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3 **Introduction**

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5 **Q. Ms. Kelly, did you previously file testimony in this proceeding?**

6 A. Yes. My Direct Testimony was part of the Company's original filing with the
7 Commission in September, 2003. Additionally, I submitted Supplemental Direct
8 Testimony on May 30, 2004.

9 **Purpose**

10 **Q. What is the purpose of your ~~Further~~Second Supplemental Direct Testimony?**

11 A. The purpose of this ~~Further~~Second Supplemental Direct Testimony is to support the
12 Stipulation and Revised Protocol that was submitted to the Utah Public Service
13 Commission on June 25, 2004. Specifically, my ~~Further~~Second Supplemental Direct
14 Testimony:

- 15 a) _____-describes events that have occurred since our May filing,
16 b) _____-describes additional changes that have been made in the Revised Protocol from
17 the form that was included in our May filing, and
18 c) _____-describes the terms of a Stipulation that has been entered into with most Utah
19 parties and previously filed with the Commission.

20 **Q. Are you sponsoring any exhibits in connection with your ~~Further~~Second
21 Supplemental Direct Testimony?**

22 A. Yes. Exhibit UP&L_(ALK-1-2SFS) is the Stipulation and Exhibits that were filed with
23 the Commission on June 28, 2004. The Revised Protocol was appended as Exhibit A to

1 the Stipulation as filed. Appendix A to the Revised Protocol is slightly changed from the
2 version filed in May. There are also minor changes in Appendix C to the Revised
3 Protocol.

4 The Stipulation also included Exhibits B and C. While Mr. Taylor is not filing
5 additional testimony, he has assured me that he will be prepared to respond to questions
6 concerning Exhibits B and C to the Stipulation and the changes to Appendix C to the
7 Revised Protocol in the course of providing his Supplemental Direct Testimony.
8 Appendix D, E and F to the Revised Protocol have not changed from the versions filed in
9 May.

10 As with my Direct Testimony, when I used capitalized terms in my
11 ~~Further~~Second Supplemental Direct Testimony, they are intended to have the same
12 meaning set forth in Appendix A to the Revised Protocol.

13 **Events Since May, 2004 filing**

14 **Q. What has occurred since the Company's May filing with the Commission?**

15 A. When the Company filed the Revised Protocol in May, we believed that it enjoyed broad
16 support from Multi-State Process ("MSP") participants. However, we also understood
17 that there were some lingering concerns and, therefore, continued discussions with parties
18 from Utah and Oregon. These discussions resulted in further changes to the Revised
19 Protocol. These discussions also resulted in a Stipulation between seven Utah parties and
20 PacifiCorp to support the use of the Revised Protocol for purposes of general rate
21 proceedings in Utah.

22 **Q. Have stipulations been reached with parties in States other than Utah?**

1 A. No. However, this is mostly a result of our decision to start discussions in Utah first and
2 the fact that discussions in Utah consumed a considerable amount of our time and
3 available resources. We are cautiously optimistic that stipulations will be signed with
4 some or all parties in Oregon, Wyoming and Idaho.

5 **Q. Why did the Company elect to pursue individual State discussions rather than**
6 **further multi-State gatherings?**

7 A. It was encouraged by the MSP participants. While the underlying goals and perspectives
8 of parties in different States are quite similar, these goals and perspectives tend to
9 manifest themselves in State-specific issues which appear best dealt with in individual
10 State discussions.

11 **Q. Please explain.**

12 A. The Company's analyses presented by Mr. Taylor in his Supplemental Direct Testimony
13 forecast that, on a present value basis, the economic impact of the Revised Protocol on
14 any State is relatively modest. However, the timing of benefits and detriments to various
15 States is different. For Utah and Idaho, the analyses suggest that during early years, those
16 States will be worse off under the Revised Protocol than under the rolled-in allocation
17 method currently used, but that they will be better off in the later years of the analyses.
18 Conversely, Oregon, Washington and Wyoming are projected to enjoy near-term
19 benefits, but higher costs in later years compared to their existing allocation methods.

