

Docket No. UM-1050  
Exhibit PPL/100  
Witness: Andrea L. Kelly

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

**PACIFICORP**

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**Direct Testimony of Andrea L. Kelly**

**September 2010**

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

1 of the proposed 2010 Protocol allocation methodology. Specifically, my direct  
2 testimony provides:

- 3 • a brief history of the MSP leading up to the adoption of the Revised Protocol;
- 4 • a brief history of the work of the Standing Committee workgroup since  
5 November 2008 that has culminated in this filing proposing limited  
6 amendments to the Revised Protocol;
- 7 • an overview of the proposed amendments to the Revised Protocol and the  
8 concerns that the amendments are designed to address;
- 9 • a discussion of the Company's view of the commission proceedings necessary  
10 to process this petition; and
- 11 • a discussion of the Company's view of processes necessary to ensure  
12 successful implementation of the 2010 Protocol through calendar year 2016  
13 and beyond.

14 I also introduce the other two Company witnesses in this proceeding.

15 **Q. Are you also sponsoring an exhibit to your testimony?**

16 A. Yes. Exhibit PPL/101 presents the 2010 Protocol with all of its Appendices.  
17 Although I sponsor Appendix A, Company witness Mr. Steven R. McDougal  
18 sponsors the remaining Appendices.

19 **Brief History of the Revised Protocol**

20 **Q. Please provide a brief history of the events that gave rise to the Revised**  
21 **Protocol.**

22 A. In December 2000, the Company proposed to reorganize itself into six state  
23 distribution companies, a generation company and a service company. This

1 Structural Realignment Proposal (SRP) filing was in response to a number of  
2 external developments, including: (1) the lack of agreement among regulatory  
3 jurisdictions regarding the Company's inter-jurisdictional cost allocation process;  
4 (2) direct access initiatives in Oregon and elsewhere; (3) the need to provide  
5 independent control of transmission assets consistent with Federal Energy  
6 Regulatory Commission (FERC) expectations; (4) fundamental changes that  
7 occurred in wholesale power markets; and (5) increasingly divergent policy goals  
8 of various state commissions.

9 **Q. What was the outcome of the SRP filings?**

10 A. The SRP filings proved to be controversial - in large measure because of a  
11 concern that the proposed restructuring would result in a transfer of jurisdiction  
12 from state commissions to the FERC and the Securities and Exchange  
13 Commission. Ultimately, a number of parties and some state commissioners  
14 encouraged the Company to seek other means of resolving the Company's  
15 concerns that did not require a legal restructuring of the Company. The Company  
16 was strongly encouraged to initiate an informal process aimed at achieving  
17 consensus among interested parties regarding a number of important issues facing  
18 the Company. To that end, in March 2002, the Company made an additional set  
19 of state filings asking the state commissions to initiate investigations and endorse  
20 a collaborative process to address inter-jurisdictional issues facing PacifiCorp.  
21 These filings were broadly supported by the state commissions and gave rise to  
22 what became known as the MSP. Pending the MSP, the Company agreed to put  
23 the SRP filings on hold.

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

2 A. An initial organizing meeting was held in April 2002 in Boise, Idaho. At that first  
3 meeting, a schedule of future meetings and objectives for the process were  
4 established. A number of additional MSP meetings were held through July 2003,  
5 after which the Company made an additional filing with the states seeking  
6 ratification of a proposed solution, the Protocol. Additional discussions related to  
7 the Protocol continued through September 2004, which resulted in the Company  
8 supplementing its filings with the Revised Protocol. Through commission  
9 proceedings, the four state commissions of Utah, Oregon, Wyoming and Idaho  
10 issued orders adopting the Revised Protocol in late 2004 and early 2005. Utah's  
11 and Idaho's adoption of the Revised Protocol was accompanied by rate mitigation  
12 mechanisms tied to the difference between the revenue requirement calculated  
13 under the Revised Protocol allocation methodology and the revenue requirement  
14 calculated under the Rolled-In allocation methodology.

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

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

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

22 A. The objectives of the Revised Protocol include:

- 1       • allocating PacifiCorp's costs among its jurisdictional states in an equitable
- 2       manner;
- 3       • ensuring PacifiCorp plans and operates its generation and transmission system
- 4       on a six-state integrated basis in a manner that achieves a least cost-least risk
- 5       resource portfolio for its customers;
- 6       • allowing each state to independently establish its ratemaking policies. Each
- 7       state is encouraged to consider the impact its decisions have on other states
- 8       served by PacifiCorp; and
- 9       • providing PacifiCorp a reasonable opportunity to recover 100 percent of its
- 10      prudently incurred costs.

