

Exhibit No. CAA/ALK-1T

Docket UE-090205

Witnesses: Cathie Allen and Andrea Kelly

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP d/b/a PACIFIC POWER &  
LIGHT COMPANY,

Respondent.

DOCKET UE-090205

**PACIFICORP**

**TESTIMONY OF CATHIE A. ALLEN AND ANDREA L. KELLY**

**IN SUPPORT OF SETTLEMENT STIPULATION**

**September 2009**

1    **Q.    Please state your name, business address and present position with**  
2           **PacifiCorp.**

3    A.    My name is Cathie A. Allen. My business address is 825 NE Multnomah,  
4           Suite 2000, Portland, Oregon 97232. My present position is Regulatory  
5           Manager.

6                 My name is Andrea L. Kelly. My business address is 825 NE  
7           Multnomah, Suite 2000, Portland, Oregon 97232. My present position is  
8           Vice President, Regulation.

9    **Qualifications**

10   **Q.    Ms. Allen, briefly describe your educational and professional**  
11           **background and present duties.**

12   A.    I received a Bachelor of Science degree in business administration with a  
13           major in accounting from California State Polytechnic University. I am  
14           also a certified public accountant currently licensed in Washington state. I  
15           have worked for PacifiCorp since 2001. Prior to joining the Company,  
16           from 1990 through 1994 I worked for KPMG as a supervising senior  
17           auditor. From 1995 through 2000 I was a senior financial analyst with the  
18           Clark County Auditor's Office. During my employment with the  
19           Company I have worked in several departments including internal audit,  
20           strategy and major projects, commercial and trading, and regulation. I  
21           have been in my present position since May 2007.

22   **Q.    Ms. Kelly, briefly describe your educational and professional**  
23           **background and present duties.**

1     **A.**     I hold a Bachelor's degree in economics from the University of Vermont  
2             and an MBA in environmental and natural resource management from the  
3             University of Washington. After graduate school, I joined the Staff of the  
4             Washington Utilities and Transportation Commission ("Commission"). In  
5             1995, I became employed by PacifiCorp as a senior pricing analyst in the  
6             Regulation department and advanced through positions of increasing  
7             responsibility. In March 2006, I was appointed Vice President,  
8             Regulation. My present duties include oversight of the regulatory  
9             relationships and proceedings in Oregon, Washington and California. I  
10            also have oversight of PacifiCorp's pricing, cost-of-service and inter-  
11            jurisdictional allocation functions for all six states.

12     **Purpose of Testimony**

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

14     **A.**     On August 25, 2009, a settlement stipulation ("Stipulation") in Docket No.  
15             UE-090205 was executed by PacifiCorp d/b/a Pacific Power & Light  
16             Company ("PacifiCorp" or "the Company"), Staff of the Washington  
17             Utilities and Transportation Commission ("Commission Staff"), the Public  
18             Counsel Section of the Washington State Attorney General's Office  
19             ("Public Counsel"), the Industrial Customers of Northwest Utilities  
20             ("ICNU"), and The Energy Project (referred to hereinafter jointly as the  
21             "Parties" and individually as a "Party"). The Stipulation represents a full  
22             settlement of the issues in this proceeding and has been agreed to by all  
23             parties. The Company provides this testimony in support of the

1 Stipulation, provides an overview of the principal aspects of the  
2 Stipulation, and demonstrates why the Stipulation satisfies the Company's  
3 interests and is consistent with the public interest.

4 **Q. Please describe the filing that gave rise to this proceeding.**

5 A. On February 9, 2009, PacifiCorp filed with the Commission revisions to  
6 its currently effective Tariff WN U-74, requesting a general rate increase  
7 of \$38.5 million, or 15.1 percent. The Company also proposed to recover  
8 deferred costs associated with the Chehalis natural gas plant by  
9 consolidating the deferral with the existing rate Schedule 96 ("the Hydro  
10 Deferral Surcharge") and renaming it the Deferral Amortization  
11 Surcharge. The Company proposed continuing the current rate of  
12 amortization on that account to maintain Schedule 96 rates at their current  
13 level. The Commission suspended the filing by order dated February 26,  
14 2009.

