

Docket No. UE-227  
Exhibit PPL/800  
Witness: Andrea L. Kelly

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF THE STATE OF OREGON**

**PACIFICORP**

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**Surrebuttal Testimony of Andrea L. Kelly**

**August 2011**

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

3 A. My name is Andrea L. Kelly. My business address is 825 NE Multnomah Street,  
4 Suite 2000, Portland, Oregon 97232. I am employed by PacifiCorp as Vice  
5 President of Regulation.

6 **Q. Describe your education and professional background.**

7 A. I hold a Bachelor's degree in Economics from the University of Vermont and an  
8 MBA in Environmental and Natural Resource Management from the University  
9 of Washington. After graduate school, I joined the Staff of the Washington  
10 Utilities and Transportation Commission. In 1995, I became employed by  
11 PacifiCorp as a Senior Pricing Analyst in the Regulation Department and  
12 advanced through positions of increasing responsibility. From 1999 through  
13 2005, I led major strategic projects at PacifiCorp including the Multi-State  
14 Process and the regulatory approvals for the MidAmerican Energy Holdings  
15 Company (MEHC)-PacifiCorp transaction. In March 2006, I was appointed Vice  
16 President of 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 of Surrebuttal Testimony**

21 **Q. What is the purpose of your surrebuttal testimony?**

22 A. My testimony responds to the rebuttal testimony of the Citizens' Utility Board of  
23 Oregon (CUB) with respect to past rate increases and the Company's cost control

1 efforts. Specifically, my surrebuttal testimony:

- 2 • Provides additional background related to past rate increases that have  
3 been approved by the Commission since the acquisition of PacifiCorp by  
4 MEHC in March of 2006;
- 5 • Demonstrates that the existence of the Transition Adjustment Mechanism  
6 (TAM) has allowed the Company to avoid annual general rate cases in  
7 Oregon;
- 8 • Discusses the scope of this proceeding, which is to determine the  
9 appropriate level of net power costs in rates for calendar year 2012; and
- 10 • Provides additional information regarding how the Company is working  
11 with its customers to manage disconnections.

## 12 **History of Past Rate Increases**

13 **Q. Please describe PacifiCorp's rate activity since its acquisition by MEHC.**

14 A. Rate activity over the past five and one-half years generally falls into three  
15 categories: (1) general rate cases; (2) TAM proceedings; and (3) miscellaneous  
16 filings. I will discuss each category below.

17 **Q. Please describe the general rate cases that PacifiCorp has filed in Oregon  
18 since 2006.**

19 A. Since the March 2006 close of the transaction, the Company has filed three  
20 general rate cases in Oregon: the first in Docket UE 179 for rates effective  
21 January 1, 2007; the second in Docket UE 210 for rates effective February 2,  
22 2010; and the third in Docket UE 217 for rates effective January 1, 2011. Each of  
23 these dockets was resolved through Commission adoption of either an all-party

1 stipulation or, in the case of Docket UE 210, a contested stipulation. The  
2 Company managed its costs in a manner that allowed it to avoid filing a general  
3 rate case in Oregon for rates effective in 2008, 2009 and this year for 2012.

4 As discussed in the testimony in support of these stipulations, the key  
5 driver for general rate increases has been investment in the system to respond to  
6 emerging energy policies in the states in which PacifiCorp operates. These  
7 energy policies include renewable portfolio standards, clean air regulations,  
8 generation portfolio diversity, and the need for additional transmission to move  
9 remote generation to load centers. The general rate increases have not been  
10 driven by increases in controllable costs such as administrative and general, and  
11 operations and maintenance expenses. And while all parties acknowledge that the  
12 size of last year's rate increase was unfortunate in light of the economic  
13 downturn, all of the Company's investments were found prudent and beneficial to  
14 customers over the long term.

15 **Q. Over this period, has the Company overearned?**

16 A. No. The Company has not earned its authorized rate of return in any year since  
17 the acquisition. The Company's results of operations reports filed annually with  
18 the Commission show that the Company's return on equity (ROE) in Oregon  
19 ranged from a high of 9.0 percent in 2007 to a low of 5.8 percent most recently in  
20 2010.<sup>1</sup>

21 **Q. Please describe the second category of rate activity, TAM proceedings.**

22 A. TAM proceedings result from an annual, non-discretionary filing to establish the

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<sup>1</sup> ROE levels reflected on a type 1 basis, which include Commission ordered regulatory adjustments.

