

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

24 testimony provides:

- 25 • a brief history of the MSP leading up to the adoption of the Revised Protocol;
- 26 • a brief history of the work of the Standing Committee workgroup since
27 November 2008 that has culminated in this filing proposing limited
28 amendments to the Revised Protocol;
- 29 • an overview of the proposed amendments to the Revised Protocol and the
30 concerns that the amendments are designed to address;
- 31 • a discussion of the Company's view of the commission proceedings necessary
32 to process this application; and
- 33 • a discussion of the Company's view of processes necessary to ensure
34 successful implementation of the 2010 Protocol through calendar year 2016
35 and beyond.

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

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

38 A. Yes. Exhibit RMP___(ALK-1) presents the 2010 Protocol with all of its
39 Appendices. Although I sponsor Appendix A, Company witness Mr. Steven R.
40 McDougal sponsors the remaining Appendices.

41 **Brief History of the Revised Protocol**

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

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

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

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

55 A. The SRP filings proved to be controversial - in large measure because of a
56 concern that the proposed restructuring would result in a transfer of jurisdiction
57 from state commissions to the FERC and the Securities and Exchange
58 Commission. Ultimately, a number of parties and some state commissioners
59 encouraged the Company to seek other means of resolving the Company's
60 concerns that did not require a legal restructuring of the Company. The Company
61 was strongly encouraged to initiate an informal process aimed at achieving
62 consensus among interested parties regarding a number of important issues facing
63 the Company. To that end, in March 2002, the Company made an additional set
64 of state filings asking the state commissions to initiate investigations and endorse
65 a collaborative process to address inter-jurisdictional issues facing PacifiCorp.
66 These filings were broadly supported by the state commissions and gave rise to
67 what became known as the MSP. Pending the MSP, the Company agreed to put
68 the SRP filings on hold.

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

70 A. An initial organizing meeting was held in April 2002 in Boise, Idaho. At that first
71 meeting, a schedule of future meetings and objectives for the process were
72 established. A number of additional MSP meetings were held through July 2003,
73 after which the Company made an additional filing with the states seeking
74 ratification of a proposed solution, the Protocol. Additional discussions related to
75 the Protocol continued through September 2004, which resulted in the Company
76 supplementing its filings with the Revised Protocol. Through commission
77 proceedings, the four state commissions of Utah, Oregon, Wyoming and Idaho
78 issued orders adopting the Revised Protocol in late 2004 and early 2005. Utah's
79 and Idaho's adoption of the Revised Protocol was accompanied by rate mitigation
80 mechanisms tied to the difference between the revenue requirement calculated
81 under the Revised Protocol allocation methodology and the revenue requirement
82 calculated under the Rolled-In allocation methodology.

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

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

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

90 A. The objectives of the Revised Protocol include:

- 91
- allocating PacifiCorp's costs among its jurisdictional states in an equitable

- 92 manner;
- 93 • ensuring PacifiCorp plans and operates its generation and transmission system
- 94 on a six-state integrated basis in a manner that achieves a least cost-least risk
- 95 resource portfolio for its customers;
- 96 • allowing each state to independently establish its ratemaking policies. Each
- 97 state is encouraged to consider the impact its decisions have on other states
- 98 served by PacifiCorp; and
- 99 • providing PacifiCorp a reasonable opportunity to recover 100 percent of its
- 100 prudently incurred costs.

101 **Q. Does the Revised Protocol contain provisions for continued dialogue among**

102 **the states?**

103 A. Yes. Section XIII.B of the Revised Protocol established the Standing Committee.

104 While not abridging the integrity of commission decision-making processes

105 within each respective state, the Standing Committee:

- 106 • monitors and discusses inter-jurisdictional allocation issues facing PacifiCorp
- 107 and its customers;
- 108 • helps to organize and direct work group analysis of inter-jurisdictional
- 109 allocation issues;
- 110 • ensures work group analysis is supported by sound technical analysis;
- 111 • shares views on possible amendments to the Revised Protocol, as they may
- 112 arise;
- 113 • seeks consensual resolution of issues arising under the Revised Protocol;
- 114 • ensures wide dissemination of information regarding Standing Committee

- 115 meeting locations and dates and information relating to its activities;
- 116 • ensures and encourages open participation in Standing Committee meetings
- 117 by all interested persons; and,
- 118 • appoints the Standing Neutral to facilitate discussions among the states, to
- 119 monitor issues and to assist the Standing Committee.

