1 **Q. Please state your name, business address and present position with PacifiCorp,**
2 **dba Rocky Mountain Power (the "Company").**
3 A. My name is Jeffrey K. Larsen, and my business address is 1407 West North Temple,
4 Suite 310, Salt Lake City, Utah 84116. I am currently employed as Vice President
5 of Regulation for Rocky Mountain Power.

6 **Qualifications**

7 **Q. Please summarize your education and business experience.**
8 A. I received a Master of Business Administration degree from Utah State University
9 in 1994, and a Bachelor of Science degree in Accounting from Brigham Young
10 University in 1985. I have also participated in the Company's Business Leadership
11 Program through the Wharton School, and an Advanced Education Program
12 through the J.L. Kellogg School of Management at Northwestern University. In
13 addition to formal education, I have also attended various educational, professional
14 and electric industry-related seminars and training programs during my career at
15 the Company.
16 I joined the Company in 1985, and I have held various accounting,
17 compliance, regulatory and management-related positions prior to my current
18 position.

19 **Q. Have you appeared as a witness in previous regulatory proceedings?**
20 A. Yes. I have testified on various matters in the states of Utah, Idaho, Wyoming,
21 California, Washington, Oregon, and Nevada.

22 **Purpose and Overview of Testimony**

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

24 A. My testimony describes the process and approaches leading up to this filing of the
25 2017 PacifiCorp Inter-Jurisdictional Allocation Protocol ("2017 Protocol").
26 Specifically, my testimony provides:

27 • a brief history of the Multi-State Process ("MSP") leading to the 2017
28 Protocol;
29 • a summary of the work conducted by the Broad Review Work Group
30 ("BRWG") since November 2012 that has culminated in this filing;
31 • an overview of the 2017 Protocol;
32 • a discussion of the Company's view of the timing for commission
33 proceedings necessary to process this application;
34 • a discussion of the annual commissioner's forum;
35 • an explanation of the purpose of the Equalization Adjustment;
36 • a discussion of the term of the 2017 Protocol; and
37 • a discussion of the Reservation of Rights.

38 Additionally, Mr. Steven R. McDougal addresses the calculation and
39 implementation of the 2017 Protocol and discusses the revenue requirement
40 analyses undertaken at the request of the BRWG.

41 **Q. What is the purpose of your testimony in support of the 2017 Protocol?**

42 A. My testimony describes and supports the 2017 Protocol agreed to among
43 PacifiCorp and the signatories to the 2017 Protocol (referred to individually as a
44 Party or collectively as the Parties). The 2017 Protocol describes the multi-

45 jurisdictional allocation methodology that will be used by the Company in all rate
46 proceedings beginning January 1, 2017.

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

48 A. Yes. Exhibit RMP___(JKL-1) presents the 2017 Protocol with all of its appendices.
49 Although I sponsor Appendix A, Mr. McDougal sponsors the remaining
50 appendices.

51 **Brief History of MSP and the Development of the 2017 Protocol**

52 **Q. Please provide a brief history of the events that gave rise to the 2017 Protocol.**

53 A. The MSP began in 2002, with PacifiCorp filing applications in each of its six
54 jurisdictions to create a process to consider issues related to its status as a multi-
55 jurisdictional utility. Following years of discussions and negotiations, the Revised
56 Protocol was agreed to by the Parties and approved by the commissions in Idaho,
57 Oregon, Utah and Wyoming. The Revised Protocol allocated costs among
58 PacifiCorp's jurisdictions and ensured that the Company operated its generation
59 and transmission system on an integrated basis to achieve a least cost-least risk
60 resource portfolio, while allowing each state to independently establish its
61 ratemaking policies.

62 Thereafter, subsequent and substantial discussions occurred to address
63 various concerns raised by stakeholders in different states that resulted in the
64 development of the 2010 Protocol. The 2010 Protocol was agreed to by the Parties
65 on September 15, 2010, and was designed to allocate PacifiCorp's costs among its
66 jurisdictions in an equitable manner, ensure PacifiCorp plans and operate its
67 generation and transmission system on a six-state integrated basis that achieved a

68 least cost-least risk resource portfolio for customers, allow each state to
69 independently establish its ratemaking policies, and provide PacifiCorp with the
70 opportunity to recover its prudently-incurred costs. The 2010 Protocol was
71 approved by the commissions in Idaho, Oregon, Utah and Wyoming.

72 One of the terms of 2010 Protocol was a specified termination date. The
73 Parties to the 2010 Protocol agreed that it would only be used for regulatory filings
74 made before January 1, 2017. Knowing that it would take some time to develop a
75 new allocation methodology, the MSP standing committee (a committee consisting
76 of one member or delegate from each commission) and BRWG started
77 collaborating in November 2012 to come up with potential solutions acceptable to
78 all Parties in the context of an allocation methodology, including the performance
79 of various studies by the Company at the request of the Standing Committee.