15 **Q. Did the Parties conduct discovery on the Company's direct**  
16 **testimony?**

17 A. Yes. Over the course of this proceeding the Company has provided  
18 responses to more than 800 data requests.

19 **Q. How did this Stipulation develop?**

20 A. The Parties participated in a settlement conference on August 3, 2009. At  
21 the settlement conference and over subsequent days, the Parties presented  
22 proposals and counter-proposals that resulted in agreement among all  
23 Parties on a resolution of this proceeding in the form of the Stipulation.

1 **Q. Do all parties to the proceeding join in support of the Stipulation?**

2 A. Yes. As previously noted, this Stipulation has been reached by all parties  
3 in this docket. The Stipulation addresses all of the contested issues in the  
4 proceeding and is a full settlement as defined by WAC 480-07-730(1).

5 **Q. How is the remainder of your testimony organized?**

6 A. The remainder of our testimony focuses on what PacifiCorp feels are the  
7 key elements of the Stipulation in order to provide additional background  
8 for the Commission.

9 **Proposed Revenue Increase**

10 **Q. Please describe the revenue increase agreed upon by the Parties.**

11 A. The Parties agree that the Commission should authorize PacifiCorp to  
12 implement rate changes designed to increase annual revenues from  
13 Washington customers by \$13.5 million (or 5.3 percent). As part of the  
14 increase to base rates, the Parties also agree that consistent with  
15 RCW 80.80.060(6), the Commission should authorize the Company to  
16 establish a Washington-jurisdictional regulatory asset of \$18.0 million for  
17 Washington-allocated costs associated with PacifiCorp's ownership of the  
18 Chehalis generating plant ("Chehalis"). The Parties agree that the  
19 Company will begin amortizing the asset in base rates on January 1, 2010,  
20 at \$3.0 million over six years.

21 **Q. When will this rate increase be effective?**

22 A. The Parties recommend that the agreed rate changes be effective January  
23 1, 2010.

1    **Q.    Does the proposed revenue increase in the Stipulation represent a**  
2           **reasonable result in this case?**

3    A.    Yes. The Company believes that its full proposed revenue increase in this  
4           case is well supported and reasonable. By extension, the Company  
5           believes that its direct testimony provides the Commission with a record  
6           on which to approve the level of revenue increase agreed to in the  
7           Stipulation. For example, since the Company's last general rate case, it  
8           has added two new generating resources, Chehalis and the Marengo II  
9           wind resource. In addition, the capital costs in this case also reflect a full  
10          year of the Goodnoe Hills wind resource and the Marengo wind resource  
11          which were found prudent in the last general rate case. In connection with  
12          these resource additions, the Company's filing also included additional  
13          depreciation and operations & maintenance ("O&M") expense. The level  
14          of revenue increase proposed in the Stipulation is supported when merely  
15          viewing these specific costs in isolation of other Company costs. All the  
16          Parties agree that the acquisition of the two new resources was prudent  
17          and that they are used and useful for service to Washington customers.

18                 In addition, the Company recognizes that settlement can replace  
19                 the cost and risk of litigation with efficiency and certainty, and also values  
20                 the intangible aspects of settled outcomes, including good will from other  
21                 parties.

22    **Q.    Does the Company's direct testimony also provide support for the**  
23           **conclusions and findings recommended by the Stipulation on the**

1           **Chehalis deferral (Section III.B) and the prudence of the Marengo II**  
2           **wind resource and the Chehalis generating plant (Section III.M)?**

3       A.     Yes. These issues are addressed in the direct testimony of Stefan Bird,  
4           Gregory Duvall and Mark Tallman, as discussed in more detail below.