20 _____ Parties in various States seem to share a perspective that the Revised Protocol
21 must be viewed as a "package" which balances relatively desirable provisions with
22 relatively undesirable provisions that they would not independently support. However,
23 parties in different States are making different "tradeoffs" and are supporting the Revised

1 Protocol for different reasons. Understandably, everyone wishes the “deal” they believe
2 they are making to be honored. Given these different views of the world yet an increasing
3 base of support for the Revised Protocol, we did not identify a need for additional multi-
4 State discussions.

5 **Q. Does the potential for different stipulations in different States create the potential**
6 **for future misunderstandings regarding the intent of the Revised Protocol?**

7 A. Yes, but the Company is actively managing this process to avoid such an outcome. The
8 focus of the State settlement discussions is on providing assurances to parties in each
9 State without changing the underlying elements of the Revised Protocol and without
10 impacting other states. The Company works hard to communicate to parties in each State
11 what concerns are being addressed elsewhere. Additionally, in the course of making
12 changes to the Revised Protocol requested by Utah parties, we also proposed changes
13 suggested by Oregon parties. This Revised Protocol was filed in Oregon on June 29, 2004
14 and in Wyoming on June 30, 2004. Once the Utah Stipulation was executed, we
15 immediately made it available to parties in other States. We expect the Commissions in
16 other States to consider the Utah Stipulation in the course of reviewing the Revised
17 Protocol. If and when we reach stipulations in Oregon, Wyoming, Washington or Idaho,
18 we will similarly share them.

19 **Changes to Revised Protocol**

20 **Q. Please describe the major changes that have been made in the Revised Protocol**
21 **since the Company’s May filing.**

22 A. First I should caution that the following portion of my testimony seeks only to identify
23 and broadly summarize changes in Revised Protocol language. Many of these changes

1 were extensively discussed and considerable nuance was attached to the language that
2 was ultimately agreed to. To the extent there are perceived differences between my
3 summary of the language and the actual language, they are unintentional and we expect
4 that the actual language used in the Revised Protocol would govern.

5 Noteworthy changes have been made to Sections I, IV, VIII, X, and XIII. I will
6 discuss each of them below.

7 **Q. Please summarize the changes that were made in Section I, Introduction.**

8 A. The first changes were made in this section to recognize that forecasts are not always
9 accurate predictions of the future and to address concerns that a party not be bound to
10 continue to support the Revised Protocol if circumstances change such that it no longer
11 produces results that are fair, just and reasonable. Language was also inserted in this
12 section to make it clear that a party's support of the Revised Protocol, or the ratemaking
13 methods used in the Revised Protocol, would not be used against that party in other
14 proceedings.

15 **Q. Do these changes reflect a change in the Company's expectations?**

16 A. No. They are clarifications of concepts that we have always expected would apply.

17 **Q. What changes were made to Section IV, Allocation of Resource Costs and Wholesale
18 Revenues?**

19 A. We made revisions to Section IV.A, added Section IV.B.1.c and made revisions to
20 Section IV.E.

21 **Q. What were the revisions to Section IV.A, Seasonal Resources?**

22 A. In the course of our discussions with Utah parties, concerns were expressed about how
23 Seasonal Resources were defined in the Revised Protocol. As a response to these

1 concerns, new language in Section IV.A assigns responsibility to the MSP Standing
2 Committee to further study this issue.

3 **Q. Why was Section IV.B.1.c added?**

4 A. To provide assurances to Oregon parties that the Company would not unilaterally propose
5 a material change to the treatment of Hydro-Electric Resources, Mid-Columbia Contracts
6 and Existing QF Contracts as long as Oregon parties continued to support the Revised
7 Protocol.

8 **Q. Why was the reference to Existing QF Contracts included in this provision?**

9 A. It recognizes that there is a linkage between the proposed treatment of Mid-Columbia
10 Contracts and Existing QF Contracts. We recognize that just as Oregon parties wish to be
11 assured of the durability of the allocation of Hydro-Electric Resources and Mid-
12 Columbia Contracts, parties in other States are equally concerned that the costs
13 associated with those Resources continue to be allocated as contemplated in the Revised
14 Protocol.

