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

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

Qualifications

Q. Briefly describe your education and business experience.

A. I hold a Bachelor’s degree in Economics from the University of Vermont and an MBA in Environmental and Natural Resource Management from the University of Washington. After graduate school, I joined the Staff of the Washington Utilities and Transportation Commission (Commission). In 1995, I became employed by PacifiCorp as a Senior Pricing Analyst in the Regulation Department and advanced through positions of increasing responsibility. From 1999 through 2005, I led major strategic projects at PacifiCorp including the Multi-State Process (MSP) and the regulatory approvals for the Mid-American-PacifiCorp transaction. In March 2006, I was appointed Vice President of Regulation.

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

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

Purpose of Testimony

Q. What is the purpose of your testimony?

A. My testimony describes the Generation Cost Adjustment Mechanism (GCAM) the

Company is proposing in this case. I describe the costs that would be recovered by the mechanism and how the proposed mechanism would be administered. In addition, I provide a brief overview of the West Control Area (WCA) inter-jurisdictional cost allocation methodology that has been used to allocate costs to the state of Washington.

Generation Cost Adjustment Mechanism

Q. Please describe the proposed Generation Cost Adjustment Mechanism.

A. The proposed GCAM consists of two components: 1) an annual update to forecasted net power costs (NPC); and 2) an as-needed update to all other generation-related costs that change between general rate cases.

Q. Why is the Company proposing a GCAM at this time?

A. In the Company's previous general rate case (Docket UE-061546), the Company had proposed to implement a power cost adjustment mechanism (PCAM) and to be granted authority to file power cost only rate cases. In Order 08 in that Docket, the Commission stated:

> "We find, as discussed below, that PacifiCorp's circumstances include significant exposure to variability in net power costs and this variability is sufficient to justify a PCAM. However, PacifiCorp has designed its mechanism on the basis of the PCAM we approved for Avista, the so-called ERM, without making refinements that our record shows are appropriate in light of PacifiCorp's unique circumstances. Specifically, we find that the design features proposed by the Company and modified by Staff do not appropriately balance risk and benefits. There are two principal reasons:
>
> - The accounting for actual and computer-generated-actual costs has not been shown to be reliable.
> - The design of the deadband and sharing bands should reflect the asymmetry of power costs risk that is evident in PacifiCorp's case.

The Commission then authorized PacifiCorp to file a petition seeking approval of a PCAM with or without a request to file power cost only rate cases consistent with the guidance provided by the Commission. The GCAM proposed by the Company in this proceeding incorporates the Commission's guidance.

Q. Is the Company proposing a PCAM?

A. No. As discussed above, the Commission expressed concerns regarding the reliability of the accounting for actual and computer-generated-actual costs. In addition, both ICNU and Public Counsel objected to the use of computer estimated costs to true-up normalized base power costs that are also derived from the GRID model. After review of the concerns raised by the Commission and parties in the last proceeding, the Company has decided not to pursue a PCAM at this time. Should the Company be able to implement an accounting system such that actual costs can be booked on a control area basis, then the Company may pursue a PCAM at some future time. In addition, ICNU opined that "ratepayers should only be charged normalized projected costs reviewed in a rate proceeding or verifiable actual costs subject to an appropriate review." [1]PacifiCorp's GCAM responds to this concern of ICNU.

Q. How does the Company's annual NPC update compare with a PCAM?

A. The annual NPC update mechanism would not include any true-up to actual NPC. The annual NPC update would instead allow Washington rates to reflect an accurate forecast of NPC each year. However, the Company would retain the risk of variability between the forecast and actual NPC. As such, there would not be any additional risk shifted to customers from the annual NPC update.

[1] Docket UE-061546, Order 08, paragraph 74

Q. Does the shift from a PCAM to the GCAM address the Commissions concerns about an appropriate balance of risks and benefits?

A. Yes. As noted above, the GCAM would not include any true-up to actual costs and would not result in the type of risk shifting that has been raised as a concern in PCAM proceedings. The GCAM relies on normalized, historical costs adjusted for known and measurable changes during the rate period, with the Company bearing the risk of any deviation from the cost level reflected in rates. The GCAM merely allows for more frequent streamlined filings that can be processed on a more expedited basis and rely on findings that have been litigated and decided in the last full general rate case. Therefore, there is no change to the balance of risks between customers and shareholders.

Q. Please explain the Company's rationale for its proposal to update, as needed, other components of generation revenue requirement in addition to NPC?

A. If NPC are updated annually but other generation costs (and cost reductions) are not, a mismatch will be created between the variable and fixed costs associated with new resources. This mismatch is particularly significant for renewable resources since they (1) have near-zero variable costs; (2) are added with significantly greater frequency than traditional generation investments; and (3) depreciate more rapidly than traditional generation investments. One way to remedy this mismatch is to exclude the variable costs of new resources from the annual NPC update until a rate case is conducted and the resources are included in rate base. However, this approach would deprive customers of the benefits of both the near-zero cost energy and the more rapid depreciation. On balance, PacifiCorp would prefer to pass to customers the variable cost benefits of new renewable resources in a timelier manner. Note that this would also more rapidly pass to customers the benefits of the federal production tax credits associated with renewable energy investment. It would not be equitable, however, for customers to enjoy the variable cost benefits of a resource without also paying the fixed costs of the resource. This inequity led the Company to conclude that there was the need for a mechanism to update non NPC production related costs between rate cases.