5       **Q.     Are there specific aspects of this case that the Company considered**  
6           **when agreeing to the terms of the Stipulation?**

7       A.     Yes. The need for the general rate increase is primarily driven by two key  
8           areas: investment in the system and an increase in net power costs. This  
9           need for rate relief was also coupled with a need for the Company to begin  
10          collecting what is projected to be in excess of \$20 million in Washington-  
11          allocated deferred costs associated with the Company's ownership of the  
12          Chehalis generating plant ("Chehalis").<sup>1</sup>

13                 In the Company's view, the terms of the Stipulation balance the  
14          overall impact to customers in the near term while providing for a fair  
15          resolution of both the general rate increase and the Chehalis deferral. As  
16          noted above, the terms of the Stipulation allow the Company to recover  
17          \$18 million associated with the Chehalis deferral in base rates, spread over  
18          a six-year period. In recognition of this, the Company was willing to  
19          agree to a relatively lower level of base rate increase related to its other  
20          cost elements. The Company viewed this as a trade-off whereby the  
21          Company would forego additional revenues for calendar year 2010  
22          associated with its other cost elements in order to begin recovering

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<sup>1</sup> As addressed in the Stipulation Section III.B, ¶11, parties agree that the Chehalis plant complies with the Greenhouse Gas Emissions Performance Standard in RCW 80.80.040(1) and the Company is therefore entitled to defer certain costs as allowed by RCW 80.80.060(6).

1 \$18 million in deferred costs associated with Chehalis. Another  
2 consideration for the Company is that the Stipulation allows new rates to  
3 become effective January 1, 2010, which is ten days earlier than the end of  
4 the suspension period.

5 For these reasons and the reasons discussed above, the Company  
6 was willing to accept a revenue increase for calendar year 2010 that was  
7 lower than it requested, in return for an all-party Stipulation supporting a  
8 5.3 percent overall rate increase, effective January 1, 2010.

9 **Q. Has the Company agreed to a date before which it may not file**  
10 **another rate case?**

11 A. Yes. The terms of the Stipulation reflect the Company's agreement not to  
12 file another rate case before January 11, 2010, which means that  
13 customers will not experience another general rate increase prior to late  
14 2010.

15 **Rate Spread**

16 **Q. Have the Parties agreed on a rate spread?**

17 A. Yes. The Parties agree that the rate increase will be spread to all rate  
18 schedules on an equal percentage of revenue basis.

19 **Q. What considerations informed the Company's agreement on the rate**  
20 **spread?**

21 A. The Company considered the cost to serve each class when determining  
22 the revenue responsibility for each class. The Company also considered  
23 other factors that the Commission reviews in making rate spread



1 decisions, such as gradualism, rate stability, customer impacts, and  
2 perceptions of equity. In addition, the Company agreed to a rate spread  
3 solution that was acceptable to all other Parties in the proceeding.

4 **Rate Design**

5 **Q. Have the Parties reached an agreement on the proposed rate design?**

6 A. Yes. The Parties agree that the Commission should accept the Company's  
7 rate design proposals as set forth in the Company's direct testimony in this  
8 proceeding, with one exception: the residential basic charge will remain  
9 \$6.00.

10 **Q. What considerations informed the Company's agreement on the rate  
11 design?**

12 A. The Company's proposals were generally acceptable to all parties. As  
13 such, the Company was willing to compromise with customer groups  
14 related to the residential basic charge.

15 **Rate of Return**

16 **Q. Have the Parties agreed on the Company's authorized rate of return?**

17 A. Yes. The Company's authorized rate of return will remain at 8.060  
18 percent, unchanged from the rate of return adopted by the Commission in  
19 Docket UE-061546. The Parties did not agree on the specific components  
20 of the Company's cost of capital or capital structure, but agree that the  
21 Company may use the authorized return on equity from the Company's  
22 last fully litigated rate case - 10.2 percent - if necessary for reporting and  
23 accounting purposes.

1    **Q.    What considerations informed the Company's agreement on rate of**  
2    **return?**

3    A.    As the Commission is aware, this is an area of contentiousness in any fully  
4    litigated general rate case proceeding. In order to reach an overall  
5    acceptable settlement, the Company was willing to agree to no change in  
6    its authorized rate of return. The Stipulation only identifies the overall  
7    rate of return, leaving it to each individual Party to decide in their own  
8    view the appropriate individual components that could create that result.  
9    By accepting this rate of return, the Company also avoids the time and  
10   expense of a fully litigated case.

