

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) Docket No. 13-035-184
UTAH AND FOR APPROVAL OF ITS)
PROPOSED ELECTRIC SERVICE)
SCHEDULES AND ELECTRIC SERVICE)
REGULATIONS)**

SETTLEMENT STIPULATION

This Settlement Stipulation (“Stipulation”) is entered into by and among the parties whose signatures appear on the signature pages hereof (collectively referred to herein as the “Parties” and individually as a “Party”).

1. The Parties have conducted settlement discussions over the course of several weeks and had numerous meetings on and between May 28, 2014, and June 16, 2014 to which intervening parties in this docket were invited. In addition, drafts of this Stipulation were circulated to intervening parties for review and comment on June 19, 2014 and June 23, 2014 and there have been further discussions among various parties. This Stipulation has been entered into by the Parties after consideration of the views expressed during that process by participating intervening parties. No intervening party has indicated that it intends to oppose this Stipulation.

2. The Parties represent that this Stipulation is just and reasonable in result, will result in rates that are just and reasonable and will provide the Company a reasonable opportunity to earn its authorized rate of return. The Parties 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.

BACKGROUND

3. On January 3, 2014, Rocky Mountain Power (“Company” or “Rocky Mountain Power”) filed an application, together with pre-filed testimony and exhibits from seventeen witnesses, and revised tariff sheets requesting authority to increase its retail electric utility service rates in Utah by approximately \$76.3 million per annum or an average overall increase of 4.0 percent including a requested return on equity of 10.0 percent, effective September 1, 2014 (“2014 GRC”). Rocky Mountain Power’s request was based upon a forecast test period ending June 30, 2015, using a 13-month average rate base with a historical base period of twelve months ending June 30, 2013.

4. On January 6, 2014, the Commission issued its Notice of Scheduling Conference setting a scheduling conference to be held January 16, 2014.

5. On January 22, 2014, the Commission issued its Scheduling Order setting a procedural schedule. Hearings were scheduled to begin May 29, 2014 on cost of capital, June 30, 2014 on revenue requirement, July 28, 2014 on cost of service, rate spread and rate design. Public witness day is scheduled July 29, 2014.

6. On April 10, 2014, the Company filed its net power costs (“NPC”) Update pursuant to the Scheduling Order.

7. On April 17, 2014, intervenors filed cost of capital direct testimony.

8. On May 1, 2014, intervenors filed revenue requirement direct testimony. In their testimony, intervenors proposed numerous adjustments to the Company’s requested rate increase.

9. On May 15, 2014, the Company and intervenors filed cost of capital rebuttal testimony.

10. On May 22, 2012, intervenors filed cost of service and rate design direct testimony.

11. On May 28, 2014, parties held settlement discussions.

12. On May 29, 2014, the Commission conducted a hearing concerning the Company's cost of capital.

13. On June 4, 2014, the Company and intervenors filed revenue requirement rebuttal testimony.

14. On June 9, 2014, June 12-13, 2014, and June 16, 2014, parties held further settlement discussions. Parties also held rate design discussions June 16, 2014.

15. The Parties have reached a compromise as specified herein on the rate increase and request approval consistent with the terms and conditions provided in this Stipulation.

16. This Stipulation is intended to resolve most of the issues in this general rate case, in accordance with their respective terms and conditions. This Stipulation does not resolve the net metering facilities charge proposed by the Company in its direct filing.

17. On June 19, 2014, the Commission granted a motion to amend the schedule in this docket to change the filing date for cost of service and rate design rebuttal testimony and other matters based on the Parties ongoing settlement discussions.

SETTLEMENT TERMS

For purposes of this Stipulation, the Parties agree and recommend the Commission approve the following:

18. The Parties agree that the Company should be allowed to implement a multi-year rate plan (“Plan”) that will provide a measure of rate certainty to customers while affording the Company a reasonable opportunity to earn its authorized rate of return and recover its costs of service. In reaching this Stipulation, various Parties have considered and relied upon many different factors and considerations, including but not limited to: a) evidence included in the 2014 GRC that provides a justification for the stipulated two-step rate increase, b) the projected in-service date of the Sigurd-Red Butte transmission line, c) timing considerations, and d) various other factors.

19. Other than as set forth in this Stipulation, the Parties have not agreed on any specific adjustments or regulatory principles at issue in this Docket. The components are as follows:

Step 1 Rate Change

20. The Parties agree that Rocky Mountain Power should be permitted to implement a Step 1 general rate increase in the amount of \$35.0 million for service effective on and after September 1, 2014.

21. The Parties agree that the Sigurd-Red Butte transmission line investment is prudent and that cost recovery will occur in the Step 2 rate change.