1 appropriate level of net power costs in rates for the upcoming calendar year and  
2 are used to establish the transition adjustment for customers choosing direct  
3 access. Net power cost increases in the past five years have been driven by  
4 increases in fuel costs and the loss of low-price legacy wholesale sales and  
5 purchase contracts. These cost drivers are not completely within the control of  
6 the Company. The upward pressure on net power costs has been mitigated by the  
7 acquisition of very low variable cost wind resources.

8 **Q. Have the TAM proceedings also been resolved through settlement among the**  
9 **parties?**

10 A. Yes. In all but one proceeding - UE 191 for rates effective January 1, 2008 - the  
11 TAM proceedings have been resolved by settlement among the parties.

12 **Q. Absent the TAM proceedings, would the Company have been able to avoid**  
13 **the filing of general rate cases for the three years discussed above?**

14 A. No. Given the upward pressure on net power costs that are not within the  
15 Company's control, absent the TAM proceedings, the Company would have been  
16 forced to file general rate cases. Although CUB posits that elimination of the  
17 TAM would create an incentive to manage costs, the very nature of net power  
18 costs is that they are driven by customer demand and market forces. Ironically,  
19 one of the best ways for the Company to manage net power cost volatility is  
20 through a comprehensive and well-constructed hedging policy and yet these  
21 actions are also under attack in this proceeding by CUB and the Industrial  
22 Customers of Northwest Utilities (ICNU). Mr. Gregory N. Duvall's rebuttal  
23 testimony demonstrates that the Company's hedging practices have reduced

1 customer exposure to net power cost volatility in every year from 1999 to 2010  
2 and, further, have reduced total system net power costs by approximately \$118  
3 million from 2008 through 2011.

4 **Q. Please explain the third category of rate activity -- miscellaneous filings --**  
5 **that have impacted customer rates in Oregon.**

6 A. These filings are generally driven by state-specific mandates and allow the  
7 Company to recover its costs of complying with the mandates. For example,  
8 Oregon's renewable portfolio standard (RPS) allows for deferral and recovery of  
9 costs related to compliance with the law. Another annual impact to the  
10 Company's customers resulted from tax filings under Senate Bill 408, which has  
11 now been repealed. There have also been costs associated with additional  
12 conservation spending, independent evaluators for the Company's requests for  
13 proposals, intervenor compensation, costs related to the implementation of direct  
14 access and the Klamath dam removal surcharge. For residential customers, there  
15 was also a dramatic elimination of benefits from the Bonneville Power  
16 Administration related to the Northwest Power Act.

17 **Q. Why is this background important to consider when evaluating CUB's**  
18 **claims that the Company has not managed its costs?**

19 A. It demonstrates that the opposite is true. The Company has prudently invested  
20 considerable sums of capital into its system to meet the current and future policy  
21 requirements of Oregon and the other states in which it operates. The Company  
22 has one of the largest portfolios of renewable resources of all utilities in the  
23 United States, which is consistent with the legislative intent of the RPS. The later

1 year requirements of the RPS cannot be met without investment in incremental  
2 renewable generation resources and transmission infrastructure to deliver the  
3 resources to load.

4 The Company has avoided general rate cases in Oregon in three of six  
5 years by controlling its controllable costs. While the Company understands that  
6 the size and timing of last year's rate increase was unfortunate in light of  
7 economic conditions in the state, it also made every effort to avoid a general rate  
8 case this year despite a continuing need for capital investments. Past rate  
9 increases also do not change the facts and circumstances in this TAM--a  
10 proceeding that is exclusively related to establishing the appropriate level of net  
11 power costs in rates for calendar year 2012.

## 12 **Scope of TAM Proceedings**

13 **Q. Please briefly discuss the intended scope of the Company's TAM**  
14 **proceedings.**

15 A. As noted in the TAM Guidelines adopted in Order No. 09-274:

16 Pacific Power's Transition Adjustment Mechanism (TAM) is an annual  
17 filing with the objective to update the forecast net power costs to account  
18 for changes in market conditions, with the final forecast update close to  
19 the direct access window to capture costs associated with direct access,  
20 and to correctly identify the proper amount for the transition  
21 adjustment....When filed on a stand-alone basis, the TAM is intended to  
22 be narrower and more streamlined than when the TAM is filed in or  
23 processed concurrently with a general rate case.

24 As noted in the Company's rebuttal testimony, these guidelines were developed to  
25 allow for an orderly and streamlined processing of the TAM and provide clear  
26 direction related to the scope of the proceeding and the update process.

