE did not sign and offered reasons at hearing for withholding its support for the Cost-of-Service Stipulation.

The Company, Division, Office and UAE presented witnesses at hearing in support of the Cost-of-Service Stipulation. All of these witnesses state the Cost-of-Service Stipulation is just and reasonable in result and is in the public interest.

The Company provides an overview of the Cost-of-Service Stipulation and recommends the Commission adopt it, find it is in the public interest, and include its terms and conditions in the general rate case order. The Company notes the revisions to Schedule 2, residential time-of-day service, will increase the current on-peak and off-peak rate differentials for this schedule. Further, in response to Commission inquiry, the Company testifies only eleven customers remain on Schedule 25 and upon its termination, all the customers will be advantaged by moving to another appropriate schedule.

The Division testifies the parties' positions on the spread of any revenue increase were fairly close, and therefore an attempt to settle issues seemed logical. The area of biggest difference among parties was residential rate design. The Division notes the stipulated \$4.00 monthly customer charge is consistent with past calculations. Although the Division proposed the inclusion of costs not currently included in the residential customer charge and therefore advocated a \$7.00 monthly customer charge, the Division believes \$4.00 is a good compromise.

The Division notes the Cost-of-Service Stipulation also includes agreement to request one or more technical conferences to discuss customer charge and minimum bill calculations. The Division believes the technical conferences will allow parties to discuss methods and to get input and participation from the Commissioners and Commission staff. The Division also particularly supports the agreement to adjust Schedule 2 rates and believes this is a step in the right direction to make the time-of-day rate schedule more attractive to customers. The Division finds the Cost-of-Service Stipulation is just and reasonable in result, and is in the public interest, and therefore recommends the Commission adopt it in its entirety.

The Office testifies it fully participated in all aspects of the cost-of-service and rate design phase of the general rate case proceeding. The Office believes the terms of the Cost-of-Service Stipulation produce just and reasonable rates for residential, small commercial and irrigation customers, noting, in particular, two of the stipulated terms. First, the stipulated rate spread tracks the Office's spread proposal for the majority of rate schedules, including residential, small commercial, and irrigation schedules. Second, the stipulated residential rate design includes the Office's recommended \$4.00 monthly residential customer charge, which is based on the Commission's current method, and applies the remaining revenue increase on an equal percentage basis to the energy rates. The Office testifies the Cost-of-Service Stipulation is just and reasonable in result and recommends the Commission approve it.

UAE testifies the Cost-of-Service Stipulation moves rates towards cost of service yet recognizes gradualism and resolves the issue of the appropriate allocation factor to apply to REC revenue. Though not providing witnesses at hearing, AARP and SLCAP note, through their counsel, their support for the Cost-of-Service Stipulation, particularly the relatively low

residential customer charge and minimum bill. Counsel for UIEC and Wal-Mart also offer support for the Cost-of-Service Stipulation and encourage the Commission to approve it.

UCE does not oppose approval of the Cost-of-Service Stipulation but did not sign it for various reasons. UCE argues the stipulated equal percentage adjustments to residential customer energy charges do not send strong enough price signals to encourage energy efficiency and conservation. Also, the Cost-of-Service Stipulation does not give adequate weight to Utah policies encouraging energy efficiency and conservation, nor does it include UCE's recommendation for the creation of an investigative workgroup. UCE advocates low residential monthly customer fees, as in the Cost-of-Service Stipulation, and collection of the majority of the residential revenue increase through inclining energy rates. To address any throughput incentive this rate design may create, UCE requests the Commission establish a workgroup to investigate ways to align customer and utility incentives.

E. DISCUSSION, FINDINGS, AND CONCLUSIONS

Eleven parties representing a diversity of interests signed the Cost-of-Service Stipulation. These parties agree the Cost-of-Service Stipulation is in the public interest and all of its terms and conditions, considered together as a whole, will produce fair, just and reasonable results. The Company, Division, Office and UAE provide testimony recommending the Commission approve the Cost-of-Service Stipulation. No party of record provides testimony opposing the approval of the Cost-of-Service Stipulation.

Our consideration of the Cost-of-Service Stipulation is directed by Utah statutory provisions in Utah Code Ann. § 54-7-1 encouraging informal resolution of matters brought before the Commission. After examining the Cost-of-Service 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. Based upon the foregoing, the Commission approves the Cost-of-Service Stipulation.

Our approval of the Cost-of-Service Stipulation, as in similar cases, is not intended to alter any existing Commission policy nor to establish any precedent by the Commission.

IV. SETTLEMENT STIPULATION

Without modifying its terms in any way, we briefly highlight key features of the Settlement Stipulation which is included in the Appendix to this Report and Order. The ten parties to the Settlement Stipulation are identified on page 9 of the Procedural History section of this Report and Order (collectively referred to in this section of the Report and Order as the “Parties”).

A. REVENUE REQUIREMENT

Revenue Change and Cost of Capital

The Parties to the Settlement Stipulation agree, effective September 21, 2011, the Company should be authorized to increase its Utah jurisdictional revenue requirement by \$117.0 million. The Settlement Stipulation includes Exhibit A showing the spread of the \$117.0 million increase to customer classes, in accordance with the Cost-of-Service Stipulation. Exhibit A shows the \$117.0 million revenue increase provides a 7.1 percent increase to the test period forecast of Utah revenue under current rates (excluding Special Contract Customers 1 and 2 and annual guarantee adjustment (“AGA”) revenue), which is \$1.645 billion, and a 6.9 percent

increase to the test period forecast of all Utah revenue under current rates which is \$1.702 billion.

The Parties agree the Company's authorized rate of return on common equity will be 10.0 percent and its overall authorized return on Utah rate base will be 7.94 percent. The capital structure agreed to for the purposes of this Settlement Stipulation is comprised of 47.8 percent long-term debt, with a cost of 5.71 percent, 0.3 percent preferred equity, with a cost of 5.43 percent, and 51.9 percent common equity.

The Parties agree to the following reductions to the \$188.1 million revenue increase requested in the Company's rebuttal testimony to yield the stipulated \$117.0 million revenue increase: 1) \$23.3 million for return on equity; 2) \$15.0 million for net power costs; 3) \$1.2 million for coal inventory; 4) \$1.0 million for special contract revenues; 5) \$1.9 million for operation and maintenance escalation; 6) \$17.5 million for the Klamath Dam postponement; and 7) \$11.3 million for all other reductions not specified. The Parties agree all other revenue requirement issues raised in Docket No. 10-035-124 are resolved by the Settlement Stipulation.

Energy Balancing Account and Net Power Cost

The Parties agree \$629.1 million in net power cost and \$30.5 million in wheeling revenue are the Utah-allocated amounts in-rates for the purposes of the EBA. The Settlement Stipulation presents Table 4, "Utah EBA \$/MWh" showing monthly base net power costs less wheeling revenues per megawatt hour for EBA measurement. The Settlement Stipulation also contains Exhibit B "Net Power Cost Calculation - Utah Net Power Cost Calculation" showing the data and calculations supporting the Table 4 results. Exhibit B also includes a footnote

which, in part, states: “This same scalar will be used in calculating Utah actual NPC for the EBA.”

The Parties agree additional wheeling revenue which may result from the Company’s transmission rate case, Docket No. ER11-9643, before the Federal Energy Regulatory Commission (“FERC”), is not reflected in the stipulated revenue requirement. The Parties agree any additional revenue which may accrue due to new FERC transmission rates from the time the new rates go into effect until the end of the test period in this docket, June 30, 2012, shall be deferred and credited to customers in the 2013 EBA annual filing without application of the 30 percent sharing mechanism.

The Parties request the Commission modify its Order in Docket No. 09-035-15 to remove the language excluding financial swap transactions from the EBA. The Parties agree broker fees, premiums and settlement costs of financial hedge transactions, including swaps, may be included in the EBA to the extent consistent with prudent risk management and hedging policies, and any accepted risk management and hedging policies resulting from the collaborative process described in the Settlement Stipulation. The Parties agree, based on certain representations made by the Company and in consideration of the compromises reached in the Settlement Stipulation, hedging transactions entered into before July 28, 2011, will not be challenged for prudence for the reasons specifically enumerated in the Settlement Stipulation.

Hedging Policy Collaborative

The Parties agree to convene a collaborative process to discuss appropriate changes to the Company’s hedging practices to better reflect customer risk tolerances and preferences. The Company agrees to implement, going forward, appropriate policy changes

resulting from either agreement in the collaborative process or a Commission order. The Settlement Stipulation enumerates, without limitation, issues to be addressed in the collaborative process, including the agreement to address EBA implementation issues relating to the inclusion of financial swap transactions in the EBA. The Division will, and other Parties may, file informational reports with the Commission within six months of approval of the Settlement Stipulation. The Division will report on the results of the collaborative process and provide a description of any agreement reached and any remaining issues of disagreement.

Deferred Net Power Cost

For the various reasons stated in the Settlement Stipulation, the Parties agree the Company should be allowed to recover \$60.0 million in deferred net power cost from Utah customers. The Parties agree this amount should be recovered through an annual \$20.0 million surcharge over three years, without carrying charge, starting June 1, 2012. The Parties agree the surcharge shall be allocated to rate schedules based on the Cost-of-Service Stipulation.

Prudence of Investments

The Parties agree contentions raised by certain Parties in Docket No. 10-035-124 regarding the Company's investments in environmental controls and the Populus to Terminal transmission line are resolved by the Settlement Stipulation. For the purposes of settling this general rate case, the Parties agree, and recommend the Commission find, these investments are prudent. Further, the Parties agree the environmental controls included in this case are used and useful for this and future cases and the Populus to Terminal transmission line is currently used and useful in providing service to both retail customers and others. However, this compromise

and possible findings, does not preclude any party from challenging the Populus to Terminal transmission line on used and useful grounds in any other pending docket not resolved by the Settlement Stipulation or any future rate proceeding, nor arguing the costs and revenues should be allocated differently.

The Parties also agree the contentions made in the general rate case challenging the Company's decision to terminate negotiations in December 2010 to acquire the Apex Plant through the Company's 2008 All Source Request for Proposals ("RFP") are resolved by the Settlement Stipulation and the Parties agree not to assert future claims regarding this decision. The Company commits to several RFP process improvements which are discussed in the Settlement Stipulation.

Klamath Postponement

For Docket No. 10-035-124 only, the Parties agree: a) the existing assets of the Klamath Hydroelectric Project will continue to be depreciated using previously approved depreciation schedules; b) issues related to the Klamath Hydroelectric Settlement Agreement raised by parties in this case will be postponed to a future proceeding; and c) relicensing and settlement process costs will be deferred and accrue a carrying charge and shall not be amortized or included in rate base unless ordered by the Commission in a future proceeding.

REC Revenue

The Parties agree a REC revenue balancing account ("RBA") should be established. The RBA will track the difference between REC revenue included in rates and Utah's allocation of the actual REC revenue received by the Company. On an annual basis, 100

percent of the difference will be credited or charged to customers through Schedule 98 using the allocations specified in the Cost-of-Service Stipulation, until otherwise ordered by the Commission. The balance in the RBA will accrue interest at the Company's cost of debt in the Company's most recent general rate case, compounded monthly. In this case, the stipulated cost of debt is 5.71 percent. The Parties agree annual RBA filings should coincide in time with annual EBA filings, and the annual RBA filings will be based on prior year data.

The Parties agree REC revenue allocated to Utah and included in base rates in Docket No. 10-035-124 is \$50.9 million beginning September 21, 2011. The base level of REC revenue in rates will be reset in future rate proceedings.

The Parties agree the initial credit balance of \$39.5 million shall be established in the RBA representing the deferred REC account balance from February 22, 2010, through December 31, 2010. The \$39.5 million credit shall be adjusted for the January 1, 2011, through September 20, 2011, projected difference in deferred REC revenue offset by the \$3.0 million monthly credit currently provided customers for the same period under the MPA Stipulation. Currently, the Parties estimate \$6.5 million will be over-credited to customers during this period. Thus, the initial RBA credit balance will be \$33.0 million. A final true-up of these balances using actual amounts will be reflected in the 2012 RBA filing.

The Parties agree the estimated \$33.0 million is to be allocated and credited to customer bills in accordance with the Cost-of-Service Stipulation, through Schedule 98, from September 21, 2011, to May 31, 2012. Including interest, this amounts to a credit of \$33.6 million over this time period. The spread of the REC credit to customers is shown in Exhibit A

to the Settlement Stipulation. Exhibit A also shows the impact of the REC credit to customers for the first eight months of the rate effective period covered by the Settlement Stipulation. For the Utah jurisdiction, the REC credit reduces the 6.9 percent increase to about 4.0 percent.

B. OTHER ISSUES

Other Dockets for Deferred Accounting Orders

The Parties stipulate all issues raised in Docket Nos. 11-035-46 and 11-035-47 are resolved by the Settlement Stipulation. The petitions in these dockets shall be dismissed with prejudice. The ratemaking treatment of the deferred net power cost account and deferred REC revenue account addressed in the Company's June 2, 2011, Motion on Deferred Accounts and paragraphs 8 through 12 of the MPA Stipulation, are resolved by this Settlement Stipulation and no further proceedings shall be held in connection with either account.