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

81 A. The MSP meetings were typically attended by in excess of 50 individuals in person
82 or by teleconference, representing 18 entities from the states of Idaho, Oregon,
83 Utah, Washington and Wyoming. These included representatives of state
84 commission policy staffs, advocacy staffs, industrial customers and consumer
85 groups.

86 **Q. Did stakeholders from California and Washington participate in the MSP?**

87 A. Not for the entire process. Representatives from the California Public Utilities
88 Commission participated in the May 1, 2015, commissioner forum, but did not
89 participate in the negotiations. PacifiCorp's inter-jurisdiction allocation
90 methodologies are considered in the course of the Company's general rate case

91 cycle in California, and prior approval is generally not required. Representatives
92 from Washington participated in early discussions, but they are not signatories to
93 the 2017 Protocol since the Washington Utilities and Transportation Commission
94 has adopted a different allocation methodology for PacifiCorp's Washington rate
95 proceedings.

96 **Q. Who are the signatories to the 2017 Protocol?**

97 A. The Parties signing the 2017 Protocol include: the Company, Public Utility
98 Commission of Oregon Staff, the Citizens' Utility Board of Oregon, the Idaho
99 Public Utilities Commission Staff, Utah Division of Public Utilities, Utah Office of
100 Consumer Services, Wyoming Office of Consumer Advocate, Wyoming Industrial
101 Energy Consumers, and the Wyoming Public Service Commission Staff. The Utah
102 Association of Energy Users was party to the negotiations and, although not
103 available at the time of filing, the Company anticipates receiving a signature page
104 and filing it with the Commission in the near future.

105 **Q. Did the BRWG establish principles to guide their review of inter-jurisdictional**
106 **cost allocation alternatives?**

107 A. Yes, the BRWG developed principles and criteria to guide their review of allocation
108 alternatives. The four key criteria that the allocation method should incorporate
109 were to:

110 1. Maintain state sovereignty by not impeding states from pursuing policy
111 directives or flexibility in establishing class allocation or rate design;

112 2. Provide an equitable solution for the Company and all states based on
113 principles of cost causation;

114 3. Be sustainable by promoting rate stability and avoiding unreasonable or
115 inappropriate cost shifts; and
116 4. Promote administrative ease.

117 **Q. Do you believe the 2017 Protocol meets these requirements?**

118 A. Yes. The 2017 Protocol generally accomplishes these requirements. During
119 negotiations, however, some Parties requested that the 2017 Protocol be designed
120 as a short-term methodology until impacts of the United States Environmental
121 Protection Agency ("EPA") rules governing carbon pollution from existing power
122 plants under section 111(d) of the Clean Air Act ("Rule 111(d)") and other issues
123 could be better understood. Based on this feedback, the initial term of the 2017
124 Protocol is for two years with the option of a one year extension.

125 **Q. How did Parties address the equity issue with the 2017 Protocol?**

126 A. Through extensive negotiations with the Parties, an Equalization Adjustment was
127 added to the 2017 Protocol to account for inconsistent implementation of the 2010
128 Protocol, and to allow the Company a better opportunity to recover its costs.

129 **Q. Does the 2017 Protocol allow the Company an opportunity to collect all of its**
130 **prudently incurred costs?**

131 A. Not entirely. The Equalization Adjustment mitigates the issues caused by
132 inconsistent implementation of the 2010 Protocol but it does not fully provide the
133 Company the ability to recover all its costs.

134 **Q. Why was the Company willing to agree to a method that didn't allow it to**
135 **recover all of its cost?**

136 A. The Company agreed to the 2017 Protocol for two primary reasons: first because

137 this was a short-term solution; and second, the Company appreciated the BRWG
138 good faith approach to implement an Equalization Adjustment which reduces the
139 allocation short-fall the Company was experiencing with the 2010 Protocol.

140 **Q. Does the 2017 Protocol contain provisions for continued dialogue among the**
141 **states?**

142 A. Yes. The Parties have committed to hold an annual public meeting to which all
143 seated commissioners from each jurisdiction where the Company provides retail
144 service will be invited to discuss the 2017 Protocol and other inter-jurisdictional
145 allocation issues ("Commissioner Forums"), beginning in January 2017. All seated
146 commissioners from each jurisdiction will be invited to participate in all
147 Commissioner Forums. At the first Commissioner Forum, commissioners will be
148 invited to discuss and make recommendations regarding extension of the 2017
149 Protocol and other inter-jurisdictional allocation issues that may arise.

150 In addition, before each annual Commissioner Forum, the Company will
151 convene an MSP BRWG meeting for the purpose of discussing and monitoring
152 emerging inter-jurisdictional allocation issues facing the Company and its
153 customers, the status and implications of Rule 111(d), or the development of a
154 regional independent system operator, in order to inform discussions at the
155 Commissioner Forum.

