

Docket No. A.10-03-015  
Exhibit No. PPL/203  
Witness: Andrea L. Kelly

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

PACIFICORP

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Rebuttal Testimony of Andrea L. Kelly

October 2010

1 **Introduction**

2 **Q. Are you the same Andrea L. Kelly who submitted direct testimony in this**  
3 **proceeding?**

4 A. Yes.

5 **Purpose and Overview of Rebuttal Testimony**

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. My rebuttal testimony responds to the testimony of the Division of Ratepayer  
8 Advocates (DRA) recommending that the Commission extend the length of the  
9 time period for the surcharge and depreciation schedule from nine years to 18  
10 years and require PacifiCorp to file a new PUC Code 851 application 60 days  
11 prior to any asset transfer. Specifically, my rebuttal testimony discusses why the  
12 extension of time recommended by DRA would undermine the key goals of the  
13 Klamath Hydroelectric Settlement Agreement (KHSA), which DRA purports to  
14 support, and how California customers' interests are protected by the conditional  
15 Section 851 approval process proposed in PacifiCorp's application.

16 **Extension of Surcharge and Depreciation Schedule**

17 **Q. How do you respond to DRA's proposal to extend the surcharge collection**  
18 **time period from nine years to 18 years?**

19 A. It would undermine the fundamental goals of the KHSA. It is the expectation of  
20 parties to the KHSA, including the state of California, that the full \$200 million  
21 Customer Contribution for dam removal be available no later than December 31,  
22 2019, so that dam removal can proceed during 2020. The 2020 target date for  
23 dam removal is an integral component of the KHSA and was driven by the federal

1 government, the states of California and Oregon, tribal interests and other parties  
2 to the KHSA. If DRA's proposal were adopted, it would guarantee that dam  
3 removal could not be accomplished in the timeframe contemplated by the parties  
4 to the KHSA.

5 **Q. How do you respond to DRA's proposal to extend the depreciation schedule**  
6 **to 18 years?**

7 A. This proposal is not consistent with the underlying terms of the all-party  
8 settlement agreement in the Company's 2009 general rate case, Docket No. A.09-  
9 11-015. This settlement was approved by the Commission in Decision 10-09-010  
10 on September 2, 2010 for rates effective January 1, 2011. The underlying revenue  
11 requirement in the Company's filing included an adjustment that would allow the  
12 assets to be fully depreciated by December 31, 2019. DRA did not challenge this  
13 adjustment in its testimony in the proceeding and did not raise the issue in  
14 settlement. DRA did raise questions with respect to the costs related to  
15 relicensing and settlement process costs and the settlement reflects an agreement  
16 that will allow these costs to be reviewed in a separate proceeding subsequent to  
17 the Commission's decision in this Application.

18 **Q. Why is it reasonable to implement the new depreciation schedule as reflected**  
19 **in the general rate case?**

20 A. It is reasonable to implement the new depreciation schedule to match the  
21 depreciation life of the project assets to the now expected life of the assets and  
22 avoid the possibility of stranded costs related to these assets in the future. If  
23 DRA's proposed 18-year depreciation schedule were adopted, there is the

1 potential for a significant amount of un-depreciated capital to exist at a time when  
2 the assets are no longer in service. In addition, customers can be fully protected if  
3 in the future there are changes to the dam removal date, because the Commission  
4 can prospectively extend the depreciation life of the assets to match the changes  
5 in the service life of the assets in the next applicable general rate case.

6 **Section 851 Approval Process**

7 **Q. DRA concludes that “Given the risks attendant to the KHSA and the long**  
8 **time before decommissioning is scheduled to occur, PacifiCorp should file a**  
9 **PUC Code § 851 application seeking authorization for any asset transfer.”**

10 **Do you agree with this recommendation?**

11 A. No. The interests of customers, the utility and the Commission are fully protected  
12 by the conditional Section 851 approval process proposed in PacifiCorp’s  
13 application. The authority to transfer project assets to the Dam Removal Entity  
14 (DRE) will not become effective until the key preconditions to full KHSA  
15 implementation are met, including the passage of the necessary federal legislation,  
16 the Secretarial Determination, sufficient funding for dam removal, and the  
17 acquisition of all the necessary environmental approvals, permits and contracts  
18 such that the DRE can certify that it is ready to proceed with dam removal.  
19 Fulfillment of these preconditions will be verified by an additional process, in  
20 which PacifiCorp will file an Advice Letter with the Commission confirming the  
21 attainment of the necessary preconditions. PacifiCorp will not be able to exercise  
22 any right to transfer the project assets under the conditional Section 851 approval  
23 unless the KHSA is fully implemented and all preconditions to dam removal have

1           been met. At the same time, deferring or delaying Section 851 approval, as DRA  
2 suggests, will require another application at a later date, effectively creating  
3 another California regulatory precondition to KHSA implementation. It is also  
4 extremely unlikely an 851 application could be approved in a timely manner if  
5 filed only 60 days prior to the asset transfer date as DRA suggests.

6           As explained above, PacifiCorp believes that attainment of the  
7 preconditions addressed by this Application will materially assist in building  
8 momentum in the attainment of other challenging preconditions to the KHSA.  
9 Deferral of approvals which the Commission is in a position to grant at this time  
10 will only heighten uncertainty about full implementation of the KHSA. Parties  
11 that support the KHSA, including the state of California, should support a  
12 Commission decision which provides prompt regulatory approvals consistent with  
13 the relief sought in this Application.

14 **Q. Does this conclude your rebuttal testimony?**

15 A. Yes.