11   **Q. Does the Revised Protocol contain provisions for continued dialogue among**  
12   **the states?**

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

- 16      • monitors and discusses inter-jurisdictional allocation issues facing PacifiCorp
- 17      and its customers;
- 18      • helps to organize and direct work group analysis of inter-jurisdictional
- 19      allocation issues;
- 20      • ensures work group analysis is supported by sound technical analysis;
- 21      • shares views on possible amendments to the Revised Protocol, as they may
- 22      arise;
- 23      • seeks consensual resolution of issues arising under the Revised Protocol;

- 1 • ensures wide dissemination of information regarding Standing Committee
- 2 meeting locations and dates and information relating to its activities;
- 3 • ensures and encourages open participation in Standing Committee meetings
- 4 by all interested persons; and,
- 5 • appoints the Standing Neutral to facilitate discussions among the states, to
- 6 monitor issues and to assist the Standing Committee.

7 **Recent Activities of the Standing Committee**

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

10 A. At the November 2008 Commissioners' Forum, an issue was raised by Utah  
11 related to the performance of the Revised Protocol as compared against the  
12 forecast results at the time the Revised Protocol had been adopted. At that  
13 meeting, MSP participants reviewed a chart comparing the MSP 2005 forecast  
14 with the original MSP 2004 forecast. The chart also provided comparisons to the  
15 Rolled-In allocation methodology both with and without the Utah rate mitigation  
16 measures. The chart raised concerns that Utah's expectations when adopting the  
17 Revised Protocol - near-term costs but long-term savings for Utah customers as  
18 compared to Rolled-In - were not projected to be fulfilled. In response to this  
19 concern, at the Standing Committee Annual Meeting held in November 2008, the  
20 Company agreed to undertake a new forecast of results under the Revised  
21 Protocol using updated information from the upcoming 2008 Integrated Resource  
22 Plan which was to be filed in March 2009. The results were to be completed in  
23 sufficient time to be presented at the next annual Commissioners' Forum. As

1 discussed in detail in the direct testimony of Mr. McDougal, the preliminary  
2 results of these studies were provided to parties on August 17, 2009.

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

7 "Given review of the Company's August 17, 2009, MSP Preliminary  
8 Study Results (2009 MSP Study) and the Public Service Commission of  
9 Utah's (PSCU) December 14, 2004, Report and Order in Docket No. 02-  
10 035-04, (MSP Order) the issue we raise is whether continued use of the  
11 revised protocol and rolled-in methods with rate mitigation measures is  
12 just and reasonable for PacifiCorp's Utah jurisdiction."

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

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

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

18 A. At the September 24, 2009 Standing Committee meeting, Utah parties proposed a  
19 strawman solution that would eliminate seasonal and regional resource categories,  
20 limit the state resource category to demand-side management programs and state  
21 portfolio standard resource costs, and apply allocation factors for system  
22 resources to the resources formerly addressed in the seasonal, regional and state  
23 resource categories. In a nutshell, the strawman solution described a move to a  
24 Rolled-In allocation methodology.

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

26 A. Over the next several months of Standing Committee meetings, participants

1 considered the Utah parties' strawman solution, together with additional solution  
2 proposals offered for consideration by other MSP participants that focused on the  
3 elements of the Revised Protocol that could be analyzed as alternative  
4 considerations to address the Utah issue. At the direction of the Standing  
5 Committee, the Company provided quantitative analysis of the various proposals  
6 to aid the Standing Committee's deliberations and considerations.

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

9 A. The Standing Committee convened a Commissioners' Forum in Portland, Oregon  
10 on April 6, 2010. At that meeting, the Standing Committee updated  
11 Commissioners generally on the activities of the Committee since the previous  
12 Commissioners' Forum in November 2008. The Commissioners were also  
13 presented with the Utah issue, together with a summarization of the analyses  
14 performed and potential solutions considered. A concern raised was that the Utah  
15 issue, if insufficiently addressed, could cause states to depart from a consistent  
16 method of cost allocation and impair integrated system planning. After some  
17 consideration of the issues and materials presented, the Commissioners directed  
18 the Standing Committee to continue progress on analyzing potential solutions to  
19 resolve the Utah issue and requested a follow-up meeting for the summer of 2010.  
20 In general, it was recognized that any solution would need to strike a balance  
21 between making progress toward fully Rolled-In allocations while maintaining a  
22 hydro endowment for Oregon and Wyoming.