156 **Overview of 2017 Protocol**

157 **Q. Please provide an overview of the 2017 Protocol.**

158 A. The 2017 Protocol was negotiated as an integrated, interdependent agreement. All

159 sections were discussed, resulting in a negotiated agreement based on the entirety
160 of the language. Any material alteration of any terms or conditions contained in the
161 2017 Protocol would require additional discussions and may affect any Party's
162 continued support for the agreement.

163 **Q. How was the 2017 Protocol developed?**

164 A. The 2017 Protocol was largely developed using the 2010 Protocol as the starting
165 point and further refining areas within that methodology to arrive at the new
166 agreement and allocation methodology. A major focus was on arriving at a single
167 allocation methodology that all of the Parties could support that made progress
168 towards reducing the allocation shortfall resulting from differences in application
169 of the 2010 Protocol. This resulted ultimately in the development of an Equalization
170 Adjustment, that when combined with the Embedded Cost Differential ("ECD"),
171 produces the 2017 Protocol Adjustment. The 2017 Protocol Adjustment is added to
172 each state's annual revenue requirement. This modification to the 2010 Protocol is
173 intended to reduce unintended ECD variations due to nonuniform implementation
174 of the 2010 Protocol. Other changes were made to address direct access treatment,
175 the duration of the 2017 Protocol, and process issues.

176 **Detailed Discussions of Sections I to XIV**

177 **Q. Please describe each section of the 2017 Protocol Agreement.**

178 A. The 2017 Protocol has 14 sections that contain the terms and conditions agreed to
179 by the Parties through the negotiations. Section I provides an introduction to the

180 2017 Protocol. Section I makes it clear that the 2017 Protocol is not intended to
181 prejudge the prudence of any costs or abrogate a State Commission's right and/or
182 obligation to determine fair, just, and reasonable rates based upon the law of that
183 State and the record established in rate proceedings conducted by that Commission.
184 The Parties and State Commissions are also not prohibited from considering any
185 changes in laws, regulations or circumstances on inter-jurisdictional allocation
186 policies and procedures when determining fair, just, and reasonable rates. The 2017
187 Protocol also does not prohibit the establishment of different allocation policies and
188 procedures for purposes of allocation of costs and revenues within a State to
189 different customers or customer classes.

190 Section II discusses the effective period and expiration of the 2017 Protocol.

191 Section III identifies the classification of resources between Demand-
192 Related, meaning capital and fixed costs incurred or revenues received in order to
193 be prepared to meet the maximum demand imposed upon the Company's system,
194 or Energy-Related, costs and revenues that vary based on the amount of energy
195 delivered to customers.

196 Section IV discusses the allocation of resource costs and wholesale
197 revenues. Resources are assigned to one of two categories of inter-jurisdictional
198 allocation: State Resources or System Resources. State Resources refer to those
199 resources that accommodate jurisdiction-specific policy. Costs for these resources
200 are assigned to a specific jurisdiction. There are four types of State Resources:
201 demand-side management programs; portfolio standards; qualifying facility
202 contracts; and jurisdiction-specific initiatives. System Resources are all other

203 resources and are allocated across all jurisdictions. This allocation methodology
204 includes an Equalization Adjustment to be applied to each State's revenue
205 requirement, as specifically identified in Section XIV of the 2017 Protocol.

206 Section V includes a commitment by the Company to submit filings seeking
207 authorization from the State Commissions prior to filing for approval from the
208 Federal Energy Regulatory Commission of the re-functionalization of facilities as
209 transmission or distribution. This section also identifies the allocation for
210 transmission costs and revenues as 75 percent Demand-Related and 25 percent
211 Energy-Related.

212 Section VI states that distribution-related expenses and investments are
213 directly assigned to the State in which the related facilities are located where
214 possible. Costs that cannot be directly assigned are allocated based on the factors
215 in Appendix B to the 2017 Protocol.

216 Section VII addressed the allocation of administrative and general costs.
217 Such costs are allocated based on the factors in Appendix B to the 2017 Protocol.

218 Section VIII provides that any Special Contracts - contracts between the
219 Company and one of its retail customers based on specific circumstances of the
220 customer - will be included in load-based dynamic allocation factors identified in
221 Appendix D to the 2017 Protocol.

222 Section IX states that any loss or gain from the sale of a Company-owned
223 resource or transmission asset would be allocated among the States based on the
224 allocation factor used to allocate the fixed costs of the resource or asset at the time
225 of the sale. The 2017 Protocol reserves to each State Commission the authority to

226 determine the appropriate allocation between the Company's customers and
227 shareholders.

228 Section X addresses the treatment of loads lost to alternative energy
229 suppliers through State direct access or other programs.

230 Section XI identifies the treatment of changes in retail load.

231 Section XII includes a commitment that the Company will plan and acquire
232 resources on a system-wide least cost, least-risk basis, with prudently incurred
233 investments reflected in rates consistent with the laws and regulations in each State.

