



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 (Commission). In 1995, I became  
11 employed by PacifiCorp as a Senior Pricing Analyst in the Regulation  
12 Department and advanced through positions of increasing responsibility. From  
13 1999 through 2005, I led major strategic projects at PacifiCorp including the  
14 Multi-State Process and the regulatory approvals for the MidAmerican-PacifiCorp  
15 transaction. In March 2006, I was appointed Vice President of Regulation.

16 **Q. Have you appeared as a witness in previous regulatory proceedings?**

17 A. Yes, I have appeared as a witness on behalf of PacifiCorp in the states of  
18 California, Idaho, Oregon, Utah, Washington, and Wyoming. In addition, I  
19 sponsored testimony in various proceedings as a member of the Commission  
20 Staff.

21 **Purpose of Testimony**

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

23 A. My testimony provides an overview of PacifiCorp's request for an increase in

1 base electric rates and the major factors driving the need for the rate increase. I  
2 also discuss the steps the Company has taken to mitigate the rate increase as well  
3 as the Company's decision to file a make-whole case that accepts for this case  
4 only the resolution of the contested issues in the order recently issued by the  
5 Commission in Docket UE-100749 (2010 Rate Case).<sup>1</sup> I conclude my testimony  
6 with an introduction of the other witnesses providing testimony on behalf of  
7 PacifiCorp.

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

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

10 A. Based on the evidence provided in the direct testimony of Company witness R.  
11 Bryce Dalley, PacifiCorp is currently earning a return on equity (ROE) in  
12 Washington of 4.6 percent on an unadjusted basis and 7.6 percent on a normalized  
13 basis for the test period. This return is less than the 9.8 percent ROE ordered by  
14 the Commission in the 2010 Rate Case. An overall price increase of \$12.9  
15 million or 4.3 percent is required to produce the 9.8 percent ROE recently  
16 authorized by this Commission.

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

18 A. As described by Mr. Dalley, the rate increase is based on a historic test period of  
19 the 12-months ended December 31, 2010, with limited known and measurable  
20 changes. Consistent with prior rate cases and recent Commission orders, the  
21 Company's net power costs are based on pro forma net power costs for the 12-  
22 months ending May 31, 2013, which is tied to the rate effective period, and

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<sup>1</sup> See *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Order 06 (March 25, 2011) (Order 06).

1 adjusted to match the test year load level using the Commission approved  
2 production factor.

3 **Major Cost Drivers**

4 **Q. What are the primary factors causing PacifiCorp to not earn its authorized**  
5 **rate of return in the test year?**

6 A. The Company's inability to earn its authorized return and its need for this rate  
7 increase is primarily driven by the following cost increases and revenue decreases  
8 that were not reflected in the test period of the 2010 Rate Case.

9 **Net power costs.** An increase in net power costs in the Company's west  
10 control area is a key driver of the rate increase. As described in the direct  
11 testimony of Company witness Gregory N. Duvall, when compared to the net  
12 power costs authorized in the 2010 Rate Case, net power costs have increased by  
13 \$32.7 million on a west control area basis, and by approximately \$7.0 million on a  
14 Washington-allocated basis. After application of the production factor, this  
15 results in a revenue requirement increase of \$23.7 million on a west control area  
16 basis, and approximately \$5.0 million on a Washington-allocated basis.

17 This increase is primarily driven by increases in purchase power expenses  
18 and coal costs related to the Jim Bridger plant, the removal of the Condit  
19 hydroelectric facility, and decreased revenues from wholesale sales. The increase  
20 in purchase power is largely due to expiring low-cost long term wholesale  
21 purchase power contracts. Customers have benefitted from these low-cost  
22 contracts for many years but, as they expire, the Company must replace them at  
23 current market prices. Although current market prices are comparatively low,

1 they are nonetheless higher than the old contract prices they are replacing,  
2 resulting in higher net power costs. Also, as discussed in the direct testimony of  
3 Company witness Cindy A. Crane, coal costs have increased at the Jim Bridger  
4 plant, offset partially by reduced coal generation. In addition, the Company has  
5 received final approvals to move forward with the decommissioning and removal  
6 of the 14.7 megawatt Condit hydroelectric facility, located in south-central  
7 Washington on the White Salmon River. This is scheduled to begin in the fall of  
8 2011.

9 The overall net power cost increase is mitigated by decreases in natural  
10 gas expenses, the expiration of certain wheeling contracts and a reduction in wind  
11 integration costs.