15 **Q. Please discuss Section IV.E.**

16 A. The Revised Protocol filed in May contained language describing further studies to be
17 done in connection with the issue of whether faster load growth in one State unreasonably
18 shifts costs to other States. Utah parties concluded that further study and monitoring of
19 conditions that could produce sustained and significant harm to slower growing
20 jurisdictions could be undertaken. This risk of undue cost shifts remains a very important
21 issue for Oregon and Washington parties. This version of the Revised Protocol expands
22 and clarifies the provisions related to these studies and moves some of the provisions to

1 Subsection IV.E. The new language represents the product of substantial give and take
2 between Utah and Oregon parties on the subject.

3 **Q. Please describe the changes to Section VIII, Allocation of Special Contract**
4 **Discounts.**

5 A. This section was revised to recognize that special contracts can and do take different
6 forms. The section now refers to Appendix D of the Protocol for allocation rules
7 governing special contract discounts.

8 **Q. What changes were made in the Protocol related to Section X, Implementation of**
9 **Direct Access Programs?**

10 A. These changes are mostly editorial in nature and seek to bring greater clarity to what is
11 intended. The purpose of this section is two-fold. First, it sets allocation guidelines that
12 allow for effective implementation of existing retail choice programs currently in place in
13 Oregon. Second, it sets allocation guidelines that would facilitate implementation of
14 elements of current Oregon laws and rules that are not yet workable and have not yet
15 been tested. As such, there is understandable concern that future actions in Oregon be
16 workable in the context of inter-jurisdiction cost allocations.

17 **Q. Can you provide an example that causes concern?**

18 A. Yes. Oregon law allows, under specific circumstances, that individual customers, as
19 opposed to a class of customers, could elect to opt out of responsibility for new
20 Resources and have a portion of their load served at short-term market prices. The
21 Oregon Commission continues to explore the feasibility and risks of allowing large
22 customers in Oregon to opt out of new resources. Some parties in Utah question how this
23 would be workable and the Company concurs with their concerns.

1 **Q. How does the Revised Protocol address this issue?**

2 A. Recognizing the complexities involved, the Revised Protocol now provides in Section X
3 that an effective date for an opt-out process will be established only at such time as
4 customers permanently elect an opt out – it is not clear that an opt out will materialize in
5 the near future - and that the process will be implemented under the guidance of the MSP
6 Standing Committee.

7 **Q. Are there other changes to the Revised Protocol that you wish to draw attention to?**

8 A. Yes. Subsection XIII.D of the Revised Protocol deals with the issue of achieving
9 consistent approaches to the Protocol among the States. It provides that final ratification
10 of the Revised Protocol by any of the Commissions of Oregon, Utah, Wyoming and
11 Idaho is expressly conditioned upon similar ratification of the Protocol by the other three
12 mentioned Commissions.

13 **Q. Do any of the changes to the Revised Protocol result in changes to the impacts on
14 state Revenue Requirements presented by Mr. Taylor?**

15 A. No.

16

17 **Stipulation**

18 **Q. Please provide a summary of the material provisions of the Stipulation that has been
19 signed by the Company and most Utah parties.**

20 A. Again, I should caution that in the event of any perceived differences between my
21 attempt at a summary and the language in the Stipulation is unintentional and should be
22 resolved in favor of the language in the Stipulation itself.

1 _____The parties to the Utah stipulation are the Utah Division of Public Utilities, the
2 Utah Committee of Consumer Services, the Utah Association of Energy Users
3 Intervention Group, the Salt Lake Community Action Program, the Crossroads Urban
4 Center, the AARP, the Federal Executive Agencies (collectively, the Utah Parties) and
5 PacifiCorp. The parties to the Stipulation agree to support ratification of the Revised
6 Protocol by the Commission. The Company agrees that until such time as the Revised
7 Protocol is amended in accordance with its terms, all general rate case filings made by it
8 subsequent to Commission ratification will be based upon the terms of the Revised
9 Protocol. The Utah Parties in turn agree to support the use of the terms of the Revised
10 Protocol for establishing Utah’s revenue requirement.