120 **Recent Activities of the Standing Committee**

121 **Q. Please provide an overview of the recent activities of the Standing Committee**

122 **that led up to this filing.**

123 A. At the November 2008 Commissioners' Forum, an issue was raised by Utah

124 related to the performance of the Revised Protocol as compared against the

125 forecast results at the time the Revised Protocol had been adopted. At that

126 meeting, MSP participants reviewed a chart comparing the MSP 2005 forecast

127 with the original MSP 2004 forecast. The chart also provided comparisons to the

128 Rolled-In allocation methodology both with and without the Utah rate mitigation

129 measures. The chart raised concerns that Utah's expectations when adopting the

130 Revised Protocol - near-term costs but long-term savings for Utah customers as

131 compared to Rolled-In - were not projected to be fulfilled. In response to this

132 concern, at the Standing Committee Annual Meeting held in November 2008, the

133 Company agreed to undertake a new forecast of results under the Revised

134 Protocol using updated information from the upcoming 2008 Integrated Resource

135 Plan which was to be filed in March 2009. The results were to be completed in

136 sufficient time to be presented at the next annual Commissioners' Forum. As

137 discussed in detail in the direct testimony of Mr. McDougal, the preliminary

138 results of these studies were provided to parties on August 17, 2009.

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

143 “Given review of the Company’s August 17, 2009, MSP Preliminary
144 Study Results (2009 MSP Study) and the Public Service Commission of
145 Utah’s (PSCU) December 14, 2004, Report and Order in Docket No. 02-
146 035-04, (MSP Order) the issue we raise is whether continued use of the
147 revised protocol and rolled-in methods with rate mitigation measures is
148 just and reasonable for PacifiCorp’s Utah jurisdiction.”

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

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

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

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

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

162 A. Over the next several months of Standing Committee meetings, participants
163 considered the Utah parties’ strawman solution, together with additional solution

164 proposals offered for consideration by other MSP participants that focused on the
165 elements of the Revised Protocol that could be analyzed as alternative
166 considerations to address the Utah issue. At the direction of the Standing
167 Committee, the Company provided quantitative analysis of the various proposals to
168 aid the Standing Committee's deliberations and considerations.

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

171 A. The Standing Committee convened a Commissioners' Forum in Portland, Oregon
172 on April 6, 2010. At that meeting, the Standing Committee updated
173 Commissioners generally on the activities of the Committee since the previous
174 Commissioners' Forum in November 2008. The Commissioners were also
175 presented with the Utah issue, together with a summarization of the analyses
176 performed and potential solutions considered. A concern raised was that the Utah
177 issue, if insufficiently addressed, could cause states to depart from a consistent
178 method of cost allocation and impair integrated system planning. After some
179 consideration of the issues and materials presented, the Commissioners directed
180 the Standing Committee to continue progress on analyzing potential solutions to
181 resolve the Utah issue and requested a follow-up meeting for the summer of 2010.
182 In general, it was recognized that any solution would need to strike a balance
183 between making progress toward fully Rolled-In allocations while maintaining a
184 hydro endowment for Oregon and Wyoming.

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

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

195 **Q. What direction was received from Commissioners at the forum held on June**
196 **13, 2010?**

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

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

- 205 1. All states prefer a consistent and fair cost allocation methodology that assures
206 the Company a reasonable opportunity to recover its costs and support further
207 system investment.
- 208 2. Utah prefers the Rolled-In allocation methodology, or results stated as a
209 deviation from the Rolled-In allocation methodology as a viable solution

