

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

In the Matter of the Application of)
PacifiCorp dba Rocky Mountain) **CASE NO. PAC-E-10-09**
Power for Approval of Amendments to)
Revised Protocol Allocation) **Direct Testimony of Andrea L. Kelly**
Methodology)

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-10-09

September 2010

1 **Q. Please state your name, business address and present position with**
2 **PacifiCorp (the Company).**

3 A. My name is Andrea L. Kelly, and my business address is 825 NE Multnomah
4 Street, Suite 2000, Portland, OR 97232. I am currently employed as a Vice
5 President in Regulation.

6 **Qualifications**

7 **Q. Please summarize your education and business experience.**

8 A. I hold a Bachelor's degree in Economics from the University of Vermont and an
9 MBA in Environmental and Natural Resource Management from the University
10 of Washington. After graduate school, I joined the Staff of the Washington
11 Utilities and Transportation Commission. In 1995, I became employed by
12 PacifiCorp as a Senior Pricing Analyst in the Regulation Department and
13 advanced through positions of increasing responsibility. From 1999 through
14 2005, I led major strategic projects at PacifiCorp including the Multi-State
15 Process (MSP) and the regulatory approvals for the MidAmerican-PacifiCorp
16 transaction. In March 2006, I was appointed as a Vice President in Regulation.

17 **Q. Have you appeared as a witness in previous regulatory proceedings?**

18 A. Yes, I have appeared as a witness on behalf of PacifiCorp in the states of
19 California, Idaho, Oregon, Utah, Washington, and Wyoming.

20 **Purpose and Overview of Testimony**

21 **Q. What is the purpose of your testimony?**

22 A. My direct testimony describes the process and approaches leading up to this filing
23 of the proposed 2010 Protocol allocation methodology. Specifically, my direct

1 testimony provides:

- 2 • a brief history of the MSP leading up to the adoption of the Revised Protocol;
- 3 • a brief history of the work of the Standing Committee workgroup since
4 November 2008 that has culminated in this filing proposing limited
5 amendments to the Revised Protocol;
- 6 • an overview of the proposed amendments to the Revised Protocol and the
7 concerns that the amendments are designed to address;
- 8 • a discussion of the Company's view of the commission proceedings necessary
9 to process this application; and
- 10 • a discussion of the Company's view of processes necessary to ensure
11 successful implementation of the 2010 Protocol through calendar year 2016
12 and beyond.

13 I also introduce the other two Company witnesses in this proceeding.

14 **Q. Are you also sponsoring an exhibit to your testimony?**

15 A. Yes. Exhibit No. 1 presents the 2010 Protocol with all of its Appendices.

16 Although I sponsor Appendix A, Company witness Mr. Steven R. McDougal
17 sponsors the remaining Appendices.

18 **Brief History of the Revised Protocol**

19 **Q. Please provide a brief history of the events that gave rise to the Revised
20 Protocol.**

21 A. In December 2000, the Company proposed to reorganize itself into six state
22 distribution companies, a generation company and a service company. This
23 Structural Realignment Proposal (SRP) filing was in response to a number of

1 external developments, including: (1) the lack of agreement among regulatory
2 jurisdictions regarding the Company's inter-jurisdictional cost allocation process;
3 (2) direct access initiatives in Oregon and elsewhere; (3) the need to provide
4 independent control of transmission assets consistent with Federal Energy
5 Regulatory Commission (FERC) expectations; (4) fundamental changes that
6 occurred in wholesale power markets; and (5) increasingly divergent policy goals
7 of various state commissions.

8 **Q. What was the outcome of the SRP filings?**

9 A. The SRP filings proved to be controversial - in large measure because of a
10 concern that the proposed restructuring would result in a transfer of jurisdiction
11 from state commissions to the FERC and the Securities and Exchange
12 Commission. Ultimately, a number of parties and some state commissioners
13 encouraged the Company to seek other means of resolving the Company's
14 concerns that did not require a legal restructuring of the Company. The Company
15 was strongly encouraged to initiate an informal process aimed at achieving
16 consensus among interested parties regarding a number of important issues facing
17 the Company. To that end, in March 2002, the Company made an additional set
18 of state filings asking the state commissions to initiate investigations and endorse
19 a collaborative process to address inter-jurisdictional issues facing PacifiCorp.
20 These filings were broadly supported by the state commissions and gave rise to
21 what became known as the MSP. Pending the MSP, the Company agreed to put
22 the SRP filings on hold.