Step 2 Rate Change

22. The Parties agree that Rocky Mountain Power should be permitted to implement a Step 2 general rate increase in the amount of \$19.2 million, which includes the costs of the Sigurd-Red Butte transmission line, effective on the later of the in service date of the transmission line or September 1, 2015. If the Sigurd-Red Butte transmission line is not in service by September 1, 2015, the Step 2 rate increase will be delayed until the Sigurd-Red Butte transmission line is placed into service.

Cost of Capital

23. The Parties agree that the Company's allowed Return on Equity ("ROE") shall remain unchanged at the current authorized level of 9.8 percent, and that cost of capital and capital structure for Steps 1 and 2 will be as shown in Table 1 below:

Table 1

Stipulated Cost of Capital			
	<u>Capital Structure</u>	<u>Rate</u>	<u>Weighted Rate</u>
Long-term Debt	48.55%	5.200%	2.53%
Preferred Stock	0.02%	6.753%	0.00%
Common Stock	51.43%	9.800%	5.04%
WACC			<u>7.57%</u>

Net Power Costs

24. The Parties agree that a base NPC amount of \$1,495.8 million annually total Company, or \$630.0 million annually on a Utah-allocated basis, should be established as the base NPC beginning on the Step 1 rate effective date of September 1, 2014. Table 2 below reflects the stipulated level of base Energy Balancing Account ("EBA") costs (the base NPC less wheeling revenue) in dollars per megawatt hour ("\$/MWh") in base rates by month for EBA measurement purposes in Step 1. Exhibit A to this Stipulation provides details showing the stipulated \$/MWh calculations and the allocation of EBA costs among rate schedules based on the composite NPC allocator. EBA costs allocated to special contracts, whether or not they are included in the composite NPC allocator in Exhibit A, will be subject to the terms of the contracts. The monthly base NPC amounts for the purpose of EBA filings will be the monthly test period base NPC amounts stated in Table 2 below until base NPC are re-set in Step 2, as set forth in Paragraph 25 below.

Table 2

	Utah EBA \$/MWh
July	\$ 26.141
August	26.716
September	24.913
October	25.183
November	24.752
December	24.947
January	24.597
February	25.185
March	25.955
April	24.557
May	25.245
June	25.548
Total	<u><u>\$ 25.337</u></u>

25. The Parties agree that a base NPC amount of \$1,491.1 million annually total Company, or \$628.0 million annually on a Utah-allocated basis, should be established as the base NPC beginning September 1, 2015. Table 3 below reflects the stipulated level of base Energy Balancing Account (“EBA”) costs (the base NPC less wheeling revenue) in dollars per megawatt hour (“\$/MWh”) in base rates by month for EBA measurement purposes in Step 2. Exhibit B to this Stipulation provides details showing the stipulated \$/MWh calculations and the allocation of EBA costs among rate schedules based on the composite NPC allocator. EBA costs allocated to special contracts, whether or not they are included in the composite NPC allocator in Exhibit B, will be subject to the terms of the contracts. The monthly base NPC amounts for the purpose of EBA filings will be the monthly test period base NPC amounts stated in Table 3 below until such time as new base

NPC amounts are set in a general rate case or other proceeding filed on or after January 1, 2016.

Table 3

	Utah EBA	
	\$/MWh	
July	\$	26.065
August		26.639
September		24.824
October		25.092
November		24.663
December		24.865
January		24.515
February		25.094
March		25.867
April		24.466
May		25.154
June		25.460
Total	\$	<u>25.251</u>

26. The Parties agree and request that the Commission approve herein an extension of the current EBA pilot, which currently ends December 31, 2015, of one year through December 31, 2016. The Parties further agree that, subject to Commission approval as requested in this Paragraph 26, the final report from the Division of Public Utilities (“Division”) on the EBA pilot due “within four months after the conclusion of the third calendar year of the pilot,” pursuant to the Commission’s Corrected Report and Order in Docket No. 09-035-15,¹ shall likewise be extended one year to be due within four

¹ *In the Matter of the Application of Rocky Mountain Power for Approval of its Proposed Energy Cost Adjustment Mechanism* Docket No. 09-035-15, Corrected Report and Order, p. 79, March 3, 2011.

months after the conclusion of the fourth calendar year of the pilot. The Parties agree that the EBA filings will continue on their established schedules, subject to the one-year extension of the EBA pilot as requested herein if approved by the Commission.

27. The Parties agree that, effective November 1, 2014, all deferral balances currently being collected in the EBA from Docket Nos. 10-035-124, 12-035-67 and 13-035-32, shall be added together with any Commission-approved balance from the currently pending EBA adjustment proceeding, Docket No. 14-035-31, with the total balance to be collected over one year beginning November 1, 2014. The Parties further agree that such prior EBA balances shall continue to be collected from customers without interest during the collection period, but that the Commission-approved balance from the pending EBA adjustment in Docket No. 14-035-31, will accrue interest during the collection period, unless otherwise ordered by the Commission or agreed to by stipulation in Docket No. 14-035-31.