11   **Low Income Bill Assistance**

12   **Q.    The Stipulation outlines changes to the Low Income Bill Assistance**  
13   **Program that are different than what the Company proposed in its**  
14   **filing. Why were these changes acceptable to the Company?**

15   A.    As described in the direct testimony of Company witness William R.  
16   Griffith, the Low Income Bill Assistance ("LIBA") Program credit is  
17   funded by other customers through the LIBA Surcharge. In its filing, the  
18   Company proposed to increase the LIBA surcharge with 50 percent of the  
19   increase used to increase the LIBA credit that qualifying customers  
20   receive and 50 percent used to increase the cap for the number of  
21   participants in the program. The Energy Project expressed a preference  
22   that the entire increase be applied to increase the LIBA credit; for

1 purposes of overall settlement, the Company accepted The Energy  
2 Project's request.

3 **Temperature Normalization**

4 **Q. What agreement have the Parties reached regarding the Company's**  
5 **new approach to temperature normalization?**

6 A. The Parties agree to accept the temperature normalization methodology as  
7 proposed by the Company in this proceeding. The Parties reserved the  
8 right to propose changes to that methodology or to recommend a new  
9 methodology if they believe the underlying data is insufficient, or if new  
10 information comes to light.

11 **Q. Why was this agreement important to the Company?**

12 A. As described in the direct testimony of Company witness Romita Biswas,  
13 the Company proposed changes to its temperature normalization  
14 methodology that were designed to refine and improve the methodology.  
15 Acceptance of this methodology provides value to the Company in that it  
16 provides for greater certainty in the methodology to be used for future rate  
17 cases in Washington.

18 **Pension Curtailment**

19 **Q. Please briefly explain PacifiCorp's Petition for an Accounting Order**  
20 **Regarding Pension Curtailment ("Petition"), filed in Docket UE-**  
21 **081997.**

22 A. On November 4, 2008, PacifiCorp filed a Petition in Docket UE-081997  
23 requesting Commission authorization to record a net reduction in the

1 existing pension and postretirement welfare regulatory asset for a pension  
2 curtailment gain of \$41 million total Company, or \$2.9 million on a  
3 Washington-allocated basis, and a measurement date change transitional  
4 adjustment of \$14 million total Company, or \$1 million on a Washington-  
5 allocated basis, amortized over a ten-year period.

6 **Q. What did Parties agree to with respect to the Company's Petition?**

7 A. Parties agreed that the Commission should authorize the Company to defer  
8 and amortize the \$2.9 million Washington-allocated portion of the pension  
9 curtailment gain over a three-year period starting January 1, 2010. Once  
10 the Commission has approved this regulatory treatment, the Company will  
11 submit a request to withdraw the Petition filed in Docket UE-081997,  
12 which will effectively withdraw the Company's request for a deferral  
13 related to the measurement date change.

14 **Q. What considerations informed the Company's agreement on pension**  
15 **curtailment?**

16 A. Resolution within the Company's current general rate case avoids having  
17 to wait until a future rate case to address these issues.

18 **Renewable Energy Credits ("REC") Reporting**

19 **Q. What did the Company agree to with respect to REC reporting?**

20 A. The Company agreed to provide a quarterly REC report to Staff, Public  
21 Counsel, and ICNU beginning with the quarter ending March 31, 2010  
22 and continuing through December 31, 2012. These quarterly reports will  
23 include: (1) the total monthly generation of RECs by resource; (2) the

1 estimated and actual level of REC transactions on a megawatt-hour basis;  
2 and, (3) the actual level of REC related revenues from June 2009 forward,  
3 on a total-company, West Control Area and Washington allocated basis.  
4 After that date, the Renewable Portfolio Standard will be in effect and  
5 may change the Parties' REC reporting needs. The Company has also  
6 agreed to provide a report prior to January 1, 2010 that includes: (1) an  
7 explanation of how RECs and associated costs and/or revenues are  
8 allocated among PacifiCorp's six states; (2) an explanation of how the  
9 Company determines proper disposition of RECS on a total-company and  
10 state-by-state basis; and, (3) a detailed accounting of the total-company  
11 RECs that were sold and retained for each year from calendar year 2005  
12 through June 2009. The Company also agrees to hold periodic meetings  
13 as requested by any Party to provide additional details on the report.