1 **Q. What occurred in the MSP?**

2 A. An initial organizing meeting was held in April 2002 in Boise, Idaho. At that first
3 meeting, a schedule of future meetings and objectives for the process were
4 established. A number of additional MSP meetings were held through July 2003,
5 after which the Company made an additional filing with the states seeking
6 ratification of a proposed solution, the Protocol. Additional discussions related to
7 the Protocol continued through September 2004, which resulted in the Company
8 supplementing its filings with the Revised Protocol. Through commission
9 proceedings, the four state commissions of Utah, Oregon, Wyoming and Idaho
10 issued orders adopting the Revised Protocol in late 2004 and early 2005. Utah's
11 and Idaho's adoption of the Revised Protocol was accompanied by rate mitigation
12 mechanisms tied to the difference between the revenue requirement calculated
13 under the Revised Protocol allocation methodology and the revenue requirement
14 calculated under the Rolled-In allocation methodology.

15 **Q. Who participated in the MSP collaborative meetings?**

16 A. All of the major meetings were attended in person by in excess of 50 individuals
17 representing some 18 entities from the states of Utah, Oregon, Wyoming,
18 Washington and Idaho. These included representatives of state commission
19 policy staffs, advocacy staffs, industrial customers and consumer groups. A
20 number of other people participated by telephone.

21 **Q. How would you characterize the overall objectives of the Revised Protocol?**

22 A. The objectives of the Revised Protocol include:

- 1 • allocating PacifiCorp’s costs among its jurisdictional states in an equitable
2 manner;
- 3 • ensuring PacifiCorp plans and operates its generation and transmission system
4 on a six-state integrated basis in a manner that achieves a least cost-least risk
5 resource portfolio for its customers;
- 6 • allowing each state to independently establish its ratemaking policies. Each
7 state is encouraged to consider the impact its decisions have on other states
8 served by PacifiCorp; and
- 9 • providing PacifiCorp a reasonable opportunity to recover 100 percent of its
10 prudently incurred costs.

11 **Q. Does the Revised Protocol contain provisions for continued dialogue among**
12 **the states?**

13 A. Yes. Section XIII.B of the Revised Protocol established the Standing Committee.
14 While not abridging the integrity of commission decision-making processes
15 within each respective state, the Standing Committee:

- 16 • monitors and discusses inter-jurisdictional allocation issues facing PacifiCorp
17 and its customers;
- 18 • helps to organize and direct work group analysis of inter-jurisdictional
19 allocation issues;
- 20 • ensures work group analysis is supported by sound technical analysis;
- 21 • shares views on possible amendments to the Revised Protocol, as they may
22 arise;
- 23 • seeks consensual resolution of issues arising under the Revised Protocol;

- 1 • ensures wide dissemination of information regarding Standing Committee
- 2 meeting locations and dates and information relating to its activities;
- 3 • ensures and encourages open participation in Standing Committee meetings
- 4 by all interested persons; and,
- 5 • appoints the Standing Neutral to facilitate discussions among the states, to
- 6 monitor issues and to assist the Standing Committee.

7 **Recent Activities of the Standing Committee**

8 **Q. Please provide an overview of the recent activities of the Standing Committee**
9 **that led up to this filing.**

10 A. At the November 2008 Commissioners' Forum, an issue was raised by Utah
11 related to the performance of the Revised Protocol as compared against the
12 forecast results at the time the Revised Protocol had been adopted. At that
13 meeting, MSP participants reviewed a chart comparing the MSP 2005 forecast
14 with the original MSP 2004 forecast. The chart also provided comparisons to the
15 Rolled-In allocation methodology both with and without the Utah rate mitigation
16 measures. The chart raised concerns that Utah's expectations when adopting the
17 Revised Protocol - near-term costs but long-term savings for Utah customers as
18 compared to Rolled-In - were not projected to be fulfilled. In response to this
19 concern, at the Standing Committee Annual Meeting held in November 2008, the
20 Company agreed to undertake a new forecast of results under the Revised
21 Protocol using updated information from the upcoming 2008 Integrated Resource
22 Plan which was to be filed in March 2009. The results were to be completed in
23 sufficient time to be presented at the next annual Commissioners' Forum. As

1 discussed in detail in the direct testimony of Mr. McDougal, the preliminary
2 results of these studies were provided to parties on August 17, 2009.