12 Mr. Duvall and Ms. Crane discuss the preceding topics in more detail in  
13 their testimony.

14 **Investment in the system.** As presented in the revenue requirement  
15 analysis of Mr. Dalley, the Company continues to have ongoing investment needs  
16 in transmission and distribution plant in order to serve its customers safely and  
17 reliably. The increased investment in both functions represents an increase in  
18 Washington-allocated net electric plant in service of approximately \$22.0 million  
19 as compared to the 2010 Rate Case. The Company also continues to make new  
20 investments in its steam and hydroelectric generation facilities serving  
21 Washington. Since the Company's 2010 Rate Case, steam and hydroelectric  
22 generation investments have increased by approximately \$20.0 million. Minor  
23 ongoing investments in general and intangible net electric plant in service of \$3.5

1 million are offset by a \$9.5 million decrease in wind and natural gas generation  
2 plant, caused mostly by low ongoing maintenance investment levels offset by  
3 higher accumulated depreciation. These additional investments, coupled with a  
4 full year of costs for investments brought into service in the 2010 Rate Case,  
5 result in an increase in Washington-allocated total net electric plant in service of  
6 approximately \$36.0 million. This translates into a revenue requirement increase  
7 of approximately \$2.3 million on a Washington-allocated basis.

8 Similar to the Company's last two general rate cases, this case does not  
9 include any major resource additions. Instead, the investments are those that are  
10 ongoing in nature to maintain and improve the Company's infrastructure. Some  
11 of the projects included in the test year include the automated meter reading  
12 (AMR) project, routine distribution and transmission line upgrades and  
13 replacements, and Jim Bridger investments related to emission controls, turbine  
14 upgrades and reheater replacements.

15 **Retail and Other Revenues.** For the period ended December 2010,  
16 normalized retail revenues have decreased by approximately \$3.3 million from  
17 the level authorized in the 2010 Rate Case. Although the residential loads  
18 increased between 2009 and 2010, the commercial, industrial and irrigations loads  
19 decreased year-on-year. The decreases are due to a combination of the economic  
20 downturn, increases in demand-side management programs, and a wetter and  
21 cooler irrigation season.

22 Other revenues have also decreased by approximately \$1.4 million,  
23 primarily driven by the expiration of an ancillary services contract.

1 **Q. Are the cost increases facing the Company unique to Washington?**

2 A. No. Other utilities and the Company in other jurisdictions are facing the same  
3 types of cost pressures. However, when states such as Washington limit the use  
4 of current and forecast data in rate case test periods and have limited mechanisms  
5 for closely aligning the timing of the provision of service with the reflection of  
6 costs in rates, it does require more frequent general rate cases. This is particularly  
7 true for utilities with annual investment levels exceeding annual depreciation  
8 expense, and low or negative load growth.

9 **Mitigation Measures**

10 **Q. What steps has the Company taken to improve its earnings, in addition to**  
11 **this request for increased rates?**

12 A. The Company continues to proactively and aggressively control operations and  
13 maintenance (O&M) and administrative and general (A&G) costs (together,  
14 OMAG). As described by Mr. Dalley, OMAG has decreased by approximately  
15 \$1.7 million since the 2010 Rate Case. Contributing to this control of OMAG  
16 expense is the Company's decision to hold relatively flat the number of full-time  
17 equivalent (FTE) employees. Although variations in FTE levels are constantly  
18 occurring, the Company's FTE level in December 2010 was approximately 100  
19 FTEs lower than in December 2009. In addition, since 2006, the Company has  
20 proactively managed its employee benefits and pension expenses, which are  
21 included at historic levels in this proceeding.

1 **Q. Is there a specific example of a project that provides benefits to customers in**  
2 **this proceeding?**

3 A. Yes. The Company has achieved labor savings through the recent automated  
4 meter reading (AMR) project in Washington. AMR was implemented for  
5 approximately 122,000 customers in the Walla Walla, Sunnyside and Yakima  
6 districts. Although the AMR project increased net electric distribution plant in  
7 service, the overall impact comprised of net plant additions, plant retirements, and  
8 labor savings represents a net reduction to revenue requirement of \$0.26 million,  
9 on a Washington-allocated basis. A summary of this adjustment's impact on the  
10 test period is presented on page 1 of Mr. Dalley's Exhibit No.\_\_\_\_(RBD-2).

11 **Q. Has the Company taken any other deliberate steps to reduce the level of its**  
12 **rate increase?**

13 A. Yes. As this Commission is well aware, the 2010 Rate Case was fully litigated,  
14 with a final Commission order received on March 25, 2011. This litigation  
15 required the Company, the Commission and other parties to expend significant  
16 resources. The Company is also aware that the Commission and other parties face  
17 resource constraints given the significant general rate case workload facing the  
18 Commission this year. Given these considerations, as well as the relatively short  
19 timeframe between the Commission's decision in the 2010 Rate Case and the date  
20 of this filing, the Company has structured its filing in a manner to minimize  
21 controversy and encourage expeditious resolution – while still providing an  
22 opportunity to reflect in rates the increases in costs prudently incurred to serve  
23 customers in Washington as discussed above.