1 **Q. Are CUB's complaints about PacifiCorp's general rate levels inappropriate**  
2 **in a TAM proceeding?**

3 A. Yes. The Company's relatively limited response to CUB's arguments on this  
4 subject reflected the Company's desire to maintain the narrow scope of the TAM,  
5 rather than a lack of engagement in CUB's concerns. However, given the  
6 criticism, I do provide some rate comparisons later in this testimony.

7 **Additional Information on Customer Disconnects**

8 **Q. CUB presents statistics on PacifiCorp's number of disconnection notices and**  
9 **arrears as support for its contention that PacifiCorp's rates are becoming**  
10 **unaffordable. How do you respond?**

11 A. CUB's analysis relates to disconnection *notices*, not actual disconnections. The  
12 number of actual disconnections in Oregon has decreased in recent years from  
13 approximately 24,500 in 2008 to 12,500 in 2009 to 7700 in 2010. While the  
14 Company's 2011 disconnections are trending up somewhat, they are not  
15 anywhere near 2008 levels.

16 **Q. What has PacifiCorp done to help customers respond to the challenging**  
17 **economic conditions?**

18 A. The Company is dedicated to assisting customers in this tough economy by  
19 managing balances with payment arrangements, providing energy assistance  
20 resources for eligible customers, and supporting energy conservation. These  
21 efforts have been effective, and the Company's percentage of net write-offs for  
22 uncollectibles is lower than the electric industry standard. In 2009, the industry

1 average for write-offs as a percent of retail revenue was 0.65 percent. For  
2 PacifiCorp in Oregon it was 0.54 percent in 2009 and 0.45 percent in 2010.

3 **Q. How do PacifiCorp's average Oregon rates compare against other utilities**  
4 **throughout the region and the nation?**

5 A. Favorably. The Company's average retail rate in Oregon, including the January  
6 1, 2011 rate increase, is 8.44 cents per kWh. The average retail rate for the  
7 Pacific Region for the 12 months ended 2010 was 12.82 cents per kWh, and for  
8 the United States was 9.96 cents per kWh.

9 **Q. How has PacifiCorp's customer satisfaction fared during recent years?**

10 A. Recent customer surveys have shown that customer satisfaction with PacifiCorp  
11 remains quite high and continues to improve, despite the recession and the most  
12 recent rate increases. These survey results are illustrative:

13 J.D. Power released the results for its 2011 residential customer  
14 satisfaction study on July 13, 2011. Pacific Power improved from a 7<sup>th</sup>  
15 place ranking in 2010 to 6<sup>th</sup> place in 2011 among 13 West region large  
16 utilities. This places Pacific Power in the 2<sup>nd</sup> quartile.

17 The American Customer Satisfaction Index released the results of its 2011  
18 energy utility residential customer satisfaction research. Pacific Power,  
19 Rocky Mountain Power and MidAmerican Energy Company, ranked  
20 together as MidAmerican, received a 1<sup>st</sup> quartile national ranking for the  
21 fourth consecutive year. Twenty-five investor-owned utilities were  
22 included in the rankings.

23 E Source announced its 2011 rankings of electric and gas utility  
24 interactive voice response systems on July 19, 2011. Pacific Power  
25 improved from a 10<sup>th</sup> place national ranking in 2009 to 8<sup>th</sup> place in 2011.  
26 The company ranks at the top of the 1<sup>st</sup> quartile nationally among 96  
27 utilities.

28 TQS scores for the Company's largest customers have consistently  
29 exceeded 90 percent for overall customer satisfaction.

1 The proof of PacifiCorp's commitment to customer service is reflected in these  
2 results. The Company strives to both control costs and provide excellent  
3 customer service.

4 **Q. Has the Company agreed to additional adjustments in surrebuttal that**  
5 **mitigate the proposed TAM increase?**

6 A. Yes. As discussed in the surrebuttal testimony of Mr. Duvall, the Company has  
7 agreed to Staff's proposal to use the updated load forecast that was presented in  
8 the Company's rebuttal filing. The Company has also agreed to CUB's  
9 adjustment to reflect a four-year average of liquidated damages. Together, these  
10 reduce the proposed TAM increase by \$4.8 million, based on the rebuttal update  
11 filing.

12 **Q. What is the residential customer impact for the proposed increase as a result**  
13 **of the surrebuttal?**

14 A. For an average residential customer using 950 kWh per month, the filing will  
15 result in a monthly increase of \$4.00.

16 **Q. Is this an "exorbitant" increase as CUB suggests?**

17 A. No.

18 **Q. Does this conclude your testimony?**

19 A. Yes.