

Docket No. 09-\_\_\_\_\_  
Exhibit No. PPL/100  
Witness: Andrea L. Kelly

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

PACIFICORP

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Direct Testimony of Andrea L. Kelly

Policy

November 2009

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

3 A. My name is Andrea L. Kelly. My business address is 825 NE Multnomah, Suite  
4 2000, Portland, Oregon 97232. My present position is Vice President,  
5 Regulation.

6 **Qualifications**

7 **Q. Briefly describe 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 of  
10 Washington. After graduate school, I joined the Staff of the Washington Utilities  
11 and Transportation Commission. In 1995, I became employed by PacifiCorp as a  
12 senior pricing analyst in the Regulation department and advanced through  
13 positions of increasing responsibility. In March 2006, I was appointed to my  
14 present position. My present duties include oversight of the regulatory  
15 relationships and proceedings in California, Oregon and Washington. I also have  
16 oversight of PacifiCorp’s pricing, cost-of-service, and inter-jurisdictional  
17 allocation functions for all six states in which PacifiCorp operates.

18 **Purpose of Testimony**

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

20 A. My testimony provides an overview of the Company’s request for an increase in  
21 its base electric rates and the major factors driving the need for the rate increase.  
22 I also discuss PacifiCorp’s existing cost-recovery mechanisms that operate  
23 outside of the three-year cycle for general rate cases, and how they have been

1 effective in providing small and gradual rate changes for customers while  
2 properly reflecting changes in the Company's prudently-incurred costs. Finally,  
3 my testimony introduces the other witnesses providing testimony on behalf of  
4 PacifiCorp.

5 **Summary of PacifiCorp's Rate Increase Request**

6 **Q. Please summarize PacifiCorp's rate increase request.**

7 A. PacifiCorp is requesting an increase to its base electric rates in California. This is  
8 the first general rate case filing by PacifiCorp in California in four years. The last  
9 general rate case was Application ("A.") 05-11-022 ("2005 Rate Case"). Based  
10 on the evidence provided in the testimony and exhibits of Company witness Mr.  
11 R. Bryce Dalley, PacifiCorp will earn a return on equity ("ROE") in California of  
12 6.2 percent for the test period. This return is less than the 11.0 percent ROE  
13 requested by the Company, supported by Company witness Dr. Samuel C.  
14 Hadaway in his testimony. An overall price increase of \$8.4 million or 9.6  
15 percent is required to produce the 11.0 percent ROE necessary to maintain the  
16 financial integrity of the Company.

17 **Q. Upon what test year is the rate increase request based?**

18 A. As described in the testimony of Mr. Dalley, the rate increase is based on a  
19 forecast test period of the twelve months ending December 31, 2011.

20 **Q. What are the primary factors driving the need for an overall rate increase?**

21 A. As a regulated utility, PacifiCorp has a duty and an obligation to provide safe,  
22 adequate and reliable service to customers in its California service territory while  
23 balancing cost, risk and state energy policy objectives. The Company's need for

1 this rate increase is primarily driven by new investment in the Company's system.

2 The test period in this case includes significant new investments made by  
3 the Company to serve its customers through the 2011 test year. The largest of  
4 these investments is the Populus to Terminal transmission line. The need for the  
5 Populus to Terminal transmission line was identified through PacifiCorp's  
6 integrated resource planning process and captured as a commitment during the  
7 MidAmerican Energy Holdings Company ("MEHC") acquisition of PacifiCorp  
8 approved by the California Public Utilities Commission ("CPUC") in February  
9 2006 in A.05-07-010 and Decision ("D.") 06-02-033. Commitment 34 calls for  
10 transmission system infrastructure improvements to increase capacity of a key  
11 transmission path to enhance reliability and transfer capability between the  
12 Company's east and west control areas, to facilitate the delivery of power from  
13 wind projects, and to provide greater flexibility and the opportunity to consider  
14 additional options regarding planned generation capacity additions. The Populus  
15 to Terminal transmission line and its relation to the Energy Gateway transmission  
16 expansion project are described in detail in the testimony of Company witness  
17 Mr. John A. Cupparo.

18 The revenue requirement in this case also includes the Morrison Creek  
19 distribution substation, which was placed into service for the benefit of California  
20 customers in August 2009. In July 2007 PacifiCorp filed A.07-07-018 to request  
21 a Permit to Construct ("PTC") the Morrison Creek substation to replace the aging  
22 Simonson substation near Smith River, California. The PTC was granted in  
23 March 2008 in D.08-03-011, which found, "The Simonson Substation is

1 deteriorating and must be replaced in order to ensure continued reliable service to  
2 PacifiCorp's customers and the safety of its maintenance crews."<sup>1</sup> The costs  
3 related to these and other investments made by the Company are included in the  
4 testimony and exhibits of Mr. Dalley.