234 Section XIII outlines the parameters for interpretation and governance.
235 Section XIII also provides for a Commissioner Forum to be held annually and an
236 MSP Workgroup, similar to the BRWG, open to any interested stakeholders.
237 Proposals for new inter-jurisdictional allocation procedures, including any
238 modifications proposed to the 2017 Protocol, can be submitted by any Party or
239 Commission using the 2017 Protocol.

240 Section XIV contains additional, State-specific terms. These additional
241 terms include the State-specific Equalization Adjustment negotiated by the Parties.
242 This section also identifies specific commitments by the Company regarding
243 general rate case timing during the effective period of the 2017 Protocol.

244 The 2017 Protocol also includes a set of appendices providing defined terms
245 and specific details regarding allocation factors and their derivations. The
246 appendices to the 2017 Protocol are more thoroughly discussed in the testimony of
247 Mr. McDougal.

248 **Term of 2017 Protocol**

249 **Q. Did the Parties agree to a specific effective period for the 2017 Protocol?**

250 A. Yes. The Parties agreed to support Commission adoption or use of the 2017
251 Protocol in all PacifiCorp rate proceedings filed after December 31, 2016, through
252 December 31, 2018. The 2017 Protocol will expire December 31, 2018, unless all
253 state Commissions that approved the 2017 Protocol determine, by no later than
254 March 31, 2017, that the term of the 2017 Protocol will be extended by an optional
255 one-year extension through December 31, 2019. In determining whether the 2017
256 Protocol should or should not be extended, each state Commission can take such
257 steps or provide such processes for public input as that Commission determines to
258 be necessary or appropriate under applicable state laws.

259 **Q. Why did the Parties agree to a two-year inter-jurisdictional allocation**
260 **methodology?**

261 A. The 2017 Protocol is intended to be a transitional allocation mechanism while the
262 impacts of Rule 111(d) and other multi-jurisdictional issues are better understood
263 and analyzed. The 2017 Protocol also provides an opportunity for PacifiCorp to
264 analyze, among other things, alternative allocation methods that may include the
265 formation for a regional independent system operator, corporate structure
266 alternatives, or divisional allocation methodologies, in light of the changing electric
267 industry in the Western United States.

268 **Q. Assuming that the four state Commissions acknowledge the 2017 Protocol,**
269 **what ongoing processes does the Company envision related to the 2017**
270 **Protocol?**

271 A. As reflected in the 2017 Protocol, the Company committed to perform studies and
272 analysis and to continue to report the results of this ongoing work to the BRWG.
273 Although the elements of the 2017 Protocol are designed to minimize controversy
274 and provide predictability through calendar year 2018, and perhaps 2019, there are
275 always emerging issues on which it is valuable for the BRWG to continue to engage
276 in discussions.

277 **Resource Classification and Cost and Revenue Allocation**

278 **Q. How does the 2017 Protocol allocate costs and revenues?**

279 A. Resources fixed costs, wholesale contracts, and short-term firm purchases and sales
280 are classified as 75 percent Demand-Related and 25 percent Energy-Related. Non-
281 firm purchases and sales are classified as 100 percent Energy-Related. This
282 allocation balances the impact of demand and load on system costs.

283 **Q. What is the difference between State Resources and System Resources?**

284 A. State Resources include four defined types of resources that are dependent on
285 specific state policy. Accordingly, it is appropriate to allocate the benefits and costs
286 associated with these resources to a particular jurisdiction on a situs basis. System
287 Resources include the substantial majority of the Company's resources, and
288 contribute to retail service across the Company's entire multi-jurisdictional service
289 territory.

290 **Q. What types of resources are included in State Resources?**

291 A. There are four types of State Resources. The first type of State Resource is demand-
292 side management programs. These programs may include incentives for energy
293 efficiency and demand response to reduce load. Costs associated with these

294 programs are assigned on a situs basis to the jurisdiction in which the investment is
295 made. Benefits from demand-side management programs are reflected in the load-
296 based dynamic allocation factors.

297 The second type of State Resource includes resources acquired to comply
298 with a jurisdiction's mandated resource portfolio standard, adopted through
299 legislative enactment or by a regulatory commission. The portion of costs
300 associated with portfolio standards that exceed the costs the Company would have
301 otherwise incurred acquiring comparable resources (resources with similar capacity
302 factors, start-up costs, and other output and operating characteristics) are assigned
303 on a situs basis to the jurisdiction adopting the portfolio standard.