1           The Company's filing represents a make-whole filing which does not re-  
2 litigate issues decided by the Commission in the 2010 Rate Case, does not  
3 propose any changes to ratemaking methodologies, and includes limited known  
4 and measurable changes from actual historic cost levels. Examples of these  
5 mitigation measures include:

- 6           • Not contesting the Commission-authorized capital structure and cost of  
7 common equity from the 2010 Rate Case but providing customers with the  
8 benefit of lowered debt costs. As described in the direct testimony of  
9 Company witness Bruce N. Williams, the Company has updated its cost of  
10 capital to reflect known changes in the cost of long-term debt and  
11 preferred equity, which reduces the Company's authorized rate of return.
- 12          • Not contesting any net power cost adjustments that were decided in the  
13 2010 Rate Case. The specific adjustments are outlined in Mr. Duvall's  
14 testimony.
- 15          • Continuing to amortize SO<sub>2</sub> emission allowance revenues over a five year  
16 period.
- 17          • Continuing to exclude temperature normalization from Commercial retail  
18 sales.
- 19          • Limiting restating and pro forma wage increases to reflect only known and  
20 measurable wage increases and executed union contracts, in addition to  
21 excluding any costs related to the Supplemental Executive Retirement  
22 Plan (SERP) or Long-Term Incentive Partnership Plan (LTIP).

- 1 • Including tax adjustments under the flow-through method of accounting  
2 for income taxes instead of full income tax normalization, and including a  
3 rate base reduction from the repairs deduction method of accounting at a  
4 full annual level.
- 5 • Aligning with the Commission's approved method of not reflecting a cash  
6 working capital balance, as well as removing materials and supplies and  
7 fuel stock balances from rate base.

8 **Q. Is the Company's proposed rate spread consistent with Order 06 in the 2010**  
9 **Rate Case?**

10 A. Yes. As described in the direct testimony of William R. Griffith, the updated  
11 Cost of Service study produces similar results to the final Cost of Service study in  
12 the 2010 Rate Case. Consistent with Order 06 in the 2010 Rate Case, the  
13 Company is proposing to spread the rate increase to all rate schedules other than  
14 street lighting, on an equal percentage basis. This method is consistent with the  
15 Company's decision to limit the number of contested issues in this case.

16 **Q. Does the Company reserve the right to contest these issues in future cases?**

17 A. Yes. Acceptance of these items for this proceeding should in no way signal that  
18 the Company may not contest these issues in future proceedings. In addition, if  
19 parties choose in this proceeding to re-litigate any of these issues, the Company is  
20 prepared to fully respond in its rebuttal filing. For example, if other parties to this  
21 proceeding decide to contest the Company's capital structure or return on equity,  
22 the Company would present a comprehensive cost of capital analysis in its  
23 rebuttal filing in response.

1 **Introduction of Witnesses**

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

4 A. **Bruce N. Williams**, Vice President and Treasurer, discusses the updated  
5 calculation of PacifiCorp's cost of debt and preferred stock.

6 **Gregory N. Duvall**, Director, Net Power Costs, describes the Company's net  
7 power costs and discusses the primary drivers and efforts to mitigate the increase  
8 in net power costs. He also presents the Company's 2011 Wind Integration Study  
9 and describes the modeling of net power costs under the West Control Area  
10 allocation method.

11 **Cindy A. Crane**, Vice President, Interwest Mining Company and Fuel Resources  
12 for PacifiCorp Energy, explains the reasons for increases in coal costs and also  
13 examines the Company's efforts to manage adverse coal quality at the Jim  
14 Bridger plant associated with Bridger Coal's underground mining operations.

15 **R. Bryce Dalley**, Manager, Revenue Requirements, presents the Company's  
16 overall revenue requirement based on the historic 12-month period ended  
17 December 31, 2010. He also presents the restating and pro forma known and  
18 measurable adjustments to historic results related to revenue, operations and  
19 maintenance expense, net power costs, depreciation and amortization, taxes and  
20 rate base.

21 **Robert M. Meredith**, Senior Analyst, Cost of Service and Pricing, presents the  
22 Company's cost of service study.

1           **William R. Griffith**, Director, Pricing, Cost of Service and Regulatory  
2           Operations, presents the Company's proposed rate spread and changes in price  
3           design for the affected rate schedules.

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

5   **A.    Yes.**