5 **Q. Are the cost increases facing the Company unique in the industry?**

6 A. No. Other utilities are facing the same types of cost pressures. As such, even  
7 with the price increase proposed in this case, PacifiCorp's prices will remain  
8 competitive when measured against other utilities within the state. PacifiCorp's  
9 rates in California will remain the lowest among investor-owned utilities even  
10 after including the requested increase. The Company's current and proposed rates  
11 are presented by Company witness Ms. Judith M. Ridenour.

12 **Q. What has the Company done to mitigate the rate increase requested in this**  
13 **case?**

14 A. The Company has taken several steps to mitigate the rate increase request. As  
15 discussed by Mr. Dalley, the Company included a 0.5 percent productivity  
16 adjustment which has been applied to the overall non-net power cost revenue  
17 requirement for the test period. The application of this adjustment reduces the  
18 revenue requirement request in this proceeding by approximately \$346,000.

19 In addition, the Company has proactively and aggressively controlled  
20 administrative and general ("A&G") costs. California's allocated share of A&G  
21 costs proposed in this case is approximately \$1.8 million *lower* than those  
22 included in the 2005 Rate Case filing. The Company has accomplished this level

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<sup>1</sup> D.08-03-011, Order Granting Permit to Construct, page 5.

1 of cost control by challenging its management to absorb inflationary pressures  
2 such as labor cost escalations through productivity gains.

3 Finally, as discussed in the direct testimony of Company witness Mr.  
4 Bruce N. Williams, the Company has been successful in securing favorable  
5 interest rates for recent bond issuances that directly benefit customers.

6 **Q. What portion of the requested increase is related to net power costs?**

7 A. The Company is not seeking to recover any revenue requirement shortfall related  
8 to net power costs in this case. PacifiCorp collects net power cost expenses  
9 through its Energy Cost Adjustment Clause (“ECAC”) which is updated each  
10 August 1 and collected through rate schedule ECAC-94. In compliance with the  
11 ECAC mechanism, the Company will file an application to set its 2011 ECAC  
12 rates by August 1, 2010.

13 **Q. Is the Company proposing to reflect the impacts of the Klamath  
14 Hydroelectric Settlement Agreement (“KHSA”) in this rate case?**

15 A. Yes, but only once the KHSA is executed and reviewed by the CPUC in a  
16 separate proceeding. In November 2009, parties to the KHSA negotiations,  
17 including the Company, the Department of Interior and the states of California  
18 and Oregon, released for public review and comment a final draft of the KHSA,  
19 which provides for the potential removal of PacifiCorp’s four main-stem dams on  
20 the Klamath River in 2020. The Company expects to sign the KHSA in the  
21 upcoming months. Under the terms of the KHSA, the Company will then file an  
22 application with the CPUC and the Oregon Public Utility Commission seeking  
23 Commission review of the Company’s decision to enter into the KHSA. As such,

1 the merits of the KHSA will be considered by the CPUC in a separate filing, with  
2 any impact on revenue requirement to be reflected in this rate case. The primary  
3 impact on revenue requirement for customers in this proceeding would relate to  
4 accelerating the depreciation of the existing investment in the facilities, including  
5 the costs of the relicensing and settlement process.

6 **Cost-Recovery Mechanisms**

7 **Q. Please describe the cost-recovery mechanisms currently authorized for**  
8 **PacifiCorp.**

9 A. In its 2005 Rate Case, PacifiCorp was authorized to implement three cost-  
10 recovery mechanisms that operate outside of the three-year cycle for general rate  
11 case proceedings. In addition to the ECAC referenced above, the CPUC  
12 authorized for PacifiCorp a Post-Test Year Adjustment Mechanism (“PTAM”) for  
13 Major Capital Additions that allows the Company to recover the California-  
14 allocated share of reasonable costs related to any plant additions greater than \$50  
15 million on a total-Company basis. In addition, the CPUC authorized an annual  
16 PTAM Attrition Factor adjustment that allows the Company to adjust base rates  
17 for changes in inflation with an offsetting productivity factor of 0.5 percent. The  
18 PTAM Attrition Factor adjustment was effective on January 1<sup>st</sup> of 2008, 2009 and  
19 2010, the years when no general rate case occurred.

20 **Q. Have these mechanisms been effective?**

21 A. Yes, these mechanisms have allowed the Company to adjust its rates  
22 incrementally as the cost of serving customers changes, providing for recovery of  
23 prudently-incurred costs, and typically providing customers with small and

1 gradual rate changes. As a result of these cost-recovery mechanisms, the  
2 Company has added significant investment in generation resources to its system -  
3 768 MW of wind capacity and 520 MW of natural gas capacity - while being able  
4 to avoid filing a general rate case in California for four years. By comparison,  
5 PacifiCorp has filed general rate cases on a nearly annual basis in all of its other  
6 jurisdictions.