Next General Rate Case

The Company agrees not to file its next general rate case in Utah prior to February 15, 2012. The Parties agree the Company will use, and Parties will not oppose use of, a forecast test period ending no later than fifteen months beyond the month in which the rate case application is filed, with a thirteen-month average rate base. Further, the Company commits to update its forecast of rate base plant additions and revenue requirement included in its initial application to the most current information available to the Company at the time of its rebuttal filing.

General Terms and Conditions

While not all Parties agree that each aspect of the Settlement Stipulation is warranted or supportable in isolation, all of the Parties agree, as a whole, it is just and reasonable in result and is in the public interest. The Parties agree no part of the Settlement Stipulation, the formulae and methods used in developing it or a Commission order approving it, can in any manner be considered precedential in any future case except with regard to issues expressly resolved and specifically called out by the Settlement Stipulation.

C. POSITIONS OF THE PARTIES

Ten parties signed the Settlement Stipulation and one party, Sierra Club, opposes one aspect of the Settlement Stipulation. Some interveners did not support or oppose the Settlement Stipulation. US Magnesium testified at hearing it neither opposes nor supports the Settlement Stipulation and argues it is good public policy for the Company to maximize its sales of RECs to benefit customers in the near term. US Magnesium has concerns about whether the Settlement Stipulation addresses all REC revenue, whether bundled or unbundled from the underlying electricity revenue. Further, US Magnesium expressed concern as to whether the Company would continue to have an incentive to maximize the value of REC sales once an RBA is put in place. The Company responds the REC revenue includes both bundled and unbundled REC revenue and argues its incentive to make REC sales will be maintained because it is consistent with its objective to minimize the costs of the underlying assets.

Support For the Settlement Stipulation

The ten signing Parties represent the Settlement Stipulation is just and reasonable in result and will provide the Company a reasonable opportunity to earn its authorized return.

The Parties recommend the Commission approve the Settlement Stipulation and all of its terms and conditions.

The Company, Division, Office, and UAE presented witnesses at hearing in support of the Settlement Stipulation. All of these witnesses testify the Settlement Stipulation is just and reasonable in result and is in the public interest.

The Company emphasizes this rate case is particularly complex and probably the most thoroughly-reviewed case in years. The Company states it filed 3,700 pages of supporting testimony and exhibits from 24 witnesses. The Company testifies 12 intervenors filed testimony from 39 witnesses. The Company cites it responded to over 3,300 data requests as intervening parties prepared testimony in response to the Company's requested rate increase. The Company testifies it believes the parties followed the Commission's instructions to conduct a rigorous examination of the forecast components, inputs, and assumptions in the case. Thus, prior to entering settlement discussions, the Company provided evidence, and parties thoroughly reviewed, analyzed and evaluated this evidence.

The Company notes five dockets are covered in the Settlement Stipulation, and with the exception of certain EBA workgroup issues remaining in Docket No. 09-035-15, the issues raised are completely resolved. The Company testifies all parties to the case were invited to participate in settlement discussions. Although no party signing the stipulation agreed to

specific items in isolation, each party arrived at its own determination, using different assumptions and adjustments. The Company represents the Settlement Stipulation, as a package, produces a just and reasonable result.

The Division echoes the Company's comments and also notes the resolution of multiple pending matters before the Commission as a benefit of the Settlement Stipulation. The Division testifies it proposed \$127 million in adjustments to the Company's original request leading to its surrebuttal position recommending a \$105 million revenue increase. After adoption of some of the Division's as well as other intervenors' adjustments, the Company reduced its requested revenue increase to \$189 million. The Division argues the settled \$117 million revenue increase is 11 percent above the Division's revenue requirement surrebuttal position and 38 percent lower than the Company's rebuttal position. The Division concludes the Settlement Stipulation is a reasonable compromise of the many issues in the case and related dockets. Although the Division-proposed adjustments for the Apex plant and swaps are not called out, the Division considers the hedging collaborative process and RFP process improvements, together with the \$11.3 million in unspecified revenue requirement reduction, as a reasonable compromise of its position on these two issues. The Division testifies the Settlement Stipulation either adopts or aligns closely with the Division's surrebuttal position, is a reasonable balance between customer and shareholder interests, and presents reasonable compromises, and therefore will result in just and reasonable rates for customers. The Division recommends the Commission adopt the Settlement Stipulation in its entirety.

The Office testifies it entered into the Settlement Stipulation after much investigation and states it will result in just and reasonable rates for the customers it represents. The Office identifies several benefits of the Settlement Stipulation to customers. For example, the Settlement Stipulation is derived using rolled-in rates only; excludes certain Klamath Dam removal costs; establishes a collaborative process to incorporate customer risk tolerances and preferences in the Company's hedging practices; and includes a REC revenue tracker to address current REC revenue volatility. The Office argues the rolled-in allocation methodology is the only method by which just and reasonable rates can be achieved with an EBA in place. The Office also testifies a significant portion of the monetary difference between the Office's surrebuttal position and the settled revenue requirement is due to different forecasts of REC revenue. The Office does not generally prefer a tracker as a ratemaking mechanism. However, for the short term, the Office believes this REC revenue tracker will ensure customers receive the full revenue stream earned from the underlying resources.

UAE testifies the Settlement Stipulation taken as a complete package is just and reasonable and in the public interest. UAE considers certain features of the Settlement Stipulation to be of particular interest. For example, the Settlement Stipulation addresses, in totality, the deferred REC revenue issues raised by UAE and UIEC and satisfactorily includes a reduced amount of deferred net power cost recovery. UAE cites the deferral of the Klamath Dam removal cost to another day as a benefit to customers. UAE testifies it invested significant resources in examining the Company's environmental control costs and concludes when all

factors in the Settlement Stipulation are considered, including delay of the next general rate case filing, the package results in a fair resolution.

Opposition to the Settlement Stipulation

Sierra Club opposes one aspect of the Settlement Stipulation. It objects to the settlement provision recommending the Commission find the Company's environmental control investments included in this case are prudent, and used and useful.¹⁰ Sierra Club contends the investments in question were made "absent any showing that such expenditures were the least cost alternative."¹¹ Sierra Club argues the Company's own testimony and data request responses show the Company did not model alternatives to test whether the environmental upgrades were cost effective prior to making irreversible decisions. Therefore, in Sierra Club's view, the Company's actions are not in the public interest and cannot be deemed prudent. Sierra Club recommends the Commission disallow the environmental control investments, including associated O&M and lost output costs.

In support of its contentions, Sierra Club offers the testimony of two experts in the field of energy and environmental issues. Sierra Club's testimony urges the Company must show decisively that the incremental environmental capital costs it seeks to recover are prudent in light of known and likely future investments. In order to demonstrate prudence, the Company's analysis "should include not only the costs requested for meeting environmental compliance criteria today, but also the capital and operating expenses associated with reasonably

¹⁰ See *Sierra Club Issue Statement and Witness List in Preparation for Hearing in Opposition to Stipulation to Settle Revenue Requirement*, filed July 29, 2011, at 1.

¹¹ *Id.*

anticipated environmental retrofits and other environmental mitigation requirements, as well as a price on carbon dioxide (“CO₂”) representative of likely regional and federal policies on greenhouse gas emissions.”¹² Sierra Club argues the likely costs for greenhouse gas control regimes must be addressed in any reasonable review of the cost effectiveness of investments aimed at the continued operation of a power plant with high carbon emissions.¹³ Sierra Club concludes without analysis of such potential future costs, “...it is impossible for the commission or any intervener to fully assess whether the company’s plans for the maintenance, upgrades, and operations of its fleet of plants is in keeping with least-cost principles, and whether the company’s proposed investments represent a suitable use of ratepayer monies.”¹⁴

Sierra Club’s testimony examines three categories of environmental retrofit costs in relation to the Company’s coal-fired power plant fleet. These are: 1) “Current Case Retrofits” to meet existing environmental regulations at certain coal plants as specified in the Company’s application; 2) “Company Projected Retrofits” referring to upgrades to the Company’s entire fleet of 20 coal-fired plants incurred and projected to be incurred from 2005 through 2023, as described in the Company’s Emissions Reduction Plan; and 3) “Emerging Retrofits” to address other reasonably expected additional compliance costs from proposed or emerging regulations. Sierra Club’s evidence describes a variety of impending and likely regulations it asserts the Company’s cost-effectiveness analyses and resource-planning process failed to consider.¹⁵ It

¹² Direct Testimony of William Steinhurst, Ph.D., at 4-5.

¹³ *Id.* at 6.

¹⁴ *Id.* at 5.

¹⁵ *See* Direct Testimony of Jeremy Fisher, Ph.D., at 13-14.

also identifies the plant-specific retrofit technologies it believes to be reasonably required to comply with the regulations it anticipates and potential associated capital costs.¹⁶ Based on this data, Sierra Club asserts the Current Case Retrofits are only the start of environmental-control-related capital investments which ratepayers will bear over the next decade.

Sierra Club testifies the Company knew, or should have known, of the regulations the Sierra Club characterizes as “impending” and “likely.” In support, it points to the Company’s Emissions Reduction Plan,¹⁷ various disclosures in Company SEC filings, and industry publications. Sierra Club argues the Company’s integrated resource plan (“IRP”) process should have: “(1) factored in the likelihood and magnitude of additional compliance costs beyond Current Case Retrofits; and (2) considered the risk that, after these large capital expenditures, individual coal units might not be cost effective relative to alternatives.”¹⁸ Sierra Club’s testimony summarizes its review of the Company’s 2008 IRP and 2011 IRP, and expresses the conclusion the Company failed to use the IRP process to vet the major investments entailed in the Current Case Retrofits.¹⁹

Sierra Club also testifies the Current Case Retrofits are not used and useful for several reasons. Because the Environmental Protection Agency (“EPA”) has not yet finalized a regional haze rule under the Clean Air Act, Sierra Club argues the Company has no way of

¹⁶ *Id.* at 43-45. *See also* the exhibits accompanying Dr. Fisher’s Direct Testimony, specifically Exhibit SC-9 (JIF-9).

¹⁷ *Id.* *See* Exhibit SC-2 (JIF-2).

¹⁸ *Id.* at 11.

¹⁹ *Id.* at 11, 14-20.

knowing whether the retrofits for which it seeks recovery in this case will meet federal requirements. If the retrofit costs are included in rate base now, the Company will receive an equity return on these assets “before they are in productive use.”²⁰ Sierra Club reasons it is inefficient and imprudent for the Company to invest in pollution controls that may be rendered redundant, unnecessary or obsolete by the finalized rule. Moreover, considering emerging federal environmental requirements that may mandate additional control technology expenditures, or may lead to plants being repowered or retired, the Company, according to Sierra Club, is asking ratepayers to fund piecemeal work that could be done more efficiently, or not at all, once all federal requirements are known.²¹

For the foregoing reasons, Sierra Club recommends the costs of the environmental control equipment the Company proposes to add to its rate base, totaling about \$900 million, be disallowed for recovery, unless the Company can show decisively that these costs are prudent in light of known and likely future pollution control investments, and are in keeping with least cost principles. Sierra Club also recommends the Company (and other utilities) be directed to include the costs and risks of existing and emerging regulations on a joint, multi-pollutant basis in evaluating investment plans, even when the final form or timing of a regulation is unknown.²² Sierra Club believes the Company’s evidence fails to satisfy these standards of proof and urges the Commission to reject the Settlement Stipulation.

²⁰ See Direct Testimony of William Steinhurst, Ph.D., at 7.

²¹ *Id.* at 9.

²² *Id.* at 16.

D. DISCUSSIONS, FINDINGS AND CONCLUSIONS

This general rate case contains an unusually large number of complex, contested issues. We acknowledge the depth of investigation presented in the testimony filed by the parties in this case. The testimony on all issues is very informative. Having considered in detail the differing points of view and with appreciation for the high quality of testimony, we approve the terms and conditions of the Settlement Stipulation.

Ten Parties representing a diversity of interests and all of the major customer groups, signed the Settlement Stipulation. These parties agree the Settlement Stipulation is in the public interest, and all of its terms and conditions, considered together as a whole, will produce fair, just and reasonable results. Four of the signing Parties, the Company, Division, Office and UAE, provide testimony at hearing recommending the Commission approve the Settlement Stipulation.

One party opposes one aspect of the Settlement Stipulation. Sierra Club requests we reject the Settlement Stipulation because it disagrees with Paragraph 47 of the Settlement Stipulation which states:

47. Contentions made by the signatories to this Stipulation in the General Rate Case regarding the Company's environmental control investments are resolved by this Stipulation. For purposes of compromising and settling this case, the Parties agree and recommend that the Commission make findings that the investments included in the General Rate Case are prudent and used and useful for purposes of the General Rate Case and future cases.

Sierra Club opposes this provision which serves as a basis for recovery of the environmental control investments at issue, arguing the Company has not shown the investments were made

prudently and that the equipment is used and useful in providing utility service.²³ To provide the context of our analysis of the merits of Sierra Club's arguments, we first summarize the standards by which we review settlements of disputed issues and the prudence of utility decisions.

