Exhibit No.___(ALK-2T)
Docket Nos. UE-061546/UE-060817
Witness: Andrea L. Kelly

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, vs. PACIFICORP dba Pacific Power & Light Company, Respondent.	Docket No. UE-061546
In the Matter of the Petition of PACIFICORP dba Pacific Power & Light Company, For an Accounting Order Approving Deferral Of Certain Costs Related to the MidAmerican Energy Holdings Company Transition.	Docket No. UE-060817

PACIFICORP

REBUTTAL TESTIMONY
OF
ANDREA L. KELLY

March 2007

Q. Please state your name.

A. My name is Andrea L. Kelly.

Q. Have you filed direct testimony in this case?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony summarizes the Company's position with regard to its proposed Power Cost Adjustment Mechanism ("PCAM") in light of the recommendations supported by parties in this proceeding. My testimony also introduces the Company's rebuttal witnesses who follow me, and provide an overview of the content of their testimony.

Power Cost Adjustment Mechanism

Q. What guidance did the Commission provide to the Company with regard to a PCAM proposal?

A. In its final Order in the Company's 2005 Rate Case (Docket UE-050684), the Commission outlined standards for implementing a PCAM in Washington and indicated that the PCAM structure would be reviewed for an appropriate sharing of risk between shareholders and customers. The Order also states that depending upon the design of the sharing mechanism, a reduction in the cost of capital may not be necessary.

Q. Does the Company believe its PCAM complies with these standards and achieves an appropriate sharing of risk between shareholders and customers?

A. Yes. The Company designed its PCAM with a deadband and sharing bands consistent with the guidance provided by the Commission, in an effort to achieve an equitable sharing of risk. Mr. Widmer's rebuttal testimony discusses this in greater detail.

Q. **Please summarize the Company's response to the PCAM-related adjustments proposed by Staff witnesses Mr. Buckley and Mr. Elgin.**

A. The collective impact of the Staff's PCAM-related adjustments is inappropriately punitive and, as demonstrated by Company witnesses Dr. Hadaway and Mr. Widmer, their adjustments contain certain methodological flaws. The Company appreciates Staff witness Mr. Buckley's support of the adoption of a PCAM for PacifiCorp and believes there is a way to accommodate his approach with respect to adjusting for extreme water years in the calculation of the base level net power supply costs. As currently proposed, however, Mr. Buckley's water year adjustment would reduce PacifiCorp's Washington revenue requirement by $1.6 million. Mr. Widmer's proposed modification to Mr. Buckley's adjustment would reduce the impact to $0.6 million, and would produce a design acceptable to the Company.

While PacifiCorp believes it can achieve an acceptable PCAM that incorporates the objectives of most of Mr. Buckley's changes, a PCAM is not likely to be acceptable if the Commission adopts Mr. Elgin's adjustment. Mr. Elgin's proposal to reduce the Company's equity ratio from 46 percent to 42 percent, to allegedly compensate customers for the "risk shift" resulting from implementation of a PCAM, fails to recognize that the risk shift has already been reflected in the return on equity calculations as a result of the composition of the comparable utility group used by all witnesses to derive the authorized return. This is discussed by Dr. Hadaway and Mr. Williams. As a result, Mr. Elgin's adjustment, which would reduce PacifiCorp's revenue requirement by an additional $2.1 million, constitutes a double-count and is neither reasonable nor justifiable.

The collective impact of these Staff adjustments – a proposed revenue requirement reduction of $4 million – is the equivalent of 100 basis point reduction in the Company's return on equity. An adjustment of this magnitude is without precedent, even without taking into account the design of this particular mechanism, which appropriately allocates the risks between customers and shareholders. The adjustment is particularly out of line when it is considered in light of the significant power supply risks that the Company will continue to bear under the mechanism, given its wide dead band and the 50 / 50 sharing percent proposed for the first sharing band.

Q. Is Industrial Customers of Northwest Utilities ("ICNU") witness Mr. Gorman's recommendation of a 30 basis point reduction to the Company's return on equity acceptable to the Company?

A. No. Dr. Hadaway provides rebuttal testimony demonstrating why this adjustment is equally inappropriate.

Q. Please clarify the Company's position with regard to the Commission's authorization of a PCAM for PacifiCorp.

A. Given the punitive recommendation of the parties, the Company respectfully requests that the Commission structure its order in this case to explicitly identify the revenue requirement impacts, if any, that would accompany the adoption of a PCAM. If the collective impact of the adjustments is too great, the Company may prefer not to implement the mechanism. Inasmuch as a power cost recovery mechanism is a departure from traditional rate case ratemaking, the Company is not bound to implement a mechanism that, in the Company's view, fails to meet the desired objective. It is certainly the Company's preference to employ targeted mechanisms to address power cost volatility and avoid frequent rate case filings. As demonstrated by the Company's witnesses, however, the proposals by the parties would extract an exorbitant and unprecedented charge in order to implement such a mechanism.