3 On August 27, 2009, the Standing Neutral sent a request to parties for any
4 new issues to be considered by the Standing Committee in preparation for the
5 annual meeting scheduled for December 9, 2009. On September 9, 2009, several
6 Utah parties issued a notification to MSP participants of the following issue:

7 “Given review of the Company’s August 17, 2009, MSP Preliminary
8 Study Results (2009 MSP Study) and the Public Service Commission of
9 Utah’s (PSCU) December 14, 2004, Report and Order in Docket No. 02-
10 035-04, (MSP Order) the issue we raise is whether continued use of the
11 revised protocol and rolled-in methods with rate mitigation measures is
12 just and reasonable for PacifiCorp’s Utah jurisdiction.”

13 **Q. What action did the Standing Committee take in response to this issue?**

14 A. The Utah issue was first discussed by the Standing Committee at a meeting held
15 on September 10, 2009. At the conclusion of the meeting, Utah parties were
16 asked by the Standing Committee to develop a potential solution.

17 **Q. What was the Utah parties’ potential solution?**

18 A. At the September 24, 2009 Standing Committee meeting, Utah parties proposed a
19 strawman solution that would eliminate seasonal and regional resource categories,
20 limit the state resource category to demand-side management programs and state
21 portfolio standard resource costs, and apply allocation factors for system
22 resources to the resources formerly addressed in the seasonal, regional and state
23 resource categories. In a nutshell, the strawman solution described a move to a
24 Rolled-In allocation methodology.

1 **Q. What potential solutions were considered subsequently?**

2 A. Over the next several months of Standing Committee meetings, participants
3 considered the Utah parties' strawman solution, together with additional solution
4 proposals offered for consideration by other MSP participants that focused on the
5 elements of the Revised Protocol that could be analyzed as alternative
6 considerations to address the Utah issue. At the direction of the Standing
7 Committee, the Company provided quantitative analysis of the various proposals to
8 aid the Standing Committee's deliberations and considerations.

9 **Q. When was the first opportunity to inform and update the Commissioners of
10 the work of the Standing Committee to address the issue?**

11 A. The Standing Committee convened a Commissioners' Forum in Portland, Oregon
12 on April 6, 2010. At that meeting, the Standing Committee updated
13 Commissioners generally on the activities of the Committee since the previous
14 Commissioners' Forum in November 2008. The Commissioners were also
15 presented with the Utah issue, together with a summarization of the analyses
16 performed and potential solutions considered. A concern raised was that the Utah
17 issue, if insufficiently addressed, could cause states to depart from a consistent
18 method of cost allocation and impair integrated system planning. After some
19 consideration of the issues and materials presented, the Commissioners directed
20 the Standing Committee to continue progress on analyzing potential solutions to
21 resolve the Utah issue and requested a follow-up meeting for the summer of 2010.
22 In general, it was recognized that any solution would need to strike a balance

1 between making progress toward fully Rolled-In allocations while maintaining a
2 hydro endowment for Oregon and Wyoming.

3 **Q. What was the progress of potential solutions prior to the next**
4 **Commissioners' Forum?**

5 A. The Standing Committee and participants met for an additional six meetings to
6 continue the quantitative analyses of potential solutions to the Utah issue. As well
7 as analyzing potential solutions, the Standing Committee and participants
8 analyzed the potential impacts of not being able to achieve a resolution acceptable
9 to all states. These studies, known as the control area structural separation and
10 go-it-alone studies, were informative of the benefits of PacifiCorp continuing to
11 operate as a single system. Progress since April 2010 was presented at the
12 Commissioners' Forum held on June 13, 2010.

13 **Q. What direction was received from Commissioners at the forum held on June**
14 **13, 2010?**

15 A. At the Commissioners' Forum held on June 13, 2010, the Standing Committee
16 updated Commissioners on the progress made since the previous meeting. The
17 Commissioners expressed praise for the progress made and requested that the
18 Standing Committee continue its efforts toward an acceptable resolution. An
19 additional check-in meeting was targeted for July 2010.