As we have noted in previous orders, settlements of matters before the Commission are, by statute, encouraged at any stage of our proceedings.²⁴ The Commission may approve a stipulation or settlement after considering the interests of the public and other affected persons, if it finds the stipulation or settlement in the public interest.²⁵ In reviewing a settlement, the Commission may also consider whether it was the result of good faith, arms length negotiations.²⁶ When reviewing a settlement involving a rate increase, the Commission may limit the factors and issues to be considered in its determination of just and reasonable rates.²⁷

In reviewing utility decisions for prudence, the Commission must analyze the decision-making process in light of the circumstances and the facts the utility knew or reasonably should have known at the time of the decision.²⁸ We do not substitute our judgment

²³ See *Sierra Club Issue Statement and Witness List in Preparation for Hearing in Opposition to Stipulation to Settle Revenue Requirement*, filed July 29, 2011.

²⁴ See Utah Code Ann. § 54-7-1. See also, *In the Matter of the Application of Questar Gas Company to Adjust Rates for Natural Gas Service in Utah*, Docket No. 04-057-04 (January 6, 2006) at 26.

²⁵ See *Utah Dept. of Admin. Services v. Public Service Comm'n*, 658 P.2d 601, 613-14 (Utah 1983).

²⁶ See *Utah Dept. of Admin. Services*, 658 P.2d at 614, n.24.

²⁷ See Utah Code Ann. § 54-7-1(4).

²⁸ See *In the Matter of the Application of Mountain Fuel Supply to Adjust Rates for Natural Gas Service in Utah*, Docket Nos. 91-057-11 and 91-057-17 (Sept. 10, 1993).

in hindsight for the reasonable decisions made by management,²⁹ nor do we determine that a reasonable decision is imprudent merely because we conclude that a better, reasonable alternative was available for consideration or action.

In another proceeding in which we determined whether a utility confronted with an operating challenge properly identified and analyzed the range of feasible actions, questions also raised by Sierra Club in this case, we noted: “In making this determination, we believe that ratepayers are best served by reserving wide latitude to utilities’ managerial experience and technical expertise. We therefore do not promulgate a checklist of actions which, if followed, might inoculate a utility’s action against a finding of imprudence.”³⁰ Instead, we apply the statutory criteria specified in Utah Code Ann. § 54-4-4. This subsection specifically provides that in considering prudence of a utility’s actions, the Commission shall “focus on the reasonableness of the expense . . . judged as of the time the action was taken”³¹ and shall “determine whether a reasonable utility, knowing what the utility knew or reasonably should have known at the time of the action, would reasonably have incurred all or some portion of the expense, in taking the same or some other prudent action.”³²

As further context for our consideration of Sierra Club’s opposition to the Settlement Stipulation, we note several other parties initially also challenged the Company’s full

²⁹ See *Logan City v. Public Utilities Commission*, 296 P. 1006, 447 (Utah 1931).

³⁰ *In the Matter of the Application of Questar Gas Company for Approval of a Natural Gas Processing Agreement*, Docket No. 98-057-12, Order, August 30, 2004, at 20-21.

³¹ Utah Code Ann. § 54-4-4(4)(a)(ii).

³² *Id.* at § 54-4-4(4)(a)(iii).

recovery of the environmental control investments in question. For example, the Office urged the Commission to disallow investment in pollution control equipment in the absence of rigorous justification in relation to present and anticipated regulations, and various technology and resource options. Following careful scrutiny of the Company's entire rate increase request, the Office elected to support the Settlement Stipulation. The Office testifies: "Consistent with [its] analysis the Office believes that the settlement presented to the Commission today will result in just and reasonable rates for the residential and small commercial customers whose interests we represent."³³ Similarly, UAE filed testimony contesting the reasonableness of pollution control upgrades for some of the pertinent units.³⁴ UAE, however, subsequently signed the Settlement Stipulation and presented testimony specifically addressing the cost of environmental upgrades as follows: "...the parties and I'm sure the Commission are well aware that this was an issue that UAE took a very hard look at and invested significant resources in examining. And UAE has come to the conclusion that when all factors are considered in this settlement agreement, including the delay of any next filing by Rocky Mountain Power for a general rate case, that the package results in a fair resolution of the issue."³⁵ The testimony of these parties provides substantial evidence the Settlement Stipulation is the product of good faith, arms length negotiations.

³³ Testimony of Michele Beck, Transcript of Hearing, August 3, 2011, at 51.

³⁴ See Direct Testimony of Howard Gebhart, May 26, 2011.

³⁵ Testimony of Kevin C. Higgins, Transcript of Hearing, August 3, 2011, at 57.

WRA filed testimony concluding that due to the cumulative effects of environmental regulations and the economics of the coal market, coal-fired generation is likely to be increasingly expensive. WRA believes for at least some units early retirement and replacement with cleaner resources may be a better option than continued investment in these units. WRA urges the Commission to require the Company to demonstrate through comprehensive analysis the prudence of any significant new coal plant investments.³⁶ WRA expressed no position on the Settlement Stipulation, however.

The Division, on the other hand, supports the Company's request in this case for recovery of the environmental control investments in question. The Division's analysis includes scrutiny of the Company's testimony, exhibits, and data request responses, as well as the Division's own independent examination of regional haze rules. More broadly, the Division testifies the Settlement Stipulation is just and reasonable in result, and is in the public interest, and recommends the Commission adopt the Settlement Stipulation in its entirety.³⁷

Based on our consideration of the evidence before us, the recommendations of the parties, and the applicable legal standards, we find approval of the Settlement Stipulation to be in the public interest and find it constitutes a reasonable and lawful basis for establishing just and reasonable rates. Sierra Club's general but unsupported opposition to Paragraph 47 does not persuade us to reject the consensus reached by nearly all other parties that, in light of the totality of agreements embodied in the Settlement Stipulation, the pollution control investments in this

³⁶ See Direct Testimony of Nancy L. Kelly, May 26, 2011, at 13.

³⁷ See Testimony of Artie Powell, Ph. D., Transcript of Hearing, August 3, 2011, at 50.

case are prudent, and used and useful. Rather, the weight of the evidence supports our approval of the Settlement Stipulation including Paragraph 47. We base this judgment on the testimony of the Division, the Office, UAE and other Settlement Stipulation proponents (summarized above), as well as the extensive rebuttal of Sierra Club's positions presented by the Company.

The Company presented four witnesses in rebuttal to Sierra Club's presentation: two Company executives with responsibility for environmental compliance, an expert in the field of air pollution compliance strategies and permitting who conducted an independent review of the air pollution control investment decisions at issue in this proceeding, and the former Executive Director of the Utah Department of Environmental Quality. The Company testifies the pollution control investments it presents in this case are necessary to comply with existing regulations including regional haze rules and the Regional SO₂ Milestone and Backstop Trading Program developed in Utah in conformance with existing federal regulations, as well as other applicable standards, permits, and state implementation plans ("SIPs").

In determining how to respond effectively to these requirements, the Company asserts it analyzed the scope and timing of the compliance requirements, and the cost and availability of various control technologies and alternatives. Alternative compliance options considered include market purchases of replacement power, converting facilities to natural-gas-fueled sources, and procurement of replacement generation. Other factors were also evaluated, such as existing operating requirements, fuel supply flexibility, equipment end-of-life

considerations, and operational efficiencies. Emerging environmental regulations were also reviewed.³⁸

The Company also testifies that in many cases the cost of compliance with future regulations cannot be known now with sufficient certainty to be quantified in a cost-effectiveness analysis. While it is virtually certain there will be further regulations governing power plant emissions, the promulgation of the regulation is just the starting point. According to the Company, the questions of whether the future regulations will create a need for additional controls and whether the costs of such controls will be small or very large is subject to vast uncertainty until the emission limits and permit requirements are established.³⁹ One illustration of this uncertainty is the Regional Greenhouse Gas Initiative in the Northeast for controlling CO₂ emissions. The Company testified when this initiative was first proposed, costs were expected to be in the range of \$20 to \$30 per ton; however, at a recent auction the cost was less than \$2 per ton.⁴⁰

The Company maintains it is very uncertain exactly what future emission reductions will be required for power plant emissions beyond those currently in place. “In view of this uncertainty, the most prudent steps that [the Company] can take now are the ones it has taken: making air pollution control investments to satisfy existing state air pollution permit requirements and incorporate into these investments the engineering flexibility to accommodate further emission reductions but without committing today to make unnecessary investments

³⁸ See Direct Testimony of Chad A. Teply, January 24, 2011, at 7-8.

³⁹ See Testimony of Howard M. Ellis, Transcript of Hearing, August 3, 2011, at 172-73.

⁴⁰ See *id.* at 174.

based purely on speculation of exactly what these future regulations will require, or when they will require compliance.”⁴¹ The Company testifies it has followed this approach, “with a focus on maintaining a reasonable balance between protecting the interests of customers, [the Company’s] obligation to serve, and maintaining environmental compliance in the face of an uncertain regulatory environment.”⁴²

The Company also disputes Sierra Club’s assertion the pollution control equipment the Company is installing is not used and useful in providing utility service because it is being installed prematurely. The Company offers several reasons for installing equipment now, even though the EPA has not yet finalized a regional haze rule under the Clean Air Act for this region. Given the size of the Company’s coal-fueled generating fleet, waiting until all regulations are final to implement a compliance strategy, according to the Company, would place it at significant risk of non-compliance and would force the Company to compete for labor and equipment in very tight markets, increasing costs for the Company and customers.⁴³

Moreover, the former Executive Director of the Utah Department of Environmental Quality states the Company is required to install the pollution controls in question now in order to meet the SO₂ milestone program in the Utah Regional Haze SIP. Complying with the program is mandatory, not optional.⁴⁴ The witness asserts the Company is obligated by state and federal regulations to install controls that achieve better results than the

⁴¹ Rebuttal Testimony of Howard M. Ellis, June 2011, at 13-15.

⁴² Testimony of Chad Teply, Transcript of Hearing, August 3, 2011, at 108.

⁴³ See Testimony of Cathy Woollums, Transcript of Hearing, August 3, 2011, at 87.

⁴⁴ See Testimony of Richard W. Sprott, Transcript of Hearing, August 3, 2011, at 179.

best available retrofit technology (“BART”). According to the witness, this action is necessary, not because of any decision the Company made, but because of the regional haze program the states of Utah and Wyoming elected to pursue under Section 309 of the Clean Air Act. Additionally, the Company’s pollution control retrofit projects are necessary to meet mercury emission limits enacted by the State of Utah that become effective in December 2012.⁴⁵

The former Executive Director of the Utah Department of Environmental Quality also maintains Sierra Club is incorrect in asserting the Company can wait for the EPA to approve Utah’s rules before the Company complies with the SIP. The states of Wyoming and Utah finalized SIPs on regional haze in 2003 and updated them in 2008 and 2011. Each plan and update is enforceable by the state when it is enacted, according to the former Executive Director.⁴⁶ He testifies the state permits issued to the Company are enforceable immediately by the issuing state. If the Company had not acted when it did to implement the Utah Regional Haze SIP pollution control requirements, the Company would have been subject to an enforcement action.⁴⁷

We find the foregoing testimony supports our approval of this comprehensive Settlement Stipulation, including Paragraph 47. The evidence reveals an uncertain, steadily evolving array of pollution control proposals and requirements. In this setting the Company was required to plan and implement measures necessary to satisfy existing governmental mandates and, in some manner and degree, anticipate potential future requirements that could affect the

⁴⁵ *See id.* at 180.

⁴⁶ *See id.* at 181.

⁴⁷ *Id.*

ongoing economic viability of the Company's coal-fueled power plants. The evidence includes the Company's descriptions of the methods it used to assess existing and potential environmental regulations and the opinions of experts that it conducted its evaluations, planning, and implementation prudently. We find the enforceability of existing regional haze SIP rules, and the uncertainties regarding future regulations and how they will be implemented, justify the compromises the settling parties reached regarding recovery of the environmental control investments at issue.

Our consideration of the Settlement Stipulation is guided by Utah statutory provisions in Utah Code Ann. § 54-7-1 et seq. encouraging informal resolution of matters brought before the Commission. After examining the Settlement Stipulation and the evidence contained in the record, the Commission concludes its terms are just and reasonable and it is just and reasonable in result. Based upon the foregoing, the Commission approves the Settlement Stipulation.

Our approval of the Settlement Stipulation, as in similar cases, is not intended to alter any existing Commission policy or to establish any precedent by the Commission. In this instance, however, we note an inconsistency which may arise from implementation of the Settlement Stipulation. Specifically, the calculation of base net power costs shown on page one of Exhibit B of the Settlement Stipulation is inconsistent with the method required in our March EBA Order in Docket No. 09-035-15. Further, from a footnote on page one of Exhibit B to the Settlement Stipulation, it appears the Parties may intend to approximate actual Utah net power costs rather than allocate total Company costs to Utah as required in our March EBA Order. There is no discussion regarding this issue in the Settlement Stipulation, nor do the Parties

request we vacate the relevant portion of our March EBA Order. To ensure the consistency of our ratemaking methods and the ability to determine whether future rates are just and reasonable as the EBA pilot ratemaking mechanism moves forward, we require reporting consistent with our March EBA Order.