7 The mechanisms also result in an efficient use of the Company's and the  
8 CPUC's resources to avoid the expense and effort of processing large litigated  
9 cases. The Company works closely with the Division of Ratepayer Advocates to  
10 communicate frequently and in advance of the ECAC and PTAM filings. As a  
11 result, the Company's ECAC and PTAM filings have rarely been protested by any  
12 party, and have been processed expeditiously and efficiently by the CPUC.

13 Further, these mechanisms provide benefit to customers when the  
14 Company's costs decrease. The Company's 2010 ECAC filing, A.09-07-032  
15 filed July 31, 2009, requested a rate decrease of approximately \$4.6 million or 5.1  
16 percent overall, reflecting lower loads across the Company's system, and lower  
17 wholesale prices for electricity and natural gas. This illustrates that mechanisms  
18 like the ECAC and PTAM provide benefits to the Company and customers by  
19 providing accurate and timely recovery (or refund) of costs prudently incurred by  
20 PacifiCorp.

21 **Q. Is the Company proposing to continue the mechanisms in 2010 and beyond?**

22 A. Yes. The Commission's order in the 2005 Rate Case did not include any  
23 limitations on the continuation of the ECAC and the PTAM for Major Capital

1 Additions. As such, the Company intends to continue to recover net power costs  
2 through the annual ECAC mechanism. The Company will continue to make an  
3 annual filing on August 1<sup>st</sup> of each year for rate changes effective January 1<sup>st</sup> of  
4 the next calendar year.

5 The Company also intends to continue to file under the PTAM for Major  
6 Capital Additions. This rate case includes forecast cost data and in-service dates  
7 for capital projects scheduled to be completed through calendar year 2011. As  
8 new, eligible plant additions are placed in service prior to the January 1, 2011 rate  
9 effective date of this case, PacifiCorp plans to utilize the PTAM to add the  
10 California-allocated costs of these projects to rates based on actual cost data and  
11 in-service dates. Any material difference between the actual data and the forecast  
12 data included in the rate case will be adjusted following approval of the PTAM  
13 filings. Present revenues will also be updated to reflect the increase in rates,  
14 thereby reducing the revenue requirement increase requested in this case.

15 In PacifiCorp's 2005 Rate Case, the PTAM Attrition Factor adjustment  
16 was authorized for use in setting rates for 2008 and 2009, and later extended to  
17 2010 in A.09-02-009 and D.09-04-017. PacifiCorp respectfully requests that the  
18 PTAM Attrition Factor adjustment be authorized for setting rates in the calendar  
19 years between general rate cases, based on the same formula and applied to the  
20 same rate elements as was used for calculating the adjustment for calendar year  
21 2010, and approved in D.09-04-017. The attrition factor would continue to be the  
22 greater of the September Global Insight's U.S. Economic Outlook forecast of  
23 Consumer Price Index for the following calendar year with an offsetting

1 productivity factor of 0.5 percent, or zero. The annual PTAM Attrition filings  
2 would continue to be made by October 15<sup>th</sup>, as a Tier 2 Advice Letter filing. Any  
3 rate change related to the PTAM Attrition filing would be implemented by  
4 applying the overall PTAM percentage change as a uniform percentage change to  
5 all rate elements adjusted in this rate case excluding Schedules S-99, S-100, S-191  
6 and ECAC-94.

7 **Introduction of Witnesses**

8 **Q. Please list the Company witnesses and provide a brief description of their**  
9 **testimony.**

10 A. **Dr. Samuel C. Hadaway**, Principal, FINANCO, Inc. testifies concerning the  
11 Company's cost of equity. He will present support for the requested authorized  
12 ROE of 11.0 percent to account for the risks and operating challenges that the  
13 Company faces.

14 **Bruce N. Williams**, Vice President and Treasurer, describes the calculation of  
15 PacifiCorp's capital structure, cost of debt and preferred stock.

16 **John A. Cupparo**, Vice President, Transmission, describes the Populus to  
17 Terminal transmission line and its relationship to the Energy Gateway  
18 transmission expansion plan.

19 **R. Bryce Dalley**, Manager, Revenue Requirement, presents the Company's  
20 overall revenue requirement based on the forecast test period of twelve months  
21 ending December 31, 2011.

22 **Erich D. Wilson**, Director, Human Resources, describes the Company's  
23 compensation philosophy and employee incentive plan.

1       **Robert M. Meredith**, Analyst, Cost of Service and Pricing, presents the  
2       Company's cost-of-service study.

3       **Judith M. Ridenour**, Consultant, Cost of Service and Pricing, presents the  
4       Company's proposed rate spread and rate design for the affected rate schedules.

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

6       A. Yes.