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

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

11 **Q. What direction was received from Commissioners at the forum held on June**  
12 **13, 2010?**

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

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

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

- 1           2. Utah prefers the Rolled-In allocation methodology, or results stated as a  
2           deviation from the Rolled-In allocation methodology as a viable solution  
3           alternative.
- 4           3. Oregon and Wyoming Standing Committee members have considered pre-  
5           2005 resource scenarios<sup>1</sup> as possible solution alternatives.
- 6           4. Both Wyoming and Oregon stressed that maintaining a hydro endowment is a  
7           critical component on any allocation methodology.
- 8           5. Utah stressed its benchmark methodology is Rolled-In and an allocation  
9           methodology should reflect Rolled-In +/- adjustments which are fixed for  
10          some future time period so as to avoid a repeat of not achieving expected  
11          forecasted results.
- 12          6. The Commissioners have agreed that the Standing Committee should work  
13          with the Company to develop an updated analysis based on Wyoming – 1  
14          results which could be used to establish a fixed amount per year per state as a  
15          deviation from the Rolled-In allocation methodology and is net of the situs  
16          assignment of the Klamath surcharge. The results will be presented for all  
17          years of the study and be accompanied by a disk with working spreadsheets.  
18          Assessing whether the Wyoming - 1 achieves essentially a Rolled-In result  
19          could be viewed from the perspective of treating the Klamath Settlement as  
20          Rolled-In.

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

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

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

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<sup>1</sup> “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.

1 Embedded Cost Differential (ECD). The ECD will be reduced and limited using  
2 a comparison based on Pre-2005 Resources. It is proposed that for 2011 through  
3 2016, the ECD calculation will be projected and a fixed dollar amount per year  
4 deviation from Rolled-In analysis would be applied. The deviation is composed  
5 of two parts; (1) a situs adjustment charge for the Klamath Surcharge to Oregon  
6 and California, with a corresponding credit to the other states, and (2) an  
7 adjustment to reflect the Hydro Endowment ECD.

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

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

17 A. At the Commissioners’ Forum held on July 26, 2010, the Standing Committee  
18 updated Commissioners that the group had reached an agreement in principle.  
19 Commissioners were informed that the Company hoped to file a petition in each  
20 state by mid-September 2010 initiating limited amendments to the Revised  
21 Protocol that would implement the terms of the agreement in principle.

## 22 **Overview of Proposed Amendments**

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

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

- 27 • The need to move more toward a Rolled-In allocation methodology to reflect  
28 system operations while retaining the hydro endowment in some form.
- 29 • Volatility of results and unintended consequences of the ECD.
- 30 • Unpredictability of reliance on forecasts.

- 1           • Any solution must be fair to all states, and the Company must be afforded the  
2           opportunity to recover its prudently incurred costs.

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

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

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

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

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

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

### 13  **Process for Commission Review of Petition**

14  **Q.    What process does the Company propose for the Commission review of this**  
15  **Petition?**

16  A.    The Company is hopeful that the Commission will be able to complete its review  
17        of this Petition within a six-month timeframe. As discussed in the Company’s  
18        direct testimony, significant analysis has been undertaken and reviewed by many  
19        parties since November 2008 as the Standing Committee considered its options.  
20        However, not all interested parties were able to participate in the Standing  
21        Committee efforts. As such, the Company proposes the following illustrative  
22        schedule of milestones that would allow for discovery, rounds of testimony and

1 hearings that would allow sufficient time for a comprehensive record to be  
2 developed upon which the Commission may base its decision:

<b>Event</b>	<b>Date</b>
PacifiCorp Petition, 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

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

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

12 **Processes subsequent to amendment adoption**

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

16 A. As reflected in the 2010 Protocol, the Company is not proposing any changes to  
17 the ongoing Standing Committee function at this time. Although the elements of  
18 the 2010 Protocol are designed to minimize controversy and provide predictability

1 through calendar year 2016, there are always emerging issues on which it is  
2 valuable for states to continue to engage in discussions.

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

5 A. The process would likely be similar to the one just followed. For example, the  
6 post-2016 issues would likely first be reviewed at the 2015 Standing Committee  
7 annual meeting. From that review, the Standing Committee would agree on  
8 appropriate next steps as far as issue identification and analysis. Standing  
9 Committee efforts would need to be designed to culminate in time for formal  
10 commission proceedings to occur with decisions well in advance of January 1,  
11 2017. It is also possible that the states would agree to extend the terms of the  
12 2010 Protocol to apply beyond calendar year 2016.

13 **Introduction of Witnesses**

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

16 A. They are:

- 17 • Mr. Steven R. McDougal addresses the calculation and implementation of  
18 the 2010 Protocol allocation methodology and presents the revenue  
19 requirement analyses undertaken at the request of the Standing  
20 Committee, and  
21 • Mr. Gregory N. Duvall presents the net power cost (NPC) studies used to  
22 support the 2010 Protocol revenue requirement analysis and to inform of  
23 the Standing Committee's consideration of options.

- 1 **Q. Does this conclude your direct testimony?**
- 2 A. Yes.