We direct the Company to file quarterly reports showing the calculations of the monthly deferrals and account balances per the requirements of our March EBA Order as well as for any method which may result from implementation of the Settlement Stipulation. Reporting will provide account and allocation factor detail, and will originate with the underlying GRID run in the Company's rebuttal position in Docket No. 10-035-124, adjusted for the Settlement Stipulation reduction in net power cost. We will use this information in conjunction with the Company's March 15, 2012, EBA filing to examine the performance of the March EBA Order method in comparison to any method resulting from the Settlement Stipulation.

Pursuant to our March EBA Order, the Division filed a preliminary EBA Pilot Program Evaluation Plan. Both the Company and Division testify work regarding implementation and evaluation remains to be done by the EBA working group formed pursuant to our March EBA Order. With several Commission questions about the preliminary EBA Pilot Program Evaluation Plan, and to discuss the details related to the additional reporting required in this Report and Order, we will schedule a technical conference in Docket No. 09-035-15. Following the technical conference, the Division shall file, for our approval, the EBA Pilot Program Evaluation Plan, including the format for providing the additional reporting required in this order.

On a related matter, in our May 9, 2011, order in Docket No. 09-035-15, we granted the Company a deferral for complying with ordering paragraph 2 of the March EBA Order (directing the filing of a revised Electric Service Schedule No. 94, “Energy Cost Adjustment” (“Schedule 94”)) until further notice. Our approval of this Settlement Stipulation resolves the one issue scheduled for rehearing in Docket No. 09-035-15, whether natural gas and electric swap transactions should be included in the EBA. Consequently, we hereby direct the Company to file the required revised Schedule 94 within 30 days of this Order.

V. ORDER

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

1. The terms and conditions of the Cost of Service, Rate Spread and Rate Design Stipulation and the Settlement Stipulation are hereby approved.
2. The Company shall file appropriate tariff revisions increasing Utah jurisdictional revenues by \$117.0 million, and providing for a credit of \$33.6 million, effective September 21, 2011.
3. The tariff revisions shall reflect the determinations and the decisions contained in this Report and Order. The Division shall review the tariff revisions for compliance with the terms of this Report and Order.
4. The Company shall file a complete, updated Exhibit RMP___(WRG-5), in Excel format with formulas intact, reflecting the decisions in this order.

5. Ordering paragraph 1, item d, of the March 3, 2011, Corrected Report and Order in Docket No. 09-035-15, stating natural gas and electricity swaps are excluded from the approved energy balancing account, is vacated.
6. A revenue increase of \$60.0 million for deferred net power costs is approved. This amount will be recovered from customers through an annual \$20.0 million surcharge, without carrying costs, over three years beginning June 1, 2012. The Company shall file the appropriate rate schedule to implement this surcharge 60 days in advance of June 1, 2012, for review and approval.
7. The applications initiating Docket Nos. 11-035-46 and 11-035-47 are dismissed with prejudice.
8. Additional reports, studies, tasks and other requirements ordered herein, do not alter previous Commission requirements for filing Semi-Annual Results of Operations.

Pursuant to §§ 63G-4-301 and 54-7-15 of the Utah Code, an aggrieved party may request agency review or rehearing of this Order by filing a written request with the Commission within 30 days after the issuance of this 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 does not grant a request for review or rehearing within 20 days after the filing of the request, 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 with the requirements of §§ 63G-4-401 and 63G-4-403 of the Utah Code and Utah Rules of Appellate Procedure.

DOCKET NOS. 10-035-124, 09-035-15, 10-035-14, 11-035-46, 11-035-47

- 54 -

DATED at Salt Lake City, Utah, this 13th day of September, 2011.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
D#210014

APPENDIX: Stipulations, etc.

Stipulation on Cost of Service, Rate Spread and Rate Design

- Exhibit A "Stipulated Rate Spread"
- Exhibit B "Corrected Billing Determinants"
- Exhibit C "Tariff Language"

Settlement Stipulation

- Exhibit A "Estimated Impact for Proposed Utah Settlement Including Proposed Changes in GRC and REC"
- Exhibit B, page 1 "Net Power Cost Calculation"
- Exhibit B, page 2 "Utah Net Power Cost Calculation"

**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. 10-035-124 STIPULATION ON COST OF SERVICE, RATE SPREAD AND RATE DESIGN
---	---

INTRODUCTION

1. This Stipulation on Cost of Service, Rate Spread and Rate Design (“Stipulation”) is entered into by and among the parties whose signatures appear on the signature pages hereof (collectively referred to herein as the “Parties”).
2. On January 24, 2011, Rocky Mountain Power (“Rocky Mountain Power” or “Company”) filed an application, together with supporting testimony and exhibits, requesting approval of an increase in its retail electric utility service rates in Utah in the amount of \$232.4 million.
3. On February 23, 2011, the Commission issued an order establishing the procedural schedule for this case. Hearings in this docket are scheduled to begin on July 27, 2011 on revenue requirement issues and August 8, 2011 on cost of service, rate spread and rate design issues.
4. Certain Parties have reached a compromise as specified herein on the rate spread that should be used in this case, as well as on all cost of service and rate design issues.

TERMS OF STIPULATION

Subject to Commission approval and for purposes of this Stipulation only, the Parties agree as follows:

5. Rate Spread. For purposes of this Docket only, the Parties agree that any rate increase granted to the Company in this docket should be spread in accordance with the percentages of the revenue requirement increase reflected in the column labeled “Stipulated Percentage of Revenue Requirement Increase” of the attached Exhibit A. Rates for each special contract customer shall continue to be governed by the terms of the applicable contract.
6. Cost of Service. For purposes of this Docket only, the Parties agree to withdraw and not to contest any cost of service issues or disputes raised by parties to this Docket.
7. Rate Design. For purposes of this Docket only, the Parties agree that the applicable rate increases determined in accordance with the rate spread stipulation contained in Paragraph 5 and Exhibit A should be applied on an equal percentage basis to all rate elements of all Schedules receiving a rate increase, except as specified in the following sub-parts of this Section 7:
 - a. Schedule 1, 2 & 3 Customer Charge and Minimum Bill. For residential schedules 1, 2 and 3, the Parties agree that a customer charge of \$4.00 per month and a monthly minimum bill of \$7.00 per bill should apply. For customers on these schedules taking three-phase service, the Parties agree that a customer charge of \$8.00 per month and a monthly minimum bill of \$14.00 per bill should apply. All

residential energy charges should be adjusted on an equal percentage basis to achieve the targeted revenue requirement change. The Company has prepared corrected billing determinants for single- and three-phase residential customers, attached as Exhibit B to this stipulation. The Division agrees to request that the Commission schedule one or more technical conferences in this docket prior to the end of 2011 so that interested parties can explore issues, calculation methodologies and policies relating to residential customer charges and minimum bills.

- b. Schedules 1 & 3 Master Metering Language. The Parties agree that, in order to conform tariff language to the Company's current billing practice for master metered residential customers, the language in the "Application" Section of Schedules 1 and 3 should be changed as proposed by Company witness William R. Griffith in Exhibit RMP ____ (WRG-4), attached hereto as Exhibit C. In accepting this tariff language, the Parties are not endorsing or supporting the current practice, and all Parties agree that this issue may be addressed or revisited by any party in a subsequent docket.
 - c. Schedule 2 Time-of-Day Rate Design. The Parties agree that the design of the on-peak surcharge and the off-peak surcredit for Schedule 2 should be as proposed by DPU witness Lee Smith in Table 11 of DPU Exhibit 16.0D-COS and shall be follows: 4.13 cents/kWh per On-Peak kWh; (1.5487) cents/kWh per Off-Peak kWh.
8. Schedule 25. Consistent with the Non-Residential Rate Design Stipulation in Docket 09-035-23, the Company has proposed in this Docket to close Schedule 25, Mobile Home and

House Trailer Park Service, and to move those customers to Schedule 6 or Schedule 23. The Parties agree that Schedule 25 should be closed and customers currently on that schedule should be moved to schedules 6 or 23, as appropriate.

9. Special Contract Revenue Adjustment. In addition to all other revenue requirement adjustments accepted by the Company or ordered by the Commission in this docket, the Parties agree that the Company's Revenue Requirement should be reduced by \$1 million to reflect an assumed impact of additional contractual increases in test period revenues from special contract customers 1 and 2, for whom test period revenues in this case were assumed in Exhibit A to remain at 2011 levels.
10. Deferred REC Revenue. The Parties agree that, if and to the extent the Commission authorizes in this Docket ratepayer recovery of any deferred REC Revenues, such revenues should be allocated and credited to customers on the basis of the F10 allocation factor utilized in the Company's cost of service study sponsored by Company witness Craig Paice in this docket, and implemented through a negative surcharge via Schedule 98. Because a cost of service study analysis is not prepared for Schedule 21, Schedule 31, or Special Contract Customer 3, an F10 allocation factor is not available; therefore the system average percentage change should be applied to Schedule 21 and Schedule 31. The REC credit for Special Contract Customer 3 will be based on the percentage change applicable to Schedule 9. The results of the F10 allocation will be adjusted pro rata for all customer groups to accommodate these adjustments.

11. Cost of Service/Rate Design Schedule Suspended. The Parties agree that the cost of service rate spread, rate design schedule in this Docket should be suspended, other than a hearing for approval of this Stipulation, and that all cost of service, rate spread and rate design elements resolved in this Stipulation shall be deemed concluded upon entry of an Order approving this Stipulation.

GENERAL TERMS AND CONDITIONS

12. Not all Parties agree that each aspect of this Stipulation is warranted or supportable in isolation. Utah Code Ann. § 54-7-1 authorizes the Commission to approve a settlement so long as the settlement is just and reasonable in result. While the Parties are not able to agree on each specific component of this Stipulation, all of the Parties agree that this Stipulation is just and reasonable in result and in the public interest.
13. All negotiations related to this Stipulation are confidential, and no Party shall be bound by any position asserted in negotiations. Except as expressly provided in this Stipulation for purposes of this docket only, in accordance with Utah Admin. Code R746-100-10.F.5, neither the execution of this Stipulation nor the order adopting it shall be deemed to constitute an admission or acknowledgment by any Party of the validity or invalidity of any principle or practice of regulatory accounting or ratemaking; nor shall they be construed to constitute the basis of an estoppel or waiver by any Party; nor shall they be introduced or used as evidence for any other purpose in a future proceeding by any Party except in a proceeding to enforce this Stipulation.

14. The parties agree that no part of this Stipulation or the formulae and methodologies used in developing the same or a Commission Order approving the same shall in any manner be argued or considered as precedential in any future cost allocation case. This Stipulation does not resolve and does not provide any inferences regarding, and the Parties are free to take any position with respect to any issues not specifically called out and settled herein.
15. The Parties request that the Commission hold a hearing on this Stipulation. The Parties request that all of the prefiled testimony in this Docket on issues resolved in this Stipulation be admitted into the record without witnesses being called or sworn at the proceeding. Rocky Mountain Power, the Division, and the Office each will, and other Parties may, make one or more witnesses available to explain and offer further support for this Stipulation. The Parties shall support the Commission's approval of this Stipulation. As applied to the Division and the Office, the explanation and support shall be consistent with their statutory authority and responsibility.
16. 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 this Stipulation. As applied to the Division and the Office, 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.

17. Except with regard to the obligations of the Parties under the four 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 presentation of testimony and cross-examination of witnesses, with respect to issues resolved by the Stipulation, and no party shall be bound or prejudiced by the terms and conditions of the Stipulation.
18. This Stipulation may be executed by individual Parties through two or more separate, conformed copies, the aggregate of which will be considered as an integrated instrument.

RELIEF REQUESTED

Based on the foregoing, the Parties request that the Commission schedule a hearing on this Stipulation and, thereafter, enter an order approving the terms and conditions set forth in this Stipulation.

RESPECTFULLY SUBMITTED this 12th day of July, 2011.

ROCKY MOUNTAIN POWER

By: /s/ Mark C. Moench
Mark C. Moench,
Senior Vice President & General Counsel

UTAH DIVISION OF PUBLIC UTILITIES

By: /s/ Artie Powell for Chris Parker
Chris Parker, Director

OFFICE OF CONSUMER SERVICES

By: /s/ Michelle Beck
Michele Beck, Director

UAE INTERVENTION GROUP

By: /s/ Gary Dodge
Gary Dodge
Hatch, James & Dodge

UTAH INDUSTRIAL ENERGY CONSUMERS

By: /s/ Bob Reeder
Bob Reeder
Parsons, Behle & Latimer

KROGER CO.

By: /s/ K. Boehm
Kurt Boehm, Esq.
Boehm, Kurtz & Lowry

WAL-MART STORES, INC. AND SAM'S WEST, INC.