14 **Q. Why did the Company agree to provide additional information**  
15 **regarding the management of RECs?**

16 A. To understand the treatment of RECs across the PacifiCorp jurisdictions,  
17 the Parties expressed a desire for more transparency in the Company's  
18 accounting for, use, and allocation of RECs. The reports the Company has  
19 agreed to provide will provide transparency, help the Parties understand  
20 the Company's management of RECs, and are reasonable in light of the  
21 upcoming reporting requirements established by the Washington  
22 Renewable Portfolio Standard in WAC 480-109-040.

23 **Findings of Prudence/Greenhouse Gases Emission Standard Compliance**

1    **Q.    With respect to the finding of prudence requested by the Parties in the**  
2    **Stipulation, Section III.M ¶ 26 and 27, how does the Marengo II wind**  
3    **project benefit Washington customers?**

4    A.    Marengo II is a 70.2 MW wind energy generation facility located near  
5    Dayton, Washington that is currently providing electric service in  
6    Washington. PacifiCorp owns all the assets, all output, and all  
7    interconnection rights associated with the resource. As explained in the  
8    direct testimony of Company witness Mark R. Tallman, this resource  
9    benefits Washington customers because it is cost effective.  
10    Exhibit \_\_\_ (MRT-3C), which accompanied Mr. Tallman's direct  
11    testimony, illustrates how the project is expected to lower net power  
12    costs over its design life. In addition, Marengo II benefits Washington  
13    customers because it is a renewable resource that complies with future  
14    requirements of Washington's Renewable Portfolio Standard. Finally, the  
15    resource provides customers with a zero incremental cost fuel source (thus  
16    reducing commodity risk exposure), a multi-shafted generation resource  
17    (thus diversifying the impact of individual generator failures), and further  
18    valuable ownership and operational experience with utility-scale wind  
19    projects. Based on this testimony and the Parties' evaluation of the  
20    Company's due diligence in acquiring Marengo II, the Marengo II  
21    resource is a prudently incurred supply-side resource, used and useful for  
22    Washington customers.

1    **Q.    How does the Chehalis generating plant benefit Washington**  
2    **customers?**

3    A.    The Chehalis generating plant is a 520 MW natural gas-fired generation  
4    facility located near the city of Chehalis, Washington that is currently  
5    providing electric service to customers in Washington. As explained in  
6    the direct testimony of Company witness Stefan A. Bird, Chehalis  
7    provides a number of benefits to Washington customers. For example, the  
8    Company's full discretion in the dispatch of Chehalis provides operational  
9    flexibility that will provide increasing benefits as load grows, the  
10   Company's existing flexible contracts expire, and wind resources are  
11   added to meet renewable portfolio standards. The plant satisfies a portion  
12   of the deficit identified in the Company's 2007 Integrated Resource Plan  
13   Update. Based on this testimony and the Parties' evaluation of the  
14   Company's due diligence in acquiring Chehalis, Chehalis is a prudently  
15   incurred supply-side resource, and is used and useful for Washington  
16   customers.

17   **Q.    Please comment on the conclusion and finding requested in Section**  
18   **III.B related to the compliance of the Chehalis plant with the**  
19   **Greenhouse Gas Emissions Performance Standard.**

20   A.    As discussed in the direct testimony of Stefan Bird and in the Company's  
21   filing in Docket UE-082252, the Chehalis generating plant is a new  
22   baseload resource that complies with Washington's Greenhouse Gas  
23   Emissions Performance Standard, RCW 80.80.040(1). For this reason,

1 RCW 80.80.060(6) authorizes PacifiCorp to “account for and defer for  
2 later consideration by the commission costs incurred in connection with  
3 the long-term financial commitment, including operating and maintenance  
4 costs, depreciation, taxes, and cost of invested capital.” The requested  
5 finding and conclusion is supported by the record in this case and  
6 effectuates the provisions of Section III.B. of the Stipulation related to the  
7 resolution and amortization of the Chehalis deferral.

8 **Conclusion**

9 **Q. What action do you recommend the Commission take with respect to**  
10 **the Stipulation?**

11 A. For the reasons discussed above, we recommend that the Commission find  
12 that this Stipulation is in the public interest and would produce rates that  
13 are fair, just, reasonable, and sufficient. Accordingly, we recommend that  
14 the Commission adopt this Stipulation in its entirety.

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

16 A. Yes.