

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

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

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

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

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

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

91 A. The objectives of the Revised Protocol include:

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

102 **Q. Does the Revised Protocol contain provisions for continued dialogue among**
103 **the states?**

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

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

- 115 • seeks consensual resolution of issues arising
- 116 under the Revised Protocol;
- 117 • ensures wide dissemination of information
- 118 regarding Standing Committee meeting locations and dates and information
- 119 relating to its activities;
- 120 • ensures and encourages open participation in
- 121 Standing Committee meetings by all interested persons; and,
- 122 • appoints the Standing Neutral to facilitate
- 123 discussions among the states, to monitor issues and to assist the Standing
- 124 Committee.

125 **Recent Activities of the Standing Committee**

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

128 A. At the November 2008 Commissioners' Forum, an issue was raised by Utah
129 related to the performance of the Revised Protocol as compared against the
130 forecast results at the time the Revised Protocol had been adopted. At that
131 meeting, MSP participants reviewed a chart comparing the MSP 2005 forecast
132 with the original MSP 2004 forecast. The chart also provided comparisons to the
133 Rolled-In allocation methodology both with and without the Utah rate mitigation
134 measures. The chart raised concerns that Utah's expectations when adopting the
135 Revised Protocol - near-term costs but long-term savings for Utah customers as
136 compared to Rolled-In - were not projected to be fulfilled. In response to this
137 concern, at the Standing Committee Annual Meeting held in November 2008, the

138 Company agreed to undertake a new forecast of results under the Revised
139 Protocol using updated information from the upcoming 2008 Integrated Resource
140 Plan which was to be filed in March 2009. The results were to be completed in
141 sufficient time to be presented at the next annual Commissioners' Forum. As
142 discussed in detail in the direct testimony of Mr. McDougal, the preliminary
143 results of these studies were provided to parties on August 17, 2009.

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

148 "Given review of the Company's August 17, 2009, MSP Preliminary
149 Study Results (2009 MSP Study) and the Public Service Commission of
150 Utah's (PSCU) December 14, 2004, Report and Order in Docket No. 02-
151 035-04, (MSP Order) the issue we raise is whether continued use of the
152 revised protocol and rolled-in methods with rate mitigation measures is
153 just and reasonable for PacifiCorp's Utah jurisdiction."

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

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

158 **Q. What was the Utah parties' potential solution?**

159 A. At the September 24, 2009 Standing Committee meeting, Utah parties proposed a
160 strawman solution that would eliminate seasonal and regional resource categories,
161 limit the state resource category to demand-side management programs and state
162 portfolio standard resource costs, and apply allocation factors for system
163 resources to the resources formerly addressed in the seasonal, regional and state

164 resource categories. In a nutshell, the strawman solution described a move to a
165 Rolled-In allocation methodology.

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

167 A. Over the next several months of Standing Committee meetings, participants
168 considered the Utah parties' strawman solution, together with additional solution
169 proposals offered for consideration by other MSP participants that focused on the
170 elements of the Revised Protocol that could be analyzed as alternative
171 considerations to address the Utah issue. At the direction of the Standing
172 Committee, the Company provided quantitative analysis of the various proposals to
173 aid the Standing Committee's deliberations and considerations.

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

176 A. The Standing Committee convened a Commissioners' Forum in Portland, Oregon
177 on April 6, 2010. At that meeting, the Standing Committee updated
178 Commissioners generally on the activities of the Committee since the previous
179 Commissioners' Forum in November 2008. The Commissioners were also
180 presented with the Utah issue, together with a summarization of the analyses
181 performed and potential solutions considered. A concern raised was that the Utah
182 issue, if insufficiently addressed, could cause states to depart from a consistent
183 method of cost allocation and impair integrated system planning. After some
184 consideration of the issues and materials presented, the Commissioners directed
185 the Standing Committee to continue progress on analyzing potential solutions to
186 resolve the Utah issue and requested a follow-up meeting for the summer of 2010.

187 In general, it was recognized that any solution would need to strike a balance
188 between making progress toward fully Rolled-In allocations while maintaining a
189 hydro endowment for Oregon and Wyoming.

190

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

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

201 **Q. What direction was received from Commissioners at the forum held on June**
202 **13, 2010?**

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

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

211 1. All states prefer a consistent and fair cost allocation methodology that assures
212 the Company a reasonable opportunity to recover its costs and support further
213 system investment.

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

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

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

239 “Standing Committee participants of the MSP process have tentatively
240 reached an agreement in principle changing the Revised Protocol cost allocation
241 methodology. The initial premise for this new agreement is a Rolled-In cost
242 allocation methodology. The changed methodology continues to identify State
243 Resources based on cost responsibility and Regional Resources for the Hydro
244 Endowment calculation. Besides using Rolled-In as the starting point, a
245 significant change relates to the Hydro Endowment quantified under the

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.

246 Embedded Cost Differential (ECD). The ECD will be reduced and limited using
247 a comparison based on Pre-2005 Resources. It is proposed that for 2011 through
248 2016, the ECD calculation will be projected and a fixed dollar amount per year
249 deviation from Rolled-In analysis would be applied. The deviation is composed
250 of two parts; (1) a situs adjustment charge for the Klamath Surcharge to Oregon
251 and California, with a corresponding credit to the other states, and (2) an
252 adjustment to reflect the Hydro Endowment ECD.

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

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

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

267 **Overview of Proposed Amendments**

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

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

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

- 275 • Volatility of results and unintended
276 consequences of the ECD.
- 277 • Unpredictability of reliance on forecasts.
- 278 • Any solution must be fair to all states, and
279 the Company must be afforded the opportunity to recover its prudently
280 incurred costs.

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

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

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

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

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

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

291 **Process for Commission Review of Application**

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

294 A. The Company is hopeful that the Commission will be able to complete its review
295 of this Application within a six-month timeframe. As discussed in the Company’s
296 direct testimony, significant analysis has been undertaken and reviewed by many
297 parties since November 2008 as the Standing Committee considered its options.

298 However, not all interested parties were able to participate in the Standing
 299 Committee efforts. As such, the Company proposes the following illustrative
 300 schedule of milestones that would allow for discovery, rounds of testimony and
 301 hearings that would allow sufficient time for a comprehensive record to be
 302 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

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

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

312 **Processes subsequent to amendment adoption**

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

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

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

323 A. The process would likely be similar to the one just followed. For example, the
324 post-2016 issues would likely first be reviewed at the 2015 Standing Committee
325 annual meeting. From that review, the Standing Committee would agree on
326 appropriate next steps as far as issue identification and analysis. Standing
327 Committee efforts would need to be designed to culminate in time for formal
328 commission proceedings to occur with decisions well in advance of January 1,
329 2017. It is also possible that the states would agree to extend the terms of the
330 2010 Protocol to apply beyond calendar year 2016.

331 **Introduction of Witnesses**

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

334 A. They are:

- 335 • Mr. Steven R. McDougal addresses the calculation and implementation of
336 the 2010 Protocol allocation methodology and presents the revenue
337 requirement analyses undertaken at the request of the Standing
338 Committee, and

339 • Mr. Gregory N. Duvall presents the net power cost (NPC) studies used to
340 support the 2010 Protocol revenue requirement analysis and to inform of
341 the Standing Committee’s consideration of options.

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

343 **A. Yes.**