By: /s/ Holly R. Smith
Holly Rachel Smith
Holly Rachel Smith, PLLC

AARP

By: /s/ B. Plenk
Bruce Plenk

SALT LAKE COMMUNITY ACTION PROGRAM

By: /s/ Catherine Caputo Hoskins
Catherine Caputo Hoskins

NUCOR STEEL-UTAH

By: /s/ P. J. Mattheis
Peter J. Mattheis
Brickfield, Burchette, Ritts & Stone, P.C.

The Federal Executive Agencies

By: /s/ Karen S. White
Ms. Karen S. White
AFLOA/JACL-ULFSC

Exhibit A
Stipulation Rate Spread

<u>Customer Class</u>	<u>Stipulated Percentage of Revenue Requirement Increase</u>	<u>Illustrative Percentage Increase Variation from Midpoint Assuming \$100 Million Increase</u>
	%	%
Residential (Schs. 1, 2, 3)	39.1328%	0.20%
General Service (Schs. 6, 6A, 6B)	24.8554%	-0.68%
General Service > 1 MW (Sch. 8)	8.6664%	0.16%
Lighting (Schs. 7,11,12)	0.0000%	-6.08%
General Service - High Voltage (Schs. 9, 9A)	15.6296%	1.17%
Irrigation (Schs. 10, 10 TOD)	0.7400%	0.01%
Metered Outdoor Lighting (Sch. 15)	0.0000%	-6.08%
Traffic Signals (Sch. 15)	0.0325%	0.16%
Electric Furnace (Sch. 21)	0.0204%	1.16%
General Service - Small (Sch. 23)	6.5700%	-0.68%
Back-Up, Maint., & Suppl. Service (Sch. 31)	0.0495%	0.16%
Security Area Lighting Contracts (PTL)	0.0000%	-6.08%
Street Lighting Contracts (77)	0.0000%	-6.08%
Contract Customer 1	0.0000%	-6.08%
Contract Customer 2	0.0000%	-6.08%
Contract Customer 3*	3.6471%	1.85%
Contract Customer 4*	0.6563%	0.14%
AGA/Revenue Credit	0.0000%	-6.08%
Total Utah (excl. Customer 1, 2, & AGA)	100.0000%	
<p>* Per their special contract terms, the rates charged to customer 3 and 4 are derived from other tariff schedules. The contract terms will govern the actual increase assigned to these two customers. The percentage of revenue increase shown for these two customers is an estimate and will vary somewhat depending on the final overall revenue increase approved in this docket. Per the terms of this stipulation, the percentage of revenue increase assigned to other classes will not change.</p>		

Exhibit B		
Corrected Billing Determinants		
Rocky Mountain Power - State of Utah		
Blocking Based on Adjusted Actuals and Forecasted Loads*		
Historical Test Period 12 Months Ending June 2010		
Forecast Test Period 12 Months Ending June 2012		
	Adjusted	Forecasted
	Actual Units	Units
Schedule No. 1- Residential Service		
Customer Charge	7,995,935	8,178,019
Customer Charge - 1 Phase	7,987,456	8,169,347
Customer Charge - 3 Phase	8,479	8,672
First 400 kWh (May-Sept)	1,214,510,836	1,283,234,719
Next 600 kWh (May-Sept)	1,001,916,381	1,058,610,469
All add'l kWh (May-Sept)	548,870,017	579,928,183
All kWh (Oct-Apr)	3,469,656,771	3,665,989,548
Minimum 1 Phase	76,138	77,872
Minimum 3 Phase	385	394
Minimum Seasonal	0	0
kWh in Minimum	162,635	171,837
kWh in Minimum 1 Phase - Summer	67,327	71,137
kWh in Minimum 1 Phase - Winter	71,446	75,489
kWh in Minimum 3 Phase - Summer	12,239	12,932
kWh in Minimum 3 Phase - Winter	11,623	12,279
Unbilled	49,973,129	0
Total	6,285,089,769	6,587,934,756
Schedule No. 3- Residential Service		
Customer Charge	343,172	376,337
Customer Charge - 1 Phase	342,957	376,102
Customer Charge - 3 Phase	215	235
First 400 kWh (May-Sept)	52,379,160	58,115,255
Next 600 kWh (May-Sept)	32,883,162	36,484,230
All add'l kWh (May-Sept)	8,802,425	9,766,387
All kWh (Oct-Apr)	132,052,132	146,513,295
Minimum 1 Phase	867	951
Minimum 3 Phase	4	4
Minimum Seasonal	0	0
kWh in Minimum	2,042	2,266
kWh in Minimum 1 Phase - Summer	726	806
kWh in Minimum 1 Phase - Winter	935	1,037
kWh in Minimum 3 Phase - Summer	0	0
kWh in Minimum 3 Phase - Winter	381	423
Unbilled	1,813,418	0
Total	227,932,339	250,881,433
*Following the final Commission order in this docket, the residential billing determinants will be updated to reflect ordered revenues, minimum bills and the rate design agreed to in this stipulation.		

Exhibit C
Tariff Language

Rocky Mountain Power
Exhibit RMP ____ (WRG-4)
Docket No. 10-035-124
Witness: William R. Griffith

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Exhibit Accompanying Direct Testimony of William R. Griffith

Discussion of Revised Tariff Language

January 2011

Schedule 1 and Schedule 3 Housekeeping Billing Change

The Company proposes to correct an oversight in the Application section of current Schedule 1 and Schedule 3. Currently the Application section for Schedule 1 and Schedule 3 states,

“When conditions are such that service is supplied through one meter to more than one dwelling or apartment unit, the charge for such service will be computed by multiplying the minimum charges by the maximum number of dwelling or apartment units that may be served.”

The Company proposes to change this language to the following

“When conditions are such that service is supplied through one meter to more than one dwelling or apartment unit, the charge for such service will be computed by multiplying the number of kWh in each applicable usage block, the Customer Charge and the minimum charges by the maximum number of dwelling or apartment units that may be served”.

The proposed language is similar to language the Company first introduced effective January 1, 1945, when a three block energy rate structure was adopted, along with minimum charges for residential Schedule 1. It stated “When conditions are such that service is supplied through one meter to more than one dwelling or apartment unit, the charge for such service will be computed by multiplying the number of kWh in each block and the minimum charges by the maximum number of dwelling or apartment units that may be served.” Clearly, the intent of this addition was to bill multiple unit customers as if each unit was individually metered and billed.

On November 1, 1982, the Company replaced the three block energy rate structure with a single flat energy rate. The Applicability paragraph was revised and the currently effective language went into effect. Since then, this paragraph has not been changed even though changes to the rate structure have occurred. For example, on September 23, 1985, a Customer Charge was added to Schedule 1; there was no change made to the Application section to reflect that new rate component. On November 2, 2001, the energy rate structure for Schedule 1 was changed from a single flat rate to a multiple block rate, and, similarly, there was no change made to the above paragraph in the Application section.

To be consistent with the current effective rate structure of residential Schedules 1, 2 and 3, the Company believes that the correct language in the Application section should be revised as proposed. The proposed change will reflect current billing practices for customers with multiple dwelling units. The current method is consistent with the billing determinants and rates established in all recent general rate cases. It benefits customers since, along with the Customer Charge, each rate block is increased by the number of units. Currently the Company multiplies the Customer Charge by the dwelling unit count. It also multiplies the kWh for each rate block by the dwelling unit count. There are around 900 customers with multiple dwelling units in Utah, and the proposed change would have no bill impacts on those customers.



Third Revision of Sheet No. 1.1
P.S.C.U. No. 47
Canceling Second Revision of Sheet No. 1.1

ROCKY MOUNTAIN POWER
ELECTRIC SERVICE SCHEDULE NO. 1

STATE OF UTAH

Residential Service

AVAILABILITY: At any point on the Company's interconnected system where there are facilities of adequate capacity.

APPLICATION: This Schedule is for alternating current electric service supplied at approximately 120 or 240 volts through one kilowatt-hour meter at a single point of delivery for all service required on the premises for residential purposes.

When conditions are such that service is supplied through one meter to more than one dwelling or apartment unit, the charge for such service will be computed by multiplying the number of kWh in each applicable usage block, the Customer Charge and the minimum charges by the maximum number of dwelling or apartment units that may be served. (C)

When a portion of a dwelling is used regularly for business, professional or other gainful purposes and 50 percent or more of the electrical energy supplied to that dwelling is being used for residential purposes, the premises shall be subject to this or other residential rates. If 50 percent or more of the electrical energy supplied to the premises is used for other than residential purposes, the premises will be classified as non-residential and electric service shall be provided under the appropriate non-residential schedule. However, if the wiring is so arranged that the service for residential purposes can be metered separately, this Schedule will be applied to such service. (C)

MONTHLY BILL:

Customer Charge:
\$ 3.75 per Customer

(continued)

Issued by authority of Report and Order of the Public Service Commission of Utah in Docket No. 10-035-124

FILED: January 24, 2011

EFFECTIVE: September 21, 2011



P.S.C.U. No. 47

Third Revision of Sheet No. 3.1
Canceling Second Revision of Sheet No. 3.1

ROCKY MOUNTAIN POWER
ELECTRIC SERVICE SCHEDULE NO. 3

STATE OF UTAH

Low Income Lifeline Program - Residential Service
Optional for Qualifying Customers

AVAILABILITY: At any point on the Company's interconnected system where there are facilities of adequate capacity.

APPLICATION: This Schedule is for alternating current electric service supplied at approximately 120 or 240 volts through one kilowatt-hour meter at a single point of delivery for all service required on the premises for residential purposes.

When conditions are such that service is supplied through one meter to more than one dwelling or apartment unit, the charge for such service will be computed by multiplying the number of kWh in each applicable usage block, the Customer Charge and the minimum charges by the maximum number of dwelling or apartment units that may be served.

When a portion of a dwelling is used regularly for business, professional or other gainful purposes and 50 percent or more of the electrical energy supplied to that dwelling is being used for residential purposes, the premises shall be subject to this or other residential rates. If 50 percent or more of the electrical energy supplied to the premises is used for other than residential purposes, the premises will be classified as non-residential and electric service shall be provided under the appropriate non-residential schedule. However, if the wiring is so arranged that the service for residential purposes can be metered separately, this Schedule will be applied to such service.

(C)

(C)

MONTHLY BILL: The Monthly Bill shall be the sum of the Electric Service Charge, the Low Income Lifeline Credit and the Life Support Assistance Credit Option, if applicable.

ELECTRIC SERVICE CHARGE:

Customer Charge:
\$ 3.75 per Customer

(continued)

Issued by authority of Report and Order of the Public Service Commission of Utah in Docket No. 10-035-124

FILED: January 24, 2011

EFFECTIVE: September 21, 2011

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. 10-035-124
In the Matter of the Application of Rocky Mountain Power for Approval of its Proposed Energy Cost Adjustment Mechanism	DOCKET NO. 09-035-15
In the Matter of the Application of the Utah Association of Energy Users for a Deferred Accounting Order Directing Rocky Mountain Power to Defer Incremental REC Revenue for Later Ratemaking Treatment	DOCKET NO. 10-035-14
In the Matter of the Application of the Utah Industrial Energy Consumers for a Deferred Accounting Order Directing Rocky Mountain Power to Defer Incremental REC Revenue for Later Ratemaking Treatment	DOCKET NO. 11-035-46
In the Matter of the Application of the Utah Office of Consumer Services for a Deferred Accounting Order Directing Rocky Mountain Power to Defer all Bonus Depreciation Allowed for 2010 through 2011 by the Small Business Jobs Act as amended	DOCKET NO. 11-035-47

SETTLEMENT STIPULATION

I. INTRODUCTION

1. This Settlement Stipulation ("Stipulation") is entered into in Docket Nos. 10-035-124, 09-035-15, 10-035-14, 11-035-46 and 11-035-47 by and among the parties whose

signatures appear on the signature pages hereof (collectively referred to herein as the "Parties" and individually referred to as a "Party").

2. The Parties have conducted settlement discussions over the course of several days and had meetings on July 21, 26 and 27, 2011 to which all intervening parties to the dockets that are the subject of this Stipulation were invited. In addition, drafts of this Stipulation were circulated to all intervening parties for review and comment on July 22, 26 and 27, 2011, and there have been further discussions among various parties. This Stipulation has been entered into by the Parties after consideration of the views of all intervening parties expressed during that process.

3. The Parties represent that this Stipulation is just and reasonable in result and will provide the Company a reasonable opportunity to earn its authorized return, and recommend that the Public Service Commission of Utah ("Commission") approve the Stipulation and all of its terms and conditions. The Parties request that the Commission make findings of fact and reach conclusions of law based on the evidence and on this Stipulation and issue an appropriate order thereon.

II. BACKGROUND

A. Docket No. 10-035-124

4. On January 24, 2011, Rocky Mountain Power ("Rocky Mountain Power" or "Company") filed an application in Docket No. 10-035-124 ("General Rate Case"), together with supporting testimony and exhibits, requesting approval of an increase in its retail electric utility service rates in Utah in the amount of \$232.4 million.