20 After the check-in, the Standing Committee developed a summary of what
21 the members heard as guidance from the Commissioners. The summary included
22 the following key points:

- 1 1. All states prefer a consistent and fair cost allocation methodology that assures
2 the Company a reasonable opportunity to recover its costs and support further
3 system investment.
- 4 2. Utah prefers the Rolled-In allocation methodology, or results stated as a
5 deviation from the Rolled-In allocation methodology as a viable solution
6 alternative.
- 7 3. Oregon and Wyoming Standing Committee members have considered pre-
8 2005 resource scenarios¹ as possible solution alternatives.
- 9 4. Both Wyoming and Oregon stressed that maintaining a hydro endowment is a
10 critical component on any allocation methodology.
- 11 5. Utah stressed its benchmark methodology is Rolled-In and an allocation
12 methodology should reflect Rolled-In +/- adjustments which are fixed for
13 some future time period so as to avoid a repeat of not achieving expected
14 forecasted results.
- 15 6. The Commissioners have agreed that the Standing Committee should work
16 with the Company to develop an updated analysis based on Wyoming – 1
17 results which could be used to establish a fixed amount per year per state as a
18 deviation from the Rolled-In allocation methodology and is net of the situs
19 assignment of the Klamath surcharge. The results will be presented for all
20 years of the study and be accompanied by a disk with working spreadsheets.
21 Assessing whether the Wyoming - 1 achieves essentially a Rolled-In result
22 could be viewed from the perspective of treating the Klamath Settlement as
23 Rolled-In.

24 **Q. What actions did the Standing Committee take based on this guidance?**

25 A. Through additional conference calls and supporting analysis, the Standing
26 Committee reached an agreement in principle that was presented on July 26, 2010
27 at a final Commissioners’ Forum check-in conference call. The statement
28 provided by the Standing Committee at that meeting stated:

29 “Standing Committee participants of the MSP process have tentatively
30 reached an agreement in principle changing the Revised Protocol cost allocation
31 methodology. The initial premise for this new agreement is a Rolled-In cost
32 allocation methodology. The changed methodology continues to identify State

¹ “Pre-2005 resource scenarios” refers to the set of resources included in the “All-Other” category of the Embedded Cost Differential calculation. This is discussed in more detail in the direct testimony of Mr. McDougal.

1 Resources based on cost responsibility and Regional Resources for the Hydro
2 Endowment calculation. Besides using Rolled-In as the starting point, a
3 significant change relates to the Hydro Endowment quantified under the
4 Embedded Cost Differential (ECD). The ECD will be reduced and limited using
5 a comparison based on Pre-2005 Resources. It is proposed that for 2011 through
6 2016, the ECD calculation will be projected and a fixed dollar amount per year
7 deviation from Rolled-In analysis would be applied. The deviation is composed
8 of two parts; (1) a situs adjustment charge for the Klamath Surcharge to Oregon
9 and California, with a corresponding credit to the other states, and (2) an
10 adjustment to reflect the Hydro Endowment ECD.

11 State specific concerns continue to be evaluated and discussed. For
12 instance: In Utah this cost allocation methodology produces results close to
13 Rolled-In so a side agreement between the Company and Utah parties will allow
14 Utah to utilize Rolled-In cost allocation methodology for its ratemaking purposes.
15 Forecast accuracy also continues to be evaluated by the other states, Oregon in
16 particular, and may result in state specific measures to address the forecast risk
17 related to fluctuations, up or down. Wyoming parties have an interest in
18 addressing a concern about the Revised Protocol definition of State Resources.”

19 **Q. What was the outcome of the Commissioners’ Forum held on July 26, 2010?**

20 A. At the Commissioners’ Forum held on July 26, 2010, the Standing Committee
21 updated Commissioners that the group had reached an agreement in principle.
22 Commissioners were informed that the Company hoped to file an application in
23 each state by mid-September 2010 initiating limited amendments to the Revised
24 Protocol that would implement the terms of the agreement in principle.

25 **Overview of Proposed Amendments**

26 **Q. In summary, what key concerns do the proposed amendments endeavor to**
27 **address?**

28 A. As noted above, there were several overarching concerns expressed in the
29 meetings:

- 30 • The need to move more toward a Rolled-In allocation methodology to reflect
31 system operations while retaining the hydro endowment in some form.