304 The third type of State Resource includes qualifying facility contacts
305 executed under the requirements of the Public Utility Regulatory Policies Act
306 ("PURPA"). PURPA requires that a public utility agree to purchase energy from
307 certain cogeneration and small renewable energy generating facilities that meet the
308 definition of a qualifying facility under PURPA. State commissions set the prices
309 for each public utility under its jurisdiction for power purchase agreements under
310 PURPA. The 2017 Protocol assigns the costs associated with qualifying facility
311 contracts on a system basis unless a portion of the cost exceeds the costs the
312 Company would have otherwise incurred acquiring comparable resources
313 (resources with similar capacity factors, start-up costs, and other output and
314 operating characteristics) which would then be assigned on a situs basis to the
315 jurisdiction that approved the contract.

316 The final type of State Resource includes any resources acquired in
317 accordance with an initiative adopted by a specific jurisdiction. Any such resource
318 is assigned on a situs basis to the jurisdiction adopting the initiative. Examples of
319 these jurisdiction-specific initiatives include certain incentive programs, net-
320 metering tariffs, capacity standard programs, solar subscription programs, electric
321 vehicle programs, and the acquisition of renewable energy certificates.

322 **Q. Does the 2017 Protocol alter the Company's resource planning responsibility**
323 **or a Commission's authority?**

324 A. No. Section XII provides that the Company will continue to plan and acquire new
325 resources on a system-wide least-cost least-risk basis. Prudently incurred
326 investments in resources will be reflected in rates consistent with the laws and
327 regulations in each State, and approved by that State's Commissions consistent with
328 such laws and regulations.

329 **Embedded Cost Differential**

330 **Q. Explain the continued use of the Embedded Cost Differential ("ECD") in the**
331 **2017 Protocol.**

332 A. As a result of negotiations, the Parties agreed that the ECD would continue as a
333 component of the 2017 Protocol as modified and incorporated into an overall 2017
334 Protocol Adjustment that will be included in each State's revenue requirement. The
335 ECD is fixed for Wyoming, Idaho and California; for Utah it is zero; and for
336 Oregon, it is dynamic with upper and lower limits, for the duration of the 2017
337 Protocol. This treatment of the ECD during the term of the 2017 Protocol eliminates
338 or mitigates unintended allocation consequences that occurred under the 2010

339 Protocol.

340 The ECD in the 2017 Protocol is referred to as the Baseline ECD. For
341 California and Wyoming, the Baseline ECD was established using the data, as filed
342 by the Company on March 3, 2015, in the 2015 Wyoming general rate case (Docket
343 No. 20000-469-ER-15). Oregon's 2017 Protocol Baseline ECD is dynamic and will
344 change over time with the parameters described in the 2017 Protocol. Idaho's
345 Baseline ECD is its 2010 Protocol Fixed ECD amount. Utah's Baseline ECD is zero
346 consistent with its 2010 Protocol agreement.

347 **Q. Please describe the 2017 Protocol Adjustment and how it is implemented.**

348 A. For the period that the 2017 Protocol remains in effect, a 2017 Protocol Adjustment
349 will be added to each state's annual revenue requirement. The 2017 Protocol
350 Adjustment is the sum of the 2017 Protocol Baseline ECD and the 2017 Protocol
351 Equalization Adjustment.

352 **Q. Please explain the 2017 Protocol Equalization Adjustment.**

353 A. The Equalization Adjustment is a fixed dollar adjustment to be applied to each
354 state's revenue requirement as specified in Section XIV of the 2017 Protocol.
355 Parties to the 2017 Protocol negotiated an annual Equalization Adjustment of
356 $9.074 million representing approximately two-tenths of one percent of each state's
357 annual revenue requirement. The Equalization Adjustment is intended to recognize
358 differences among the states' implementation of the 2010 Protocol respective to the
359 treatment of the ECD adjustment i.e.; fixed ECD, dynamic ECD, or no ECD. The
360 result of the 2017 Protocol Equalization Adjustment is to equitably share the
361 allocation shortfall resulting from differences in the implementation of the 2010

362 Protocol while analysis continues on the development of a more permanent
363 allocation method.

364 **Q. What is the amount of the 2017 Protocol Adjustment that will be added to each**
365 **state's annual revenue requirement?**

366 A. California's 2017 Protocol Adjustment is zero because its Equalization Adjustment
367 exactly offsets its Baseline ECD, Idaho's is $0.986 million, Utah's is $4.4 million
368 and Wyoming's is a credit of $0.251 million. Because Oregon's Baseline ECD is
369 dynamic within specified ranges, its 2017 Protocol Adjustment will be between a
370 $5.6 million and a $7.9 million credit.

371 **Q. Describe the difference between the fixed Baseline ECD used by the other**
372 **states versus Oregon's Baseline ECD.**

373 A. As mentioned above, with the exception of Oregon, the Baseline ECD is fixed for
374 the duration of the 2017 Protocol. Oregon will continue to use a dynamic ECD for
375 its Baseline ECD but the value is subject to lower and upper limits based on the
376 negotiations with Oregon parties. Oregon's lower limit (or floor) of the Baseline
377 ECD is $8.238 million and the upper limit (or cap) is $10.5 million for the first
378 general rate case filed under 2017 Protocol. If the Company files a second general
379 rate case using 2017 Protocol there's no change to the lower limit but the upper
380 limit of the cap is increased to $11.0 million.