5. On February 23, 2011, the Commission issued an order establishing the procedural schedule for the General Rate Case. Hearings in the General Rate Case were scheduled to begin on

July 27, 2011 on revenue requirement issues and on August 8, 2011, on cost of service, rate spread and rate design issues.

6. On March 8, 2011, the Commission issued an order adopting the July 1, 2011, through June 30, 2012 test period, using average period rate base, in the General Rate Case.

7. On May 26, 2011, intervening parties in the General Rate Case filed their direct testimony on revenue requirement issues. In their testimony, the intervening parties proposed numerous adjustments to the Company's requested rate increase.

8. On June 30, 2011, the Company and intervening parties filed rebuttal testimony. The Company's rebuttal testimony reduced its requested rate increase to \$188.1 million, based on updates and corrections to its direct testimony and acceptance of certain adjustments proposed by intervening parties.

9. On July 14, 2011, the Company and certain intervening parties filed a Stipulation on Cost of Service, Rate Spread and Rate Design ("Cost of Service Stipulation").

10. On July 19, 2011, the Company and intervening parties filed simultaneous surrebuttal testimony.

11. The Parties have reached a compromise as specified herein on the rate increase that should be approved in the General Rate Case on the terms and conditions provided in this Stipulation.

12. This Stipulation and the Cost of Service Stipulation are intended to resolve all issues in the General Rate Case in accordance with their respective terms and conditions.

B. Docket No. 09-035-15

13. On March 16, 2009, the Company filed an application in Docket No. 09-035-15 for approval of an Energy Cost Adjustment Mechanism ("ECAM") that would allow the Company

to charge or credit differences between the net power costs included in setting rates and actual net power costs incurred during the rate-effective period ("ECAM Docket").

14. On February 9, 2010, the Company filed a Motion for Deferred Accounting Order in the ECAM Docket seeking an accounting order authorizing it to defer the difference between net power costs included in the rates set by the Commission in Docket No. 09-035-23 and actual net power costs incurred commencing February 18, 2010, the date rates set in Docket No. 09-035-23 were scheduled to go into effect.

15. On July 14, 2010, the Commission issued its Report and Order on Deferred Accounting Stipulation ("Deferred Accounting Order") in the ECAM Docket and in Docket No. 10-035-14, granting the Company's motion for deferred accounting of incremental net power costs.

16. Pursuant to the Deferred Accounting Order, the Company has deferred incremental net power costs in a deferred account ("Deferred NPC Account") from February 18, 2010.

17. On March 3, 2011, the Commission issued its Corrected Report and Order in the ECAM Docket ("EBA Order"). In the EBA Order, the Commission approved an Energy Balancing Account ("EBA") for the Company, and determined that the EBA would commence on the first day of the month following the date rates set in the General Rate Case go into effect.

- a. The EBA Order excluded financial swap transactions from the EBA.
- b. With regard to ratemaking treatment of the Deferred NPC Account, the Commission concluded:

We will address the ratemaking issues associated with the stipulation on deferred net power cost separately from this order. We will also consider the balancing account treatment for the one percent premium above Utah's rolled in share of total system costs approved in the last general rate case in the course of the pending general rate

case or other appropriate proceeding on the deferred net power cost balance. As to any deferred net power cost balance prior to the conclusion of the next general rate case, we will require use of the rolled-in allocation factors and appropriate treatment of the MSP stipulation mechanisms, unless the Company can demonstrate continued use of the MSP stipulation mechanisms is in the public interest. (EBA Order at 77-78.)

18. On March 16, 2011, the Commission issued an errata order regarding the EBA Order.

19. On April 15, 2011, the Company filed a petition for reconsideration of the EBA Order requesting, among other things, that the Commission reconsider its decision to exclude financial swap transactions from the EBA.

20. On May 9, 2011, the Commission issued its Order on Petition for Clarification and Reconsideration or Rehearing and Notice of Scheduling Conference ("Rehearing Order"). The Rehearing Order granted rehearing on the issue of whether financial swap transactions should be excluded from the EBA, clarified that the EBA Order did not foreclose consideration of a balancing account for REC revenues, and set a scheduling conference for the issues on rehearing.

21. On May 24, 2011, the Commission issued a Scheduling Order establishing a procedural schedule for rehearing the financial swap transactions issue. Hearings on that issue are scheduled to commence on November 1, 2011.

22. On June 2, 2011, the Company filed the Motion of Rocky Mountain Power for Determination of Ratemaking Treatment of Deferred Accounts ("RMP Deferred Account Motion"). The RMP Deferred Account Motion requested that the Commission determine the ratemaking treatment of the Deferred NPC Account and renewable energy credit ("REC") revenue deferred pursuant to the Deferred Accounting Order either in the General Rate Case or in another docket.

The RMP Deferred Account Motion was also filed in Docket No. 10-035-14 and the General Rate Case. Certain intervening parties opposed the Company's motion.

23. The Parties have reached a compromise as specified herein on both the issue of inclusion of financial swap transactions in the EBA and the ratemaking treatment of the Deferred NPC Account in accordance with the terms and conditions provided in this Stipulation.

24. This Stipulation is intended to resolve the issues set for rehearing by the Commission in the Rehearing Order.

C. Docket No. 10-035-14

25. On February 22, 2010, the Utah Association of Energy Users ("UAE") filed an application in Docket No. 10-035-14 ("UAE REC Docket"). The application sought an accounting order requiring the Company to defer for later ratemaking treatment all REC revenues recovered by the Company in excess of the REC revenues included in setting rates in Docket No. 09-035-23, commencing February 22, 2010.

26. On July 14, 2010, the Commission issued the Deferred Accounting Order in the ECAM and UAE REC Dockets, granting UAE's application for deferred accounting of incremental REC revenues effective February 22, 2010.

27. Pursuant to the Deferred Accounting Order, the Company has deferred incremental REC revenues in a deferred account ("Deferred REC Account") from February 22, 2010.

28. On December 21, 2010, the Commission issued its Order Approving Settlement Stipulation in the UAE REC Docket and Docket Nos. 10-035-13 and 10-035-89 ("MPA Dockets"). In connection with approving rate increases associated with the MPA Dockets, the order approved the Settlement Stipulation ("MPA Stipulation") dated November 29, 2010 that a \$3.0 million

monthly customer credit should begin January 1, 2011, representing incremental 2011 REC revenue not currently reflected in Utah rates. This credit was contingent on final disposition of the issue of the ratemaking treatment of the Deferred REC Account.

29. On March 3, 2011, the Commission issued the EBA Order. With respect to the Deferred REC Account, the Commission concluded:

We are not persuaded the revenue from RECs should be included in the balancing account. It is less directly related to net power costs as delineated in the Energy Balancing Account statute than, for example, wheeling revenues. It is more like SO₂ allowance revenue. Additionally, REC[]s can be banked, which adds further complexity to their regulatory treatment. We conclude REC revenues are better addressed in a general rate proceeding or other appropriate filing. Consequently, we will treat the deferred REC revenues accruing pursuant to any future decision in Docket No. 10-035-14 in a separate proceeding. (EBA Order at 72.)

30. In testimony filed May 26, 2011 in the General Rate Case, UAE and other intervening parties sought ratemaking treatment of the Deferred REC Account through a rate credit to be applied commencing September 21, 2011, the date new rates set in the General Rate Case are scheduled to go into effect.

31. The Parties have reached a compromise as specified herein on the ratemaking treatment of the Deferred REC Account in accordance with the terms and conditions provided in this Stipulation.

32. This Stipulation is intended to resolve all remaining issues in the UAE REC Docket, and satisfies and renders moot paragraphs 8-12 of the MPA Stipulation.

D. Docket No. 11-035-46

33. On March 21, 2011, Tesoro Refining & Marketing Co.; Malt O Meal; Praxair, Inc.; Proctor & Gamble; Holcim, Inc.; Kennecott Utah Copper LLC; Kimberly-Clark Corp.; and Western Zirconium (collectively the "Utah Industrial Energy Consumers" or "UIEC") filed an application

for a deferred accounting order for REC revenues received by the Company in excess of REC revenues included in rates during the period from January 1, 2009 through February 21, 2010 in Docket No. 11-035-46 ("UIEC REC Docket").

34. On May 16, 2011, the Commission issued its Scheduling Order, as amended, scheduling the filing of testimony and a hearing commencing on October 19, 2011.

35. The Parties have reached a compromise as specified herein on the issues raised in the UIEC REC Docket in accordance with the terms and conditions provided in this Stipulation.

36. This Stipulation is intended to resolve all issues in the UIEC REC Docket.

E. Docket No. 11-035-47

37. On March 21, 2011, the Utah Office of Consumer Services ("Office") filed an application for a deferred accounting order for the impacts of bonus depreciation on the accumulated deferred income tax offset to rate base for 2010 and 2011 in Docket No. 11-035-47 ("Bonus Depreciation Docket").

38. On May 16, 2011, the Commission issued its Scheduling Order scheduling the filing of testimony and a hearing commencing on October 17, 2011.

39. The Parties have reached a compromise as specified herein on the issues raised in the Bonus Depreciation Docket in accordance with the terms and conditions provided in this Stipulation.

40. This Stipulation is intended to resolve all issues in the Bonus Depreciation Docket.

III. TERMS OF STIPULATION

41. Subject to Commission approval and for purposes of this Stipulation only, the Parties agree as follows:

A. Revenue Requirement in General Rate Case

42. The Parties agree that, under this Stipulation and upon Commission approval, the Company's Utah revenue requirement and Utah customer rates will increase by \$117.0 million on September 21, 2011. The agreed to adjustments that reduce the Company's rebuttal revenue requirement included in RMP__ (SRM-1R) to the agreed upon increase are shown in Table 1 below:

Table 1

	Revenue Requirement Increase (\$ millions)
Company Rebuttal Case	\$ 188.1
ROE at 10.0%	(23.3)
Total Net Power Costs	(15.0)
Coal Inventory (50% of adjustment)	(1.2)
Special Contract Revenues	(1.0)
O&M Escalation	(1.9)
Klamath Postponement	(17.5)
All Other	(11.3)
Settlement Revenue Requirement	<u>\$ 117.0</u>

43. The increase shall be allocated to customer classes and applied to customer rates consistent with the Cost of Service Stipulation. The spread of the \$117.0 million rate increase is shown in Table 2 below and in Exhibit A to this Stipulation.

Table 2

Customer Class	GRC Change	
	(\$000)	%
Residential (Schs. 1, 2, 3)	\$ 45,785	7.3%
General Service (Schs. 6, 6A, 6B)	\$ 29,081	6.3%
General Service > 1 MW (Sch. 8)	\$ 10,140	7.3%
Lighting (Schs. 7,11,12)	\$ -	0.0%
General Service - High Voltage (Schs. 9, 9A)	\$ 18,287	8.5%
Irrigation (Schs. 10, 10 TOD)	\$ 866	7.1%
Metered Outdoor Lighting (Sch. 15)	\$ -	0.0%
Traffic Signals (Sch. 15)	\$ 38	7.3%
Electric Furnace (Sch. 21)	\$ 24	8.5%
General Service - Small (Sch. 23)	\$ 7,687	6.3%
Back-Up, Maint., & Suppl. Service (Sch. 31)	\$ 58	7.3%
Security Area Lighting Contracts (PTL)	\$ -	0.0%
Street Lighting Contracts (77)	\$ -	0.0%
Contract Customer 1	\$ -	0.0%
Contract Customer 2	\$ -	0.0%
Contract Customer 3**	\$ 4,267	9.3%
Contract Customer 4**	\$ 768	7.3%
AGA/Revenue Credit	\$ -	0.0%
Total Utah	\$ 117,000	6.9%
Total Utah (excl. Customer 1, 2, & AGA)	\$ 117,000	7.1%

** The actual change will be based on the terms of the contract.

44. The revenue requirement decrease associated with the return on equity of 10.0 percent includes acceptance of the Company's proposed capital structure, including 51.9 percent equity, resulting in an overall rate of return of 7.94 percent derived as follows in Table 3:

Table 3

	Capital Structure	Cost of Capital	WACC
Debt	47.80%	5.71%	2.73%
Preferred	0.30%	5.43%	0.02%
Common Equity	51.90%	10.00%	5.19%
Total			7.94%

45. The Parties agree that a base net power cost amount of \$1,475 million, or \$629.1 million on a Utah-allocated basis, should be established upon Commission approval of this Stipulation as the basis for the in-rates level of net power costs beginning October 1, 2011, for purposes of the EBA. The Parties agree that wheeling revenues in the amount of \$70,500,682, or \$30,461,769 on a Utah-allocated basis, should be established as the basis for the in-rates level of wheeling revenues for purposes of the EBA. The following Table 4 reflects the level of base net power costs, less wheeling revenues, in rates by month for EBA measurement. Exhibit B to this Stipulation provides details supporting the dollars per megawatt hour ("\$/MWh") calculations.