Q. Why has the Company proposed to update all fixed costs, rather than just those related to new resources?

A. Updating only for new resources would not provide customers the benefit from the decrease in the rate base of other generation resources through depreciation. The Company is, therefore, proposing to update all components of generation-related costs.

Q. Why is the Company proposing a GCAM at this time?

A. The GCAM will address new resource acquisitions, particularly renewable resources required under Washington's renewable portfolio standard (RPS) legislation. The Company anticipates adding significant amounts of renewable generation, particularly wind generation, in the coming years, both to fulfill the requirements of the RPS and based on the Company's requirements for new resource acquisition. The addition of new renewable resources has and will continue to occur on a frequent basis, unlike traditional generation resources that can take many years to build and are of a more considerable size and cost.

The proposed GCAM allows the Company to pass on the benefits of no-cost or low-cost power that wind generation provides through the NPC updates, and to recover its prudently-incurred costs associated with these resources on a timely basis. Currently, new resources can only be added to rates in the context of a general rate case. The GCAM mechanism would allow the Company to update variable power costs, including no-cost wind generation, on an annual basis, and update other generation costs when needed without having to file frequent full general rate cases. Not only will this allow the company to pass on the benefits of the added renewable energy, it will also send more current price signals to consumers.

NPC Annual Update

Q. What types of costs would be included in the annual net power cost update of the GCAM?

A. The annual NPC update would reflect the most recent forecast of all components of net power costs including new wholesale sales and purchase power transactions, new Company-owned resources, changes in fuel contracts, changes to QF contracts, and updates to wheeling expenses. More specifically, the mechanism would incorporate updates to the following:

- Forward price curve
- Forecast loads
- Normalized hydro generation
- Forecast fuel prices
- Contract updates
- Heat rates
- Planned outages and de-rates
- Wheeling expenses
- New resource acquisitions
- State allocation factors

Q. How would the NPC update be calculated?

A. A baseline amount for each of the components listed above would be established by the approved net power costs in this case and in subsequent general rate cases. These components will be summed to create the total baseline NPC for the Company in the state of Washington. The baseline for this case is reflected on page 5.1 of Mr. Dalley's revenue requirement exhibit, Exhibit ___(RBD-2). An updated forecast of NPC would be filed each October 15 beginning in 2009. The rate effective period would match the period covered by the forecast.

Q. Please provide an illustrative example for implementing the GCAM.

- October 15 – Initial Filing
- February 15 – Staff & Intervenor Testimony
- March 15 – Company Rebuttal Case with Updated NPC
- April 1 – Hearing
- June 1 – Order
- June 10 – Company Compliance Filing with limited NPC updates

The first annual NPC update would be filed on October 15, 2009 with rates to be effective July 1, 2010. The forecast period for the updated data would be the twelve months ending June 30, 2011. Ms. Shu provides more detail on the calculation of the NPC updates in her direct testimony.

Q. What will each annual filing contain?

A. The annual update filing will contain updated forecasted values for each of the NPC components listed above. An exhibit will be presented that shows the baseline amount for each component that is included in current rates along with the updated amount for each component based on the new forecast period. The difference between the two will be the target revenue to be recovered through a separate tariff in effect for a one-year period. The tariff would recover this total dollar difference on a uniform cents per kWh basis for the forecast twelve-month period applied to all classes.

Generation Revenue Requirement Update

Q. What kinds of expenses would be included in the generation-related cost portion of the GCAM?

A. The generation-related piece of the GCAM provides for an as-needed update to all other generation-related costs on a forecast basis in between general rate cases for new and existing generation resources. This includes investment in and operating costs related to new generation resources that are not fully included in a rate case test year or that are placed in service between general rate cases. The mechanism would reflect the costs of the contributing energy of these resources as well as any revenues from sales of renewable energy credits and tax impacts, such as the production tax credit for new renewable resources. Variable power costs associated with new resources would be recovered in the NPC portion described above.

Q. How often would the Company request an update of generation-related costs?

A. This portion of the GCAM would be filed only as needed, after new generation-related assets have been placed in-service. If the Company decides that an update of these costs is necessary, the filing would occur on October 15, simultaneous with the NPC update filing, with rates to be effective the following July 1. The Company proposes to make no more than two such filings between general rate cases and would file a general rate case within 9 months of the rate effective date of the second filing.

Q. How will any increase be recovered in rates?

A. The total amount to be recovered will be allocated to service schedules based on the composite energy-demand factor F10 used in the Company's most recent cost of service study filed in Washington. Mr. Griffith can address this in more detail.

West Control Area Allocation Methodology

Q. Please describe the inter-jurisdictional cost allocation methodology that has been utilized in the preparation of the case.

A. The Company utilized the West Control Area (WCA) methodology that was adopted by the Commission in the Company's last general rate case, Docket UE-061546. The methodology includes the two Staff adjustments that were adopted by the Commission in its order.

Q. Is the Company proposing any changes to the methodology?

A. No.

Q. Does this conclude your direct testimony?

A. Yes.