381 **Q. Why is Oregon's ECD dynamic?**

382 A. The Company agreed to Oregon's continued use of a dynamic ECD calculation as
383 part of the negotiations. A dynamic ECD for Oregon is consistent with the 2010
384 Protocol. However, establishing parameters around the dynamic ECD, as agreed to

385 by Oregon Parties as part of a negotiated outcome, mitigates many of the issues
386 faced by the Company under the 2010 Protocol.

387 **Cost Allocations**

388 **Q. How are transmission costs and revenues allocated under the 2017 Protocol?**

389 A. Costs associated with transmission assets and firm wheeling expenses are classified
390 as 75 percent Demand-Related and 25 percent Energy-Related. These costs are
391 allocated based on a system generation factor. Non-firm wheeling expenses and
392 revenues are allocated on a system energy factor. The system generation factor and
393 system energy factors are described in the appendices to the 2017 Protocol.

394 **Q. How are distribution costs assigned under the 2017 Protocol?**

395 A. Distribution-related expenses and investments are directly assigned to the state
396 where they are located where possible. There are certain distribution expenses and
397 investments that cannot be directly assigned. For the costs that cannot be directly
398 assigned, they will be allocated consistent with the factors identified in Appendix
399 B to the 2017 Protocol.

400 **Q. Can the company reclassify its facilities between transmission and**
401 **distribution?**

402 A. Yes. The classification of facilities as transmission or distribution depends on how
403 the facility is used, and may change over time. Any such reclassification is
404 generally done following an analysis by the Company, using tests adopted by the
405 Federal Energy Regulatory Commission. The Company has committed in the 2017
406 Protocol to seek review and authorization of any such reclassification with the State

407 Commissions before filing any request to approve a reclassification of facilities
408 with the Federal Energy Regulatory Commission.

409 **Q. How does the 2017 Protocol allocate administrative and general costs?**

410 A. Appendix B provides for the specific allocation of administrative and general costs,
411 general plant costs and intangible plant costs are allocated consistent with the
412 factors in Appendix B to the 2017 Protocol.

413 **Q. How does the 2017 Protocol address special contracts?**

414 A. The 2017 Protocol provides that revenues associated with special contracts -
415 meaning contracts between the Company and a particular customer based on the
416 specific circumstances of that customer and approved by the state commission -
417 will be included in each State's revenues (situs assigned). Load under the special
418 contract is included in the load-based dynamic allocation factors, for jurisdictional
419 allocation purposes, as defined in Appendix D, as more thoroughly discussed in the
420 direct testimony of Mr. McDougal.

421 **Q. Will the Company allocate any gain or loss from a sale of a resource or**
422 **transmission asset based on the factors used to allocate the cost associated with**
423 **that resource or transmission asset for ratemaking purposes?**

424 A. Yes. The allocation of any loss or gain from the sale of a Company-owned resource
425 or transmission asset will be allocated based on the allocation factor used to allocate
426 fixed costs at the time of its sale. Each state commission will determine the
427 allocation of any loss or gain between the Company's customers and shareholders
428 in accordance with its jurisdictional authority.

429 **State Programs Providing Access to Alternative Electricity Suppliers**

430 **Q. Does the 2017 Protocol Address the treatment of alternative Electricity**
431 **Suppliers or State-specific Direct Access Programs?**
432 A. Yes. The 2017 Protocol specifically addresses the Oregon direct access program.
433 The 2017 Protocol also addresses the potential transfer of electricity service to an
434 alternative electricity supplier in Utah under Utah Code Annotated
435 Section 54-3-32, along with a requirement that the Company inform the State
436 Commissions and Parties if any State adopts laws or regulations governing
437 customer access to alternative electricity suppliers.
438 **Q. How does the 2017 Protocol treat loads lost to the Oregon direct access**
439 **programs during the term of the 2017 Protocol?**
440 A. The 2017 Protocol provides that load associated with customers electing the one-
441 or three-year Oregon direct access programs will be included in the load-based
442 dynamic allocation factors for all resources. Transition adjustment payments from
443 these customers will be situs assigned to Oregon.
444 The treatment of customers electing the five-year opt-out program under the
445 Oregon direct access programs will be treated consistent with Public Utility
446 Commission of Oregon Order No. 15-060, as clarified through Order No. 15-067,
447 and Oregon Schedule 296, which allows customers to permanently opt-out of cost-
448 of-service rates after payment of ten years of transition costs in Oregon. During the
449 ten-year period when Oregon direct access customers are paying transition costs,
450 the Oregon direct access customers' loads will be included in load-based dynamic
451 allocation factors, and the transition cost payments from these customers will be
452 situs-assigned to Oregon. At the end of the ten-year period covered by the transition

453 cost payments, the loads of the Oregon direct access customers will be excluded
454 from load-based dynamic allocation factors. Thereafter, if an Oregon direct access
455 customer elects to return to Oregon cost-of-service rates by providing four-years
456 notice under Schedule 296, its load will be included in load-based dynamic
457 allocation factors at the time the customer returns to Oregon cost of service rates.