Table 4

	Utah EBA \$/MWh
Jul-2011	\$ 23.533
Aug-2011	26.103
Sep-2011	24.430
Oct-2011	21.518
Nov-2011	21.167
Dec-2011	21.488
Jan-2012	22.166
Feb-2012	22.076
Mar-2012	21.884
Apr-2012	23.109
May-2012	23.407
Jun-2012	22.444
Total	<u>\$ 22.824</u>

46. The "Klamath Postponement" adjustment as shown in Table 1 is based on the Parties' agreement, for purposes of the General Rate Case only, that (a) existing plant assets associated with the Klamath Hydroelectric Project will continue to be depreciated using previously-approved depreciation schedules, (b) issues relating to the Klamath Hydroelectric Settlement Agreement raised by the Company and intervening parties in the General Rate Case shall be postponed to a future proceeding, and (c) relicensing and settlement process costs shall continue to be deferred and accrue a carrying charge based on the AFUDC rate and shall not be amortized or included in rate base unless ordered by the Commission in a future proceeding. Parties shall be free to present any proposed adjustments to cost recovery associated with the Klamath Hydroelectric Settlement Agreement in future cases without regard to this Stipulation.

B. Other General Rate Case Issues

47. Contentions made by the signatories to this Stipulation in the General Rate Case regarding the Company's environmental control investments are resolved by this Stipulation. For purposes of compromising and settling this case, the Parties agree and recommend that the Commission make findings that the investments included in the General Rate Case are prudent and used and useful for purposes of the General Rate Case and future cases.

48. Additional wheeling revenues that may result from the Company's transmission rate case, Docket No. ER11-3643, before the Federal Energy Regulatory Commission ("FERC") are not reflected in the agreed upon revenue requirement. Any such additional revenues resulting from increased price or utilization that accrue from the time the new FERC transmission rates go into effect through the end of the test period in the General Rate Case (i.e. June 30, 2012) shall be deferred and credited to customers in the 2013 EBA annual filing without application of the 30 percent sharing mechanism.

49. Contentions made by intervening parties in the General Rate Case that the Company's investment in the Populus to Terminal transmission line was not prudent or that the line is not used and useful are resolved by this Stipulation. For purposes of compromising and settling this case, the Parties agree and recommend that the Commission make findings that the Populus to Terminal transmission project is prudent, and is currently used and useful in providing service to both retail customers and others. This compromise and the potential findings shall not preclude any party from challenging such project on used and useful grounds in any other pending docket not resolved by this Stipulation or any future rate proceeding or contending that the costs or revenue requirements should be allocated differently. Neither PacifiCorp nor Rocky Mountain Power shall contend that this compromise and such finding preclude such a challenge.

50. No Party shall be barred from participating in the Company's current FERC rate case, Docket No. ER11-3643, by virtue of entering into this Stipulation.

51. Contentions made by Parties in the General Rate Case regarding the Company's decision to terminate negotiations to acquire the Apex Plant in December 2010 in the Company's All-Source Request for Proposals ("RFP") are resolved by this Stipulation, and the Parties agree to assert no future claims regarding that decision.

52. The Parties agree all other revenue requirement issues in the General Rate Case are resolved by this Stipulation.

C. Hedging

53. The Parties agree to convene a collaborative process ("Collaborative Process") to discuss appropriate changes to the Company's hedging practices to better reflect customer risk tolerances and preferences, and the Company agrees to implement appropriate policy changes on a going-forward basis that result from agreement in the Collaborative Process or Commission order. The Division shall, and other Parties may, file reports for informational purposes with the Commission within six (6) months of approval of this Stipulation with a general explanation of the results of the Collaborative Process, including a description of any agreements reached and any remaining areas of disagreement. The issues to be addressed in the Collaborative Process include, without limitation:

a. Moving the hedging program requirement targets that are currently in the Company's Front Office Procedures and Practices to the limits section of the Risk Management Policy, to be subject to the same governance requirements as other Risk Management Policy limits.

b. A new maximum hedge volume percentage limit or range for forecast natural gas requirement for forward periods.

- c. Exceptions to the hedge volume percentage limit or range and response to changing circumstances.
- d. Risk tolerance bands based on TEVaR or VaR limits or otherwise.
- e. The dollar VaR limit for the hedging horizon.
- f. The Risk Management Policy position limits.
- g. The risk management or hedging time horizon.
- h. A process for review of hedging transactions outside of accepted guidelines, including natural gas reserves or storage.
- i. Liquidity, transparency and other risks of different hedging tools such as financial swaps, fixed price physical forward contracts, and options.
- j. A Company semi-annual confidential report on hedging status.
- k. The implications on stakeholders in the Company's other jurisdictions.
- l. Coordination and implementation issues relating to the inclusion of financial swap transactions in the EBA, as specified in Paragraph 56.

54. The Company represents that its current natural gas hedged position as a percent of the Company's forecast gas requirement for the period of August 2012 through July 2013 using instruments comparable to the hedge transactions reviewed in the General Rate Case is the percent disclosed on a highly confidential basis to the Parties during a settlement meeting on July 27, 2011. The Parties agree, based on such representation and in consideration of the Company's compromises reached in this Stipulation, that hedging transactions entered into before July 28, 2011 will not be challenged for prudence on the grounds that they:

- a. Do not comply with the policy changes implemented through the Collaborative Process, Commission order or as a result of this Stipulation;

- b. Result in over-hedging of natural gas or power positions;
- c. Were entered into for a period of time beyond a reasonable horizon for hedging transactions; or
- d. Were comprised of too great a portion of financial products relative to fixed price physical transactions.

55. The Company agrees that before implementing materially inconsistent hedging policy changes required by another state, it will attempt to resolve the conflict with the Parties and such other state.

C. Rehearing in ECAM Docket

56. The Parties request that the Commission resolve the issues on rehearing in the ECAM Docket by modifying the EBA Order to remove the language excluding financial swap transactions from the EBA. The Parties agree that broker fees, premiums and settlement costs of financial hedge transactions, including swaps, may be included in the EBA to the extent consistent with (a) prudent risk management and hedging policies and (b) following the completion of the Collaborative Process, any accepted risk management and hedging policies resulting from that process. Based on the representation set forth in Paragraph 54 above and in consideration of the Company's compromises reached in this Stipulation, the Parties agree not to challenge the prudence of existing financial hedge transactions, including swaps, entered into before July 28, 2011 for the reasons identified in Paragraph 54 above, but Parties reserve the right to challenge such transactions for reasons other than those identified in Paragraph 54 above. Other costs arising from the use of financial hedges shall not be included until further order of the Commission. The Parties agree to use the Collaborative Process to address EBA implementation issues relating to such transactions, as well as coordination with the risk management and hedging policies to be addressed in the Collaborative Process.

D. RFP Process Improvements

57. The Company agrees to hold a stakeholder workshop in advance of the issuance of its next RFP to consider process improvements and to revisit the approved evaluation process to assess and implement improvements to address how opportunities outside the defined parameters of the RFP, such as the Apex Plant, should be evaluated.

58. The Company agrees that the RFP protocol should be modified to require the Company to (a) notify the Division of Public Utilities ("Division") and the Independent Evaluator ("IE") and (b) allow them to review the Company's analysis prior to cancellation of negotiations with any bidder on the final short list in an RFP. If the Division or IE does not agree with the Company's decision to cancel negotiations, the issue will be immediately presented to the Commission for resolution.

E. Deferred Net Power Costs

59. Taking into consideration (a) litigation, financial and other risks associated with litigation of the ratemaking treatment of the Deferred NPC Account and the Deferred REC Account and claims in the UIEC REC Docket and the Bonus Depreciation Docket, (b) the parameters set forth in the EBA Order (e.g., 70/30 sharing and rolled-in interjurisdictional allocations), and (c) other factors, the Parties agree the Company should be allowed to recover \$60.0 million of the \$157.0 million projected by the Company to be in the Deferred NPC Account as of September 20, 2011 from Utah customers. The Parties agree that this \$60.0 million amount should be recovered through an annual \$20.0 million surcharge over three years without a carrying charge applied as a line item in the EBA surcharge commencing June 1, 2012. The surcharge shall be allocated to rate schedules relying on the Cost of Service Stipulation consistent with the EBA Order.

60. The surcharge will terminate when the \$60.0 million deferred balance has been collected from customers and a final true-up to the \$60.0 million amount shall occur in the EBA.

F. REC Balancing Account and Deferred REC Revenues

61. The Parties agree that a balancing account should be established for REC revenues ("RBA") that will track the difference between REC revenues included in rates and actual REC revenues received by the Company and to credit or surcharge 100 percent of the difference to Utah customers on an annual basis through Schedule 98 using the allocations specified in the Cost of Service Stipulation, until otherwise ordered by the Commission. The balance in the RBA shall accrue interest at the Company's cost of debt approved in the Company's most recent general rate case (i.e., 5.71 percent currently) compounded monthly.

62. For purposes of the RBA, Parties agree that REC revenues included in base rates as a result of the agreed revenue requirement in the General Rate Case are \$50.9 million on a Utah-allocated basis beginning September 21, 2011. The base level of REC revenues in rates will be reset in future rate proceedings.

63. The Parties agree that the timing of annual RBA true-up filings should be consistent with annual EBA filings. The annual RBA filings will be based on the prior calendar year data.

64. The Parties agree that the following provisions shall apply to the initial credit balance in the RBA and Schedule 98:

a. An initial credit balance of \$39.5 million shall be established in the RBA representing the Deferred REC Account balance deferred from February 22, 2010 through December 31, 2010.

b. The \$39.5 million credit balance shall be adjusted for the difference in the projected January 1, 2011 through September 20, 2011 deferred REC revenues offset by the \$3.0 million

monthly credit already being provided to customers for the same period under the MPA Stipulation. The current estimate is that \$6.5 million will be over-credited to customers. Therefore, the \$39.5 million will be reduced by \$6.5 million, for an initial RBA credit balance of \$33.0 million. Any final true-up of these balances, including the estimated \$6.5 million over-credit, based on final actual amounts will be captured and reflected in the 2012 RBA filing.

c. The net amount of \$33.0 million shall be allocated and credited to bills consistent with the Cost of Service Stipulation and will be credited through Schedule 98 from September 21, 2011 through May 31, 2012. With interest, the credit to customers will be \$33.6 million over this time period. Any final true-up of these balances based on final actual amounts will be captured and reflected in RBA. The spread of the REC credit is shown in the following Table 5 and in Exhibit A to this Stipulation.

Table 5

Customer Class	REC Change*	
	(\$000)	%
Residential (Schs. 1, 2, 3)	\$ (11,661)	-2.7%
General Service (Schs. 6, 6A, 6B)	\$ (9,320)	-2.9%
General Service > 1 MW (Sch. 8)	\$ (2,989)	-3.1%
Lighting (Schs. 7,11,12)	\$ (62)	-0.6%
General Service - High Voltage (Schs. 9, 9A)	\$ (5,608)	-3.7%
Irrigation (Schs. 10, 10 TOD)	\$ (238)	-2.8%
Metered Outdoor Lighting (Sch. 15)	\$ (12)	-1.5%
Traffic Signals (Sch. 15)	\$ (7)	-1.9%
Electric Furnace (Sch. 21)	\$ (6)	-2.9%
General Service - Small (Sch. 23)	\$ (2,202)	-2.6%
Back-Up, Maint., & Suppl. Service (Sch. 31)	\$ (16)	-2.9%
Security Area Lighting Contracts (PTL)	\$ -	0.0%
Street Lighting Contracts (77)	\$ -	0.0%
Contract Customer 1	\$ -	0.0%
Contract Customer 2	\$ -	0.0%
Contract Customer 3**	\$ (1,197)	-3.7%
Contract Customer 4**	\$ (282)	-3.8%
AGA/Revenue Credit	\$ -	0.0%
Total Utah	\$ (33,600)	-2.8%
Total Utah (excl. Customer 1, 2, & AGA)	\$ (33,600)	-2.9%

*Effective September 21, 2011 through May 31, 2012.
** The actual change will be based on the terms of the contract.

65. All issues raised by Parties in UAE REC Docket and the General Rate Case regarding the deferral of REC revenues commencing February 22, 2010 and the ratemaking treatment of the Deferred REC Account are resolved by this Stipulation, and the Parties agree to assert no future claims regarding those issues.

G. Other Dockets for Deferred Accounting Orders

66. All issues raised in the UIEC REC Docket and the Bonus Depreciation Docket are resolved by this Stipulation. The Parties agree that the petitions in those dockets shall be dismissed with prejudice.

67. Ratemaking treatment of the Deferred NPC Account and Deferred REC Account addressed in the RMP Deferred Account Motion and paragraphs 8-12 of the MPA Stipulation are resolved by this Stipulation. No further proceedings shall be held in connection with either account.

H. Next General Rate Case

68. The Company agrees that it will not file its next general rate case in Utah prior to February 15, 2012.

69. The Parties agree that in the Company's next general rate case application in Utah, the Company will use, and the Parties will not oppose use of, a forecast test period ending no later than fifteen months beyond the end of the month in which the rate case application is filed with a thirteen-month average rate base.

70. The Company agrees to update its forecast of rate base plant additions and revenue requirement included in its initial application to the most current information available to the Company at the time of its rebuttal filing in the next general rate case.