Introduction of Rebuttal Witnesses

Q. Please list the Company's rebuttal witnesses and provide an overview of their testimony.

A. **Samuel C. Hadaway**, FINANCO, Inc., responds to the recommendations of Staff witness Mr. Elgin and ICNU witness Mr. Gorman concerning cost of capital impacts associated with implementation of PacifiCorp's requested PCAM. In his testimony, Dr. Hadaway demonstrates that their proposed rate of return reductions are inappropriate and inconsistent with the treatment of comparable companies, and contrary to sound regulatory policy. Dr. Hadaway's testimony highlights the inconsistency of Mr. Elgin's capital structure adjustment with PacifiCorp's Commitment in the MidAmerican Energy Holdings Company ("MEHC") transaction to maintain certain minimum equity ratios, and demonstrates that Mr. Gorman's proposed income tax adjustment is simply another form of double leverage adjustment proposed in the 2005 Rate Case that was rejected by the Commission.

Bruce N. Williams, Vice President and Treasurer, responds to the adjustment proposed by Staff witness Mr. Elgin relating to the claimed cost of capital impacts associated with implementation of a PCAM. Mr. Williams demonstrates that Mr. Elgin's testimony on this matter is not relevant given that the major credit rating agencies no longer utilize the measure on which Mr. Elgin exclusively relies for his arguments. Mr. Williams demonstrates that the Company's capital structure continues to strengthen, which further invalidates the proposed reduction to the Company's equity ratio percentage. Finally, Mr. Williams supports an updated cost of long-term and short-term debt based on known and measurable changes since the October filing.

Steven R. Evans, Vice President Taxation, of MidAmerican Energy Holdings Company, addresses the consolidated tax adjustment for interest expense proposed by ICNU witness Mr. Gorman and demonstrates that this adjustment completely ignores the factual setting of Berkshire Hathaway Inc.'s consolidated federal tax return, dismisses principles of regulatory cost causation and the long-standing regulatory practice of matching "benefits and burdens," and breaks down the customer protection of ring fencing around the utility.

Mark T. Widmer, Director, Net Power Costs, discusses Staff witness Mr. Buckley's proposed power supply adjustments, rebuts testimony of ICNU/Public Counsel witness Mr. Falkenberg, and addresses proposed adjustments to the Company's proposed PCAM. Mr. Widmer highlights numerous adjustments proposed by Mr. Falkenberg in this proceeding that are fraught with methodological errors or are asymmetrical adjustments that violate fundamental principles of fair rate-making.

Erich D. Wilson, Director of Compensation, responds to adjustments proposed by Staff witness Mr. Schooley and ICNU witness Ms. Iverson that would reduce or eliminate the severance payments for which the Company has sought recovery through its accounting petition. Mr. Wilson also responds to proposed adjustments impacting the company's compensation expense, medical cost sharing and pension expense. Mr. Wilson demonstrates that Ms. Iverson's proposed adjustments to the Company's compensation expense are not well-founded and would result in PacifiCorp employees being compensated at a level below the market. He further supports the Company's medical cost sharing level and shows that Ms. Iverson's adjustment is based on an average of total industry, rather than actual and industry specific levels. Finally, Mr. Wilson explains that the Company's severance plan is an appropriate and necessary component of an overall compensation structure to attract, retain, and motivate employees.

Paul M. Wrigley, Director of Regulatory Strategy and Multi-State Process, updates the revenue requirement that the Company is seeking, incorporating all adjustments and updates to which the Company is agreeing in the rebuttal testimony; and addresses adjustments in the testimony of Staff witnesses Mr. Schooley and Mr. Kermode and ICNU witnesses Ms. Iverson and Mr. Falkenberg. Mr. Wrigley demonstrates that Mr. Schooley's and Ms. Iverson's proposed adjustments to the MEHC transition savings result in a mismatch of costs and benefits. Mr. Wrigley also shows how Mr. Schooley's Investor Supplied Working Capital Methodology and Ms. Iverson's pension adjustment do not comply with the Commission order in PacifiCorp's last general rate case, and demonstrates that Mr. Falkenberg's line loss adjustment is inappropriate given the use of a historic test period in this proceeding.

William R. Griffith, Director, Pricing, Cost of Service and Regulatory Operations, addresses the testimony of Energy Project witness Mr. Eberdt, concluding that the Company will support any of three approaches discussed for funding the Low Income Bill Payment Assistance program, as long as they are acceptable to our customers and are consistent with Commission policy. Mr. Griffith also proposes a tariff to implement the Administrative and General ("A&G") credit resulting from the cap on the Company's A&G expenses agreed to in the MEHC transaction commitments. The proposed tariff (Schedule 95) passes back the A&G credit to customers over a twelve month period, resulting in a 0.3 percent credit on customers' bills to offset any increase resulting from this rate case.

Conclusion

Q. Does this conclude your testimony?

A. Yes.