- 210 alternative.
- 211 3. Oregon and Wyoming Standing Committee members have considered pre-
212 2005 resource scenarios¹ as possible solution alternatives.
- 213 4. Both Wyoming and Oregon stressed that maintaining a hydro endowment is a
214 critical component on any allocation methodology.
- 215 5. Utah stressed its benchmark methodology is Rolled-In and an allocation
216 methodology should reflect Rolled-In +/- adjustments which are fixed for
217 some future time period so as to avoid a repeat of not achieving expected
218 forecasted results.
- 219 6. The Commissioners have agreed that the Standing Committee should work
220 with the Company to develop an updated analysis based on Wyoming – 1
221 results which could be used to establish a fixed amount per year per state as a
222 deviation from the Rolled-In allocation methodology and is net of the situs
223 assignment of the Klamath surcharge. The results will be presented for all
224 years of the study and be accompanied by a disk with working spreadsheets.
225 Assessing whether the Wyoming - 1 achieves essentially a Rolled-In result
226 could be viewed from the perspective of treating the Klamath Settlement as
227 Rolled-In.

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

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

233 “Standing Committee participants of the MSP process have tentatively
234 reached an agreement in principle changing the Revised Protocol cost allocation
235 methodology. The initial premise for this new agreement is a Rolled-In cost
236 allocation methodology. The changed methodology continues to identify State
237 Resources based on cost responsibility and Regional Resources for the Hydro
238 Endowment calculation. Besides using Rolled-In as the starting point, a
239 significant change relates to the Hydro Endowment quantified under the
240 Embedded Cost Differential (ECD). The ECD will be reduced and limited using
241 a comparison based on Pre-2005 Resources. It is proposed that for 2011 through

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.

242 2016, the ECD calculation will be projected and a fixed dollar amount per year
243 deviation from Rolled-In analysis would be applied. The deviation is composed
244 of two parts; (1) a situs adjustment charge for the Klamath Surcharge to Oregon
245 and California, with a corresponding credit to the other states, and (2) an
246 adjustment to reflect the Hydro Endowment ECD.

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

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

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

261 **Overview of Proposed Amendments**

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

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

- 266 • The need to move more toward a Rolled-In allocation methodology to reflect
267 system operations while retaining the hydro endowment in some form.
- 268 • Volatility of results and unintended consequences of the ECD.
- 269 • Unpredictability of reliance on forecasts.

270 • Any solution must be fair to all states, and the Company must be afforded the
271 opportunity to recover its prudently incurred costs.

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

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

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

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

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

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

282 **Process for Commission Review of Application**

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

285 A. The Company is hopeful that the Commission will be able to complete its review
286 of this Application within a six-month timeframe. As discussed in the Company’s
287 direct testimony, significant analysis has been undertaken and reviewed by many
288 parties since November 2008 as the Standing Committee considered its options.
289 However, not all interested parties were able to participate in the Standing
290 Committee efforts. As such, the Company proposes the following illustrative
291 schedule of milestones that would allow for discovery, rounds of testimony and
292 hearings that would allow sufficient time for a comprehensive record to be

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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

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

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

303 **Processes subsequent to amendment adoption**

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

307 A. As reflected in the 2010 Protocol, the Company is not proposing any changes to
308 the ongoing Standing Committee function at this time. Although the elements of
309 the 2010 Protocol are designed to minimize controversy and provide predictability
310 through calendar year 2016, there are always emerging issues on which it is
311 valuable for states to continue to engage in discussions.

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

314 A. The process would likely be similar to the one just followed. For example, the
315 post-2016 issues would likely first be reviewed at the 2015 Standing Committee
316 annual meeting. From that review, the Standing Committee would agree on
317 appropriate next steps as far as issue identification and analysis. Standing
318 Committee efforts would need to be designed to culminate in time for formal
319 commission proceedings to occur with decisions well in advance of January 1,
320 2017. It is also possible that the states would agree to extend the terms of the
321 2010 Protocol to apply beyond calendar year 2016.

322 **Introduction of Witnesses**

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

325 A. They are:

- 326 • Mr. Steven R. McDougal addresses the calculation and implementation of
327 the 2010 Protocol allocation methodology and presents the revenue
328 requirement analyses undertaken at the request of the Standing
329 Committee, and
- 330 • Mr. Gregory N. Duvall presents the net power cost (NPC) studies used to
331 support the 2010 Protocol revenue requirement analysis and to inform of
332 the Standing Committee's consideration of options.

333 **Q. Does this conclude your direct testimony?**

334 A. Yes.