IV. GENERAL TERMS AND CONDITIONS

71. Not all Parties agree that each aspect of this Stipulation is warranted or supportable in isolation. Utah Code Ann. § 54-7-1 authorizes the Commission to approve a settlement so long as the settlement is just and reasonable in result. While the Parties are not able to agree that each specific component of this Stipulation is just and reasonable in isolation, all of the Parties agree that this Stipulation as a whole is just and reasonable in result and in the public interest.

72. All negotiations related to this Stipulation are confidential, and no Party shall be bound by any position asserted in negotiations. Except as expressly provided in this Stipulation, in accordance with Utah Admin. Code R746-100-10.F.5, neither the execution of this Stipulation nor

the order adopting it shall be deemed to constitute an admission or acknowledgment by any Party of the validity or invalidity of any principle or practice of regulatory accounting or ratemaking; nor shall they be construed to constitute the basis of an estoppel or waiver by any Party; nor shall they be introduced or used as evidence for any other purpose in a future proceeding by any Party except in a proceeding to enforce this Stipulation.

73. The Parties agree that no part of this Stipulation or the formulae and methodologies used in developing the same or a Commission order approving the same shall in any manner be argued or considered as precedential in any future case except with regard to issues expressly resolved by this Stipulation. This Stipulation does not resolve and does not provide any inferences regarding, and the Parties are free to take any position with respect to any issues not specifically called out and settled herein.

74. The Parties request that the Commission hold a hearing on this Stipulation. The Parties request that all of the prefiled testimony in these dockets on issues resolved in this Stipulation be admitted into the record without witnesses being called or sworn at the proceeding. Rocky Mountain Power, the Division, and the Office each will, and other Parties may, make one or more witnesses available to explain and offer further support for this Stipulation. The Parties shall support the Commission's approval of this Stipulation. As applied to the Division and the Office, the explanation and support shall be consistent with their statutory authority and responsibility.

75. 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 this Stipulation. As applied to the Division and the Office, 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.

76. Except with regard to the obligations of the Parties under the four 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.

77. 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 presentation of testimony and cross-examination of witnesses, with respect to issues resolved by the Stipulation, and no party shall be bound or prejudiced by the terms and conditions of the Stipulation.

78. This Stipulation may be executed by individual Parties through two or more separate, conformed copies, the aggregate of which will be considered as an integrated instrument.

V. RELIEF REQUESTED

79. Based on the foregoing, the Parties request that the Commission schedule a hearing on this Stipulation and, thereafter, enter an order approving the terms and conditions set forth in this Stipulation.

RESPECTFULLY SUBMITTED: July 28, 2011.

ROCKY MOUNTAIN POWER

By: /s/ Mark C. Moench
Mark C. Moench,
Senior Vice President & General Counsel

UTAH DIVISION OF PUBLIC UTILITIES

By: /s/ Chris Parker
Chris Parker, Director

OFFICE OF CONSUMER SERVICES

By: /s/ Michele Beck
Michele Beck, Director

UAE INTERVENTION GROUP

By: /s/ Gary Dodge
Gary Dodge
Hatch, James & Dodge
Attorney for UAE Intervention Group

AARP

By: /s/ B. Plenk
Bruce Plenk
Attorney for AARP

UTAH INDUSTRIAL ENERGY CONSUMERS

By: /s/ F. Robert Reeder
F. Robert Reeder
Parsons, Behle & Latimer
Attorney for Utah Industrial Energy Consumers

KROGER CO.

By: /s/ K. Boehm
Kurt Boehm
Boehm, Kurtz & Lowry
Attorney for Kroger Co.

WAL-MART STORES, INC. AND SAM'S WEST, INC.

By: /s/ Holly R. Smith
Holly Rachel Smith
Holly Rachel Smith, PLLC
Attorney for Wal-Mart Stores, Inc. and Sam's West, Inc.

INTERNATION BROTHERHOOD OF ELECTRICAL
WORKERS, LOCAL 57

By: /s/ Arthur Sandack
Arthur F. Sandack
Attorney for International Brotherhood of Electrical
Workers, Local 57

FEDERAL EXECUTIVE AGENCIES

By: /s/ Karen S. White
Karen S. White
US Air Force Utility Law Field Support Center
Attorney for Federal Executive Agencies

**Estimated Impact for Proposed Utah Settlement
Including Proposed Changes in GRC and REC**

Customer Class	Forecast	GRC			REC		Net
	Present Rev	Change		Change*		Change	
	(\$000)	(\$000)	%	(\$000)	%	%	
Residential (Schs. 1, 2, 3)	\$ 623,014	\$ 45,785	7.3%	\$ (11,661)	-2.7%	4.7%	
General Service (Schs. 6, 6A, 6B)	\$ 460,779	\$ 29,081	6.3%	\$ (9,320)	-2.9%	3.4%	
General Service > 1 MW (Sch. 8)	\$ 138,877	\$ 10,140	7.3%	\$ (2,989)	-3.1%	4.2%	
Lighting (Schs. 7,11,12)	\$ 13,802	\$ -	0.0%	\$ (62)	-0.6%	-0.6%	
General Service - High Voltage (Schs. 9, 9A)	\$ 215,590	\$ 18,287	8.5%	\$ (5,608)	-3.7%	4.7%	
Irrigation (Schs. 10, 10 TOD)	\$ 12,158	\$ 866	7.1%	\$ (238)	-2.8%	4.3%	
Metered Outdoor Lighting (Sch. 15)	\$ 1,218	\$ -	0.0%	\$ (12)	-1.5%	-1.5%	
Traffic Signals (Sch. 15)	\$ 521	\$ 38	7.3%	\$ (7)	-1.9%	5.4%	
Electric Furnace (Sch. 21)	\$ 281	\$ 24	8.5%	\$ (6)	-2.9%	5.5%	
General Service - Small (Sch. 23)	\$ 121,797	\$ 7,687	6.3%	\$ (2,202)	-2.6%	3.7%	
Back-Up, Maint., & Suppl. Service (Sch. 31)	\$ 793	\$ 58	7.3%	\$ (16)	-2.9%	4.4%	
Security Area Lighting Contracts (PTL)	\$ 1	\$ -	0.0%	\$ -	0.0%	0.0%	
Street Lighting Contracts (77)	\$ 17	\$ -	0.0%	\$ -	0.0%	0.0%	
Contract Customer 1	\$ 22,943	\$ -	0.0%	\$ -	0.0%	0.0%	
Contract Customer 2	\$ 30,307	\$ -	0.0%	\$ -	0.0%	0.0%	
Contract Customer 3**	\$ 46,005	\$ 4,267	9.3%	\$ (1,197)	-3.7%	5.5%	
Contract Customer 4**	\$ 10,558	\$ 768	7.3%	\$ (282)	-3.8%	3.4%	
AGA/Revenue Credit	\$ 3,578	\$ -	0.0%	\$ -	0.0%	0.0%	
Total Utah	\$ 1,702,238	\$ 117,000	6.9%	\$ (33,600)	-2.8%	4.0%	
Total Utah (excl. Customer 1, 2, & AGA)	\$ 1,645,410	\$ 117,000	7.1%	\$ (33,600)	-2.9%	4.2%	

*Effective September 21, 2011 through May 31, 2012.

** The actual change will be based on the terms of the contract.

Net Power Cost Calculation

	Total Company					Utah Allocation Scalar	Utah EBA (NPC only) \$/MWh	Utah MWh	Utah NPC Base
	Rebuttal Net Power Costs	Stipulation Reduction	Stipulation NPC	Total Company MWh	EBA (NPC only) \$/MWh				
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Jul-2011	\$ 140,131,690	\$ (3,107,047)	\$ 137,024,643	5,581,297	\$ 24.551	100.014%	\$ 24.554	2,487,069	\$ 61,067,789
Aug-2011	151,458,072	(3,358,180)	148,099,892	5,456,765	27.141	100.014%	27.144	2,438,510	66,191,901
Sep-2011	126,184,996	(2,797,816)	123,387,179	4,811,197	25.646	100.014%	25.649	2,080,962	53,375,489
Oct-2011	114,016,576	(2,528,014)	111,488,562	4,902,608	22.741	100.014%	22.744	2,071,429	47,112,268
Nov-2011	113,851,507	(2,524,354)	111,327,153	4,972,393	22.389	100.014%	22.392	2,071,816	46,392,487
Dec-2011	124,881,814	(2,768,922)	122,112,893	5,392,624	22.644	100.014%	22.648	2,188,691	49,568,600
Jan-2012	128,942,812	(2,858,964)	126,083,848	5,409,177	23.309	100.014%	23.313	2,214,779	51,632,063
Feb-2012	118,627,510	(2,630,249)	115,997,261	4,977,523	23.304	100.014%	23.307	2,061,687	48,052,724
Mar-2012	121,455,888	(2,692,961)	118,762,927	5,150,143	23.060	100.014%	23.063	2,151,583	49,622,715
Apr-2012	120,311,084	(2,667,578)	117,643,506	4,834,714	24.333	100.014%	24.336	2,067,721	50,321,077
May-2012	125,880,766	(2,791,071)	123,089,696	5,006,224	24.587	100.014%	24.591	2,144,934	52,745,592
Jun-2012	122,703,055	(2,720,614)	119,982,441	5,090,370	23.570	100.014%	23.574	2,247,828	52,989,795
Total	<u>\$ 1,508,445,770</u>	<u>\$ (33,445,770)</u>	<u>\$ 1,475,000,000</u>	<u>61,585,035</u>	<u>\$ 23.951</u>		<u>\$ 23.986</u>	<u>26,227,009</u>	<u>\$ 629,072,499</u>
	[note 1]	[(c) - (a)]	[note 3]	[note 4]	[(c) / (d)]	[note 5]	[(e) * (f)]	[note 4]	[(g) * (h)]
Utah NPC	\$ 644,072,499	\$ (15,000,000)	\$ 629,072,499	26,227,009	\$ 23.986				
	[note 2]	[note 3]	[(a) + (b)]	[note 4]	[(c) / (d)]				

Footnotes: (1) SRM-2R, page 2.2, line 66, monthly detail from NPC

(2) SRM-2R, page 2.3 line 111, page 2.5 lines 233 & 248, page 2.8 lines 439 & 492, page 2.10 line 587

(3) Per Stipulation

(4) SRM-2R, page 11.17

(5) Calculated to make Utah base NPC equal the base NPC in the stipulation. This adjustment is necessary because not all costs use an SE factor. This same scalar will be used in calculating Utah actual NPC for the EBA.

Utah Net Power Cost Calculation

	<u>Wheeling Revenues</u>					Utah EBA \$/MWh
	Utah NPC Base	Total Company	Utah Allocated	Utah EBA Base	Utah MWh	
	(j)	(k)	(l)	(m)	(n)	(o)
Jul-2011	\$ 61,067,789	\$ (5,875,057)	\$ (2,538,481)	\$ 58,529,309	2,487,069	\$ 23.533
Aug-2011	66,191,901	(5,875,057)	(2,538,481)	63,653,420	2,438,510	26.103
Sep-2011	53,375,489	(5,875,057)	(2,538,481)	50,837,008	2,080,962	24.430
Oct-2011	47,112,268	(5,875,057)	(2,538,481)	44,573,788	2,071,429	21.518
Nov-2011	46,392,487	(5,875,057)	(2,538,481)	43,854,006	2,071,816	21.167
Dec-2011	49,568,600	(5,875,057)	(2,538,481)	47,030,119	2,188,691	21.488
Jan-2012	51,632,063	(5,875,057)	(2,538,481)	49,093,582	2,214,779	22.166
Feb-2012	48,052,724	(5,875,057)	(2,538,481)	45,514,243	2,061,687	22.076
Mar-2012	49,622,715	(5,875,057)	(2,538,481)	47,084,235	2,151,583	21.884
Apr-2012	50,321,077	(5,875,057)	(2,538,481)	47,782,596	2,067,721	23.109
May-2012	52,745,592	(5,875,057)	(2,538,481)	50,207,111	2,144,934	23.407
Jun-2012	52,989,795	(5,875,057)	(2,538,481)	50,451,314	2,247,828	22.444
Total	<u>\$ 629,072,499</u>	<u>\$ (70,500,682)</u>	<u>\$ (30,461,769)</u>	<u>\$ 598,610,731</u>	<u>26,227,009</u>	<u>\$ 22.824</u>
	[column (i)]	[see detail below]		[(j) * (l)]	[note 4]	[(m) / (n)]

Utah Allocated Wheeling Revenues

SRM-3 Page 3.2.2	
Firm Wheeling	\$ (62,789,546)
Utah SG Allocation	43.284%
Non-firm Wheeling	\$ (7,711,136)
Utah SE Allocation	42.587%

	Utah EBA
	<u>\$/MWh</u>
Jul-2011	\$ 23.533
Aug-2011	26.103
Sep-2011	24.430
Oct-2011	21.518
Nov-2011	21.167
Dec-2011	21.488
Jan-2012	22.166
Feb-2012	22.076
Mar-2012	21.884
Apr-2012	23.109
May-2012	23.407
Jun-2012	22.444
Total	<u><u>\$ 22.824</u></u>