11 **Q. Does the Stipulation provide for Rate Mitigation Measures in Utah?**

12 A. Yes, specified Rate Mitigation Measures are to apply to the calculation of the Company’s
13 Utah revenue requirement through March 31, 2014.

14 **Q. Do any of the Rate Mitigation Measures limit the overall level of rate increases that**
15 **Utah** customers may experience over this timeframe?

16 A. No. The Rate Mitigation Measures only apply to differences between allocation
17 methodologies not to the overall level of rate increases.

18 **Q. Please describe these Rate Mitigation Measures.**

19 A. The Rate Mitigation Measures have three basic components: a) for a period of time there
20 are rate caps that limit the amount by which the Company’s Utah revenue requirement
21 can exceed the amount that would be calculated under the existing rolled-in method, b)
22 for a period of time the Company is entitled to a “Rate Mitigation Premium” during
23 which time it has the opportunity to recover a greater amount than indicated under the

1 Revised Protocol and c) for a period of time Utah parties continued support of the
2 Revised Protocol is conditioned upon the Company's Utah revenue requirement not
3 exceeding a rolled-in calculation by a stated amount.

4 **Q. Please describe the details of each of these components.**

5 A. The rate caps apply to the first four years following Commission ratification of the
6 Revised Protocol. For Company fiscal years 2006 and 2007, the Company's Utah
7 revenue requirement cannot exceed the amount calculated under the rolled-in method by
8 more than one and one-half percent. For fiscal years 2008 and 2009, the cap is one and
9 one-quarter percent.

10 _____ The Rate Mitigation Premiums apply to fiscal years 2010, 2011 and 2012, during
11 which time the Company may set Utah rates at one-quarter percent above the amount
12 calculated under the Revised Protocol method.

13 _____ For fiscal years 2010 through 2014, if the Company's Utah revenue requirement
14 exceeds, or is projected by the Company in good faith to exceed, 101 percent of the
15 amount that would result from the use of the Rolled-in Method, the Company may
16 propose a new interjurisdictional cost allocation method. Parties to the Stipulation are
17 obligated to use reasonable best efforts to come to agreement on an amended Revised
18 Protocol within 12 months after the Company proposes a new method. Unless and until
19 such new method is ratified by the Commission, for fiscal years 2010 through 2014, the
20 Company's Utah revenue requirement will not exceed 101 percent of a rolled-in
21 calculation.

22 **Q. How are Utah customers assured that they receive timely benefits from the Rate**
23 **Mitigation measures?**

1 A. The Stipulation provides that if a final Commission order has not otherwise dealt with the
2 issue, the Company will make a timely compliance filing to implement any adjustment
3 that is required.

4 **Q. Are parties bound to the Stipulation if the Utah Commission or another**
5 **Commission fails to ratify the Revised Protocol or if the Utah Commission fails to**
6 **adopt the Rate Mitigation Measures?**

7 A. No. The Stipulation provides that in such event, any party to the Stipulation may elect to
8 no longer be bound.

9 **Q. Do you believe that the terms of the further Revised Protocol and the Stipulation are**
10 **in the public interest?**

11 A. Yes. The Revised Protocol provides for a balanced and comprehensive solution to MSP
12 issues that will permit the Company to make investments in its system with reasonable
13 assurance of its opportunity to recover its prudently incurred costs. It furthers the benefits
14 of an agreement discussed in my Supplemental Direct Testimony. The Stipulation
15 recognizes the unique impacts of the Revised Protocol on Utah and reasonably balances
16 the interests of Utah customers and Company shareholders.

17 **Q. Does this conclude your ~~Further~~Second Supplemental Direct Testimony?**

18 A. Yes.

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