- 1 • Volatility of results and unintended consequences of the ECD.
- 2 • Unpredictability of reliance on forecasts.
- 3 • Any solution must be fair to all states, and the Company must be afforded the
- 4 opportunity to recover its prudently incurred costs.

5 **Q. Are the amendments proposed by the Company and supported by the**
6 **Standing Committee consistent with this agreement in principle?**

7 A. Yes. The details are discussed in the direct testimony of Mr. McDougal.

8 **Q. Do the amendments exclusively address the Utah issue?**

9 A. No. The amendments also reflect an additional category of state resources called
10 “state-specific initiatives”. This addition includes emerging state-specific efforts
11 to encourage investment in specific types of resources.

12 **Q. Does this only include renewable resources?**

13 A. No. The category does not limit the type of resource for which a state may seek
14 to encourage investment.

15 **Process for Commission Review of Application**

16 **Q. What process does the Company propose for the Commission review of this**
17 **Application?**

18 A. The Company is hopeful that the Commission will be able to complete its review
19 of this Application within a six-month timeframe. As discussed in the Company’s
20 direct testimony, significant analysis has been undertaken and reviewed by many
21 parties since November 2008 as the Standing Committee considered its options.
22 However, not all interested parties were able to participate in the Standing
23 Committee efforts. As such, the Company proposes the following illustrative

1 schedule of milestones that would allow for discovery, rounds of testimony and
2 hearings that would allow sufficient time for a comprehensive record to be
3 developed upon which the Commission may base its decision:

Event	Date
PacifiCorp Application, Testimony and Exhibits	September 15, 2010
Intervenor Testimony due	Early-December 2010
PacifiCorp Rebuttal Testimony due	Early-January 2011
Public Hearing	Late-January 2011
Briefs due	Mid-February 2011
Target Date for Commission Decision	March 31, 2011

4 **Q. Does the Company intend to continue dialogue with interested parties in each**
5 **state during the proceedings?**

6 A. Yes. As noted in the Standing Committee’s statement, the Company intends to
7 seek an agreement with Utah parties related to the use of the Rolled-In allocation
8 methodology and to work with Oregon parties to address forecast risk. The
9 Company will also work to address any additional concerns that arise during the
10 proceedings. It will be imperative that any state-specific agreements do not
11 undermine the intent of the 2010 Protocol to allow PacifiCorp the reasonable
12 opportunity to recover 100 percent of its prudently incurred costs.

13 **Processes subsequent to amendment adoption**

14 **Q. Assuming that the four state Commissions acknowledge the amendments and**
15 **adopt the 2010 Protocol, what ongoing processes does the Company envision**
16 **related to the 2010 Protocol?**

17 A. As reflected in the 2010 Protocol, the Company is not proposing any changes to
18 the ongoing Standing Committee function at this time. Although the elements of
19 the 2010 Protocol are designed to minimize controversy and provide predictability

1 through calendar year 2016, there are always emerging issues on which it is
2 valuable for states to continue to engage in discussions.

3 **Q. What does the Company envision as a process to address allocation issues**
4 **post-2016?**

5 A. The process would likely be similar to the one just followed. For example, the
6 post-2016 issues would likely first be reviewed at the 2015 Standing Committee
7 annual meeting. From that review, the Standing Committee would agree on
8 appropriate next steps as far as issue identification and analysis. Standing
9 Committee efforts would need to be designed to culminate in time for formal
10 commission proceedings to occur with decisions well in advance of January 1,
11 2017. It is also possible that the states would agree to extend the terms of the
12 2010 Protocol to apply beyond calendar year 2016.

13 **Introduction of Witnesses**

14 **Q. Please introduce the Company's other witnesses and provide a brief**
15 **description of their testimony.**

16 A. They are:

- 17 • Mr. Steven R. McDougal addresses the calculation and implementation of
18 the 2010 Protocol allocation methodology and presents the revenue
19 requirement analyses undertaken at the request of the Standing
20 Committee, and
- 21 • Mr. Gregory N. Duvall presents the net power cost (NPC) studies used to
22 support the 2010 Protocol revenue requirement analysis and to inform of
23 the Standing Committee's consideration of options.

1 Q. Does this conclude your direct testimony?

2 A. Yes.