Naughton Unit 3

28. The Parties agree that for purposes of the revenue requirement calculation, the Company will assume Naughton Unit 3 will continue to operate as a coal-fueled resource through December 31, 2017. If the Company does not obtain an amended permit in 2014 that would allow it to continue to operate Naughton Unit 3 as a coal-fueled resource through December 31, 2017, the Parties agree that the Company will be entitled to request, and the Parties will not oppose, a deferred accounting order for the revenue requirement impact for potential recovery from customers pursuant to a Commission order in a future rate case. The Parties may contest the costs to be recovered notwithstanding their agreement not to oppose deferred accounting treatment.

Base Renewable Energy Credits (REC)

29. The Parties agree that the base REC revenues in rates for RBA purposes should be set at \$2 million effective with the Step 1 rate increase on September 1, 2014, and that it shall continue at this level until rates are set through a subsequent general rate case filed on or after January 1, 2016. The \$2.0 million base REC amount is net of the 10 percent incentive per paragraph 39 of the stipulation in Docket No. 11-035-200. The Parties agree that its RBA mechanism filing will continue on its normal schedule.

Energy Imbalance Market

30. The Parties agree that the Commission may enter a deferred accounting order to permit the Company to begin to defer a) Utah's allocated portion of energy imbalance market ("EIM")-related operations and maintenance expenses incurred on or after September 1, 2014, and b) depreciation expense related to capital investments necessary to implement EIM recorded on or after September 1, 2014 for potential recovery from customers pursuant to a Commission order in a future rate case. The Parties further agree that the prudence of the deferred EIM costs shall be determined in such future rate case and that the Parties may contest costs to be recovered notwithstanding their agreement not to oppose deferred accounting treatment.

31. The Parties agree that any deferral of EIM-related labor costs shall be limited to positions exclusively created as a result of the Company's participation in the EIM in excess of the full time equivalent employee positions reflected in the Company's direct filing in this rate case of 5,460. The Parties further agree that this number is being used solely for purposes of calculating the labor costs that qualify for EIM deferrals.

Future Rate Cases

32. The Company agrees that it will not file another general rate case, a major plant addition case or, with the exception of the Step 2 increase and other Commission-

approved and currently existing rate adjustment mechanisms, will not otherwise seek any rate increase in Utah (a) prior to January 1, 2016 or (b) with a rate effective date prior to September 1, 2016.

Cost of Service, Rate Spread and Rate Design

33. The Steps 1 and 2 rate increases set forth in Paragraphs 20 and 22 above shall be allocated as set forth in Exhibits C and D to this Stipulation. Exhibits C and D also include the monthly billing comparisons for the Steps 1 and 2 rate changes. Special contract rates are not established by this Stipulation, and will be governed by the terms of the applicable contract approved by the Commission.

34. The Parties agree the customer charge should increase to \$6.00 per month for single-phase residential customers and to \$12.00 per month for 3-phase residential customers until there is a change to the customer charge by Commission order. The remainder of the revenue requirement assigned to Schedules 1, 2 and 3 shall be applied to Tier 2 for the winter rates. The Schedule 1 revenue requirement increase in Step 2 will also be applied to Tier 2 winter rates.

35. The Parties agree that the residential minimum bill shall be \$8.00 for single-phase residential customers and \$16.00 for three-phase residential customers.

36. The Parties represent that no agreement has been reached with regard to the net metering facilities charge proposed by the Company in its filing. Exhibit D shows the impacts to residential rates rate design under two scenarios; one containing a net metering facilities charge and one excluding a net metering facilities charge. Parties agree that the outcome could be different than these two positions and that the principles described above will be followed regardless of the outcome.

37. The Parties agree that a Facilities Charge will apply to Schedule 6 and Schedule 6B. The Parties further agree that the Schedules 6 and 6B Step 1 revenue requirement increase will be applied to both the Power Charge and the Facilities Charge and the Schedules 6 and 6B Step 2 revenue requirement increase will be applied to the Power Charge, as shown in Exhibit C. The compliance filing for this proceeding will reflect a change in the current EBA and RBA rates on Schedules 94 and 98, respectively, for Schedules 6 and 6B to recover the previously approved allocated amounts based on the revised Power Charge for the period until the new EBA and RBA rates are set. Exhibit C also reflects the agreed upon rates for Schedule 31 that were reached by parties by stipulation in Docket No. 13-035-196.

Other Items

38. The Parties stipulate to the admission into evidence in the 2014 GRC of all pre-filed testimony that has been filed to date in the cost of capital, revenue requirement and cost of service phases of this case. This stipulation to the admission of the testimony does not represent an agreement by the Parties as to any positions taken in such testimony.