458 **Q. Does the 2017 Protocol allow for potential modifications to the Oregon direct**
459 **access program?**

460 A. Yes. Section X of the 2017 Protocol includes a provision to clarify that if Oregon
461 adopts new laws or regulations regarding direct access, the treatment of loads lost
462 to those programs may be re-determined. The Company commits to inform all the
463 State Commissions if this occurs. This is similar to the process that would apply if
464 any State adopts laws or regulations governing customer access to alternative
465 electricity suppliers.

466 **Q. Does the Utah Public Service Commission have a direct access program?**

467 A. No. However, Utah Code Annotated Section 54-3-32 allows certain eligible
468 customers in Utah to transfer electricity service to a non-utility energy supplier. If
469 an eligible customer elects to transfer electricity service to a non-utility energy
470 supplier, the customer must provide its public utility 18 months' notice.
471 Additionally, the Utah Division of Public Utilities must file a petition with the Utah
472 Public Service Commission no later than eight months before the intended date of
473 transfer seeking a determination by the commission regarding: (1) costs or credits
474 allocated to Utah under any inter-jurisdictional cost allocation methodology the
475 commission reasonably expects to be in effect; (2) costs of facilities used to serve

476 the eligible that will not be used by other customers as a direct result of the eligible
477 customer transferring service, and any credits offsetting the costs; and (3) any other
478 costs to the public utility or to other customers of the public utility.

479 **Q. Has the Company committed to notify the State commissions and Parties if the**
480 **Utah Public Service Commission makes such a determination?**

481 A. Yes.

482 **Changes to Company Load**

483 **Q. Does the 2017 Protocol include a provision to address changes in load due to**
484 **changes in the Company's retail service territory?**

485 A. Yes. Section XI addresses the treatment of changes to load as a result of:
486 condemnation or municipalization; the sale or acquisition of new service territory
487 that involves less than five percent of system load; realignment of service
488 territories; changes in economic conditions; or the gain or loss of large customers.
489 These changes would be reflected in changes to the load-based dynamic allocation
490 factors. The load-based dynamic allocation factors are calculated using the States'
491 monthly energy usage and/or contribution to monthly system coincident peak. The
492 allocation of costs and benefits arising from a merger, sale, or acquisition involving
493 more than five percent of system load would be considered on a case-by-case basis
494 in the course of any approval proceedings in each State.

495 **Governance**

496 **Q. What is the purpose of the annual Commissioner Forums?**

497 A. During the term of the 2017 Protocol, PacifiCorp agreed to analyze alternative
498 allocation methods including corporate structure alternatives, divisional allocation

499 methodologies, alternative system allocation methodologies, potential implications
500 of Rule 111(d), and possible formation of a regional independent system operator.
501 As part of the 2017 Protocol, the Company committed to present its analyses of
502 these issues to the MSP BRWG and discuss them at Commissioner Forums.

503 The Company believes that annual Commissioner Forums are an
504 appropriate way to keep the Commissioners and Parties informed, and that they will
505 be an opportunity for all Parties to discuss whether to extend the 2017 Protocol for
506 an additional year beyond the initial term. The Company anticipates that all Parties
507 will remain engaged in the process of analyzing the results of these studies, and the
508 Company believes that continuing to engage in this type of collaboration is in the
509 best interests of the Parties and PacifiCorp's customers.

510 **Q. Is there an opportunity for interested stakeholders to raise issues with the 2017**
511 **Protocol?**

512 A. Yes. Any Party or Commission using the 2017 Protocol for inter-jurisdictional
513 allocation purposes may submit proposals for a new inter-jurisdictional allocation
514 procedure or change to the 2017 Protocol. Any such proposal must be provided to
515 the Company so that Company can distribute the proposal to the other Parties and
516 State Commissions and initiate discussions. The Party or Commission proposing
517 the modification or new inter-jurisdictional allocation procedure must, consistent
518 with its legal obligations, attempt to present the proposal to the Commissioner
519 Forum or MSP Workgroup and negotiate a resolution in good faith.

520 **Reservations of Rights**

521 **Q. What have the Parties agreed to with respect to reservations of rights?**

522 A. Any Party may request that the Commission rescind, alter, or amend its order
523 entered in connection with the 2017 Protocol if the Party concludes that the 2017
524 Protocol no longer produces results that are just, fair, reasonable, or in the public
525 interest, due to unforeseen or changed circumstances. In addition, the 2017 Protocol
526 will not bind or be used against any Party if unforeseen or changed circumstances,
527 including new developments such as direct access programs implemented in a state,
528 cause that Party to conclude that the 2017 Protocol no longer produces just and
529 reasonable results, reasonable cost recovery for the Company, or is not in the public
530 interest.