39. The Parties agree that the stay-out provision of Paragraph 32 will not prevent Rocky Mountain Power from seeking deferred accounting orders, for potential recovery from or return to customers pursuant to a Commission order in a future rate case, of costs related to the impacts of any proposed disposition, through sale, closure or other means, of the Deer Creek mine and related mining assets as well as for the impacts of the possible sale of the Company's ownership interests in the Craig and Hayden generating

plants. This Stipulation does not represent an agreement by the Parties as to any position to be taken on any request for such deferred accounting orders.

40. The Company agrees to file a) backup workpapers for blanket capital addition projects greater than \$1 million and b) the Company's capital additions data base with the filing of its next general rate case. Parties agree that the Company's agreement to provide this information in its next general rate case is not a commitment to file the information in all subsequent rate cases.

41. The Company agrees that, in future general rate cases, all updates to NPC will be filed at least six weeks prior to the intervenor direct testimony due date. The Company agrees to provide, at the time of filing NPC updates, a GRID Project File, which contains a group of inputs files associated with the GRID runs, and an associated set of NPC Report files. These documents support the NPC updates and will be provided to each individual for which GRID access has been granted in the then-current general rate case along with the associated workpapers necessary to support the updates.

42. The Company agrees that if its NPC or other updates include a new forward price curve, it will ensure intervenors have at least six weeks to respond to such updates in intervenor direct testimony.

43. The Company agrees to obtain and provide actuarial updates, with the Company's workpapers included in its direct filing, to its pension expense and prepaid pension projections and to its Post-Retirement Benefits Other than Pensions expense and prepaid pension projections for the entirety of the test period of its next general rate case. The Parties agree that this is not a commitment to file the information in all subsequent rate cases.

44. The Company agrees to complete and provide a marginal cost study for its next general rate case. The Parties agree that this is not a commitment to file the information in all subsequent rate cases.

GENERAL TERMS AND CONDITIONS

45. 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.

46. 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, and 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.

47. The Parties agree that no part of this Stipulation or the formulae and method 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 called-out and forever 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.

48. The Parties request that the Commission hold a hearing on this Stipulation. Rocky Mountain Power, Division, and the Office of Consumer Services (“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.

49. 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 proceeding in opposition to the Stipulation.

50. Except with regard to the obligations of the Parties under the five 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.

51. 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.

52. 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.

[the remainder of this page is intentionally left blank]

DATED this 25th day of June 2014.

<p>UTAH OFFICE OF CONSUMER SERVICES</p> <hr/> <p>Michele Beck Director Office of Consumer Services 160 East 300 South, 2nd Floor Salt Lake City, UT 84114</p>	<p>ROCKY MOUNTAIN POWER</p> <hr/> <p>R. Jeff Richards VP and General Counsel Rocky Mountain Power 201 S. Main St., Suite 2400 Salt Lake City, UT 84111</p>
<p>UTAH DIVISION OF PUBLIC UTILITIES</p> <hr/> <p>Chris Parker Director Utah Division of Public Utilities 160 East 300 South, 4th Floor Salt Lake City, UT 84114</p>	<p>UTAH INDUSTRIAL ENERGY CONSUMERS</p> <hr/> <p>F. Robert Reeder William J. Evans Vicki M. Baldwin Parsons Behle & Latimer 201 South Main Street, Suite 1800 Salt Lake City, UT 84111 <i>Attorneys for Utah Industrial Energy Consumers</i></p>
<p>UTAH ASSOCIATION OF ENERGY USERS INTERVENTION GROUP</p> <hr/> <p>Gary A. Dodge Hatch James & Dodge 10 West Broadway, Suite 400 Salt Lake City, UT 84101 <i>Attorney for Utah Association of Energy Users Intervention Group</i></p>	<p>KROGER CO.</p> <hr/> <p>Kurt Boehm, Esq. Boehm, Kurtz & Lowry 36 East Seventh Street, Suite 1510 Cincinnati, Ohio 45202 <i>Attorney for Kroger Co.</i></p>

<p>FEDERAL EXECUTIVE AGENCIES</p> <hr/> <p>Capt Thomas A. Jernigan Staff Attorney USAF Utility Law Field Support Center 139 Barnes Ave. Tyndall AFB, FL 32403 <i>Attorney for FEA</i></p>	<p>WAL-MART STORES, INC. and SAM'S WEST, INC.</p> <hr/> <p>Meshach Y. Rhoades Leslie S. Godfrey GREENBERG TRAURIG LLP Tabor Center 1200 Seventeenth Street, Suite 2400 Denver, CO 80202 <i>Attorneys for Wal-Mart Stores, Inc. and Sam's West, Inc.</i></p>
--	---