531 **State-Specific Terms**

532 **Q. In addition to the Equalization Adjust discussed above, were there other state**
533 **specific implementation terms?**

534 A. Yes. Idaho's $0.986 million annual 2017 Protocol Adjustment will be included in
535 base rates through a general rate case beginning no earlier than January 1, 2018, or
536 to the extent that a case is filed so the rate effective date is later than that date, its
537 $0.150 million annual Equalization Adjustment will be deferred on a monthly basis
538 ($12,500 per month) from January 1, 2018, forward as a regulatory asset until the
539 rate effective date of the Company's next Idaho general rate case at which time (1)
540 the deferred costs and (2) the ongoing impact of Idaho's 2017 Protocol Adjustment
541 will be included in rates.

542 In Oregon the Company agreed to a stay-out period so it wouldn't have any
543 pending general rate case that requests rates effective before January 1, 2018. In
544 return, the Oregon Parties agreed that Oregon's Equalization Adjustment of $2.6

545 million annually (or $216,667 monthly) would be deferred from January 1, 2017,
546 until the 2017 Protocol Equalization Adjustment is reflected in base rates through
547 the Company's next general rate case. This deferral will be reflected as a debit or
548 reduction to the existing credit balance to be returned to customers in the Open
549 Access Transmission Tariff revenue deferral account originally established through
550 docket UE 246. For the first rate case filed using 2017 Protocol, Oregon's Baseline
551 ECD is capped between $8.238 million and $10.5 million. If the Company files a
552 second rate case the top end of the range increases to $11.0 million. The Company
553 committed to file a new tariff to return to Oregon customers the balance of the
554 OATT revenue deferral, net of the 2017 Protocol Equalization Adjustment deferral,
555 within 60 days of an Oregon Commission order approving of the 2017 Protocol.
556 The Company also committed to continued evaluation of the analysis I mentioned
557 earlier and to distribute or present the results of its analysis to the BRWG, based on
558 information available, no later than March 31, 2017.

559 In Utah, the Company agreed to an annual Utah Equalization Adjustment of
560 $4.4 million and a 2017 Protocol Adjustment of the same amount. The Company
561 also agreed that it will not file a Utah general rate case or major plant addition case
562 prior to May 1, 2016, and new rates will not be effective prior to January 1, 2017.
563 Utah's 2017 Protocol Adjustment shall be included in base rates through a general
564 rate case with rates effective beginning on or after January 1, 2017. To the extent
565 that a Utah general rate case or major plant addition case is filed with a rate effective
566 date later than that date, Utah's Equalization Adjustment will be deferred on a
567 monthly basis, ($366,667 per month), from January 1, 2017, forward as a regulatory

568 asset until the rate effective date of PacifiCorp's next Utah general rate case at
569 which time (1) the deferred costs and (2) the ongoing impact of Utah's 2017
570 Protocol Adjustment shall be included in rates. The deferred cost amortization
571 period will be determined in the first case that the deferral of the Utah Equalization
572 Adjustment is proposed for inclusion in rates.

573 Wyoming's 2017 Protocol Adjustment of a negative $0.251 million will be
574 netted against Wyoming's 2017 Protocol revenue requirement. If the Company does
575 not file a general rate case prior to January 1, 2017, Wyoming's Equalization
576 Adjustment of $1.6 million annually will be deferred, as a regulatory asset, on a
577 monthly basis, ($133,333 per month), beginning July 1, 2017, until the rate
578 effective date of PacifiCorp's next Wyoming general rate case, at which time (1)
579 the deferred costs and (2) Wyoming's ongoing impact of the 2017 Protocol
580 Adjustment shall be included in rates.

581 **Process for Commission Review of Application**

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

584 A. The Company is hopeful that the Commission will be able to complete its review
585 of this Application by July 1, 2016. Significant analysis has been undertaken and
586 reviewed by many parties since November 2012 as the BRWG considered many
587 options. This analysis enabled the Parties to confidently negotiate the 2017
588 Protocol. The Company anticipates that each of the Parties will file testimony in
589 support of the 2017 Protocol, and the Company believes that the Commission
590 review can be accomplished, with input from the Parties, in this time frame.

591 **Conclusion**

592 **Q. What action do you recommend the Commission take with respect to the**
593 **Agreement?**

594 A. The Company recommends that the Commission find that the 2017 Protocol is in
595 the public interest and requests that the Commission approve this Application
596 including all the terms and conditions of the 2017 Protocol in its order in this
597 proceeding.

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

599 A. Yes.