

August 21, 2007

***VIA ELECTRONIC FILING
AND OVERNIGHT DELIVERY***

Oregon Public Utility Commission
550 Capitol Street NE, Suite 215
Salem, OR 97301-2551

Attention: Vikie Bailey-Goggins
Administrator, Regulatory Operations

Re: **Docket No. UM 1330 /Advice No. 07-016**
In the Matter of an Investigation of Automatic Adjustment Clause Pursuant to SB 838
WAIVER OF PAPER SERVICE

Enclosed for electronic filing by PacifiCorp dba, Pacific Power & Light Company (“PacifiCorp” or “the Company”) is an original and five (5) conformed copies of the Testimony of Andrea L. Kelly in support of PacifiCorp’s Renewable Cost Adjustment Clause. PacifiCorp waives paper service in this proceeding.

Communications concerning this proceeding should be addressed to:

Pacific Power Oregon Dockets
825 NE Multnomah Street, Ste 2000
Portland, OR 97232
Oregondockets@pacificorp.com

Natalie Hocken
Vice President and General Counsel
Pacific Power
825 NE Multnomah Street, Ste 2000
Portland, OR 97232
(503) 813-7207
natalie.hocken@pacificorp.com

It is respectfully requested that all requests regarding this filing be addressed to the following:


By E-mail (**preferred**): datarequest@pacificorp.com

By Fax: (503) 813-6060

By regular mail: Data Request Response Center
PacifiCorp
825 NE Multnomah, Suite 2000
Portland, OR 97232

Informal questions on this matter may be directed to Joelle Steward at (503) 813-5542.

Sincerely,


Andrea L. Kelly
Vice President, Regulation

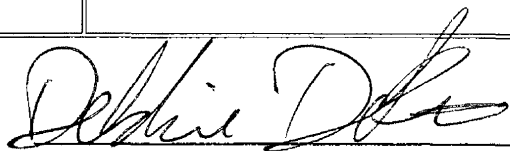
Enclosures

cc: Service List for UM 1330

CERTIFICATE OF SERVICE

I hereby certify that on this 21st day of August, 2007, I caused to be served, via E-Mail, and U.S. Mail (to those parties who have not waived paper service), a true and correct copy of PacifiCorp's Testimony of Andrea L. Kelly in Docket No. UM-1330 to the following:

| | |
|--|--|
| LOWREY R. BROWN (W) UTILITY ANALYST CITIZENS' UTILITY BOARD OF OREGON 610 SW BROADWAY – STE 308 PORTLAND, OR 97205 lowrey@oregoncub.org | JASON EISDORFER (W) ENERGY PROGRAM DIRECTOR CITIZENS' UTILITY BOARD OF OREGON 610 SW BROADWAY – STE 308 PORTLAND, OR 97205 jason@oregoncub.org |
| ROBERT JENKS (W) CITIZENS' UTILITY BOARD OF OREGON 610 SW BROADWAY – STE 308 PORTLAND, OR 97205 bob@oregoncub.org | MICHAEL T. WEIRICH DEPARTMENT OF JUSTICE ASSISTANT ATTORNEY GENERAL REGULATED UTILITY & BUSINESS SECTION 1162 COURT ST NE SALEM OR, 97301 Michael.weirich@doj.state.or.us |
| JOHN W. STEPHENS (W) ESLER, STEPHENS & BUCKLEY 888 SW FIFTH AVE, STE. 700 PORTLAND, OR 97204 stephens@eslerstephens.com | JUDY JOHNSON PUBLIC UTILITY COMMISSION P.O. BOX 2148 SALEM, OR 97308 judy.johnson@state.or.us |
| TROY GAGLIANO (W) RENEWABLE NORTHWEST PROJECT 917 SW OAK, STE 303 PORTLAND, OR 97205 troy@rnp.org | ANN ENGLISH GRAVATT (W) SR POLICY ASSOCIATE RENEWABLE NORTHWEST PROJECT 917 SW OAK, STE 303 PORTLAND, OR 97205 ann@rnp.org |


Debbie DePetris
Supervisor, Regulatory Administration

Docket No. UM-1330
Exhibit PPL/100
Witness: Andrea L. Kelly

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

PACIFICORP

Direct Testimony of Andrea L. Kelly
Renewable Cost Adjustment Clause

August 2007

1 **Q. Please state your name, business address and present position with**
2 **PacifiCorp, dba Pacific Power & Light Company (the Company).**

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

6 **Q. Briefly describe your education and business experience.**

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. In 1995, I became employed by
11 PacifiCorp as a Senior Pricing Analyst in the Regulation Department and
12 advanced through positions of increasing responsibility. In March 2006, I was
13 appointed to my current position.

14 **Q. Have you previously appeared as a witness in a regulatory proceeding?**

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

18 **Purpose**

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

20 A. The purpose of my testimony is to:
21 • Provide an overview of the relevant provisions of Senate Bill 838 (SB 838),
22 the recently passed legislation establishing a renewable portfolio standard
23 (RPS) in Oregon;

- 1 • Describe the Company’s proposal to implement the automatic adjustment
2 provisions of SB 838 through the continuation of the existing Transition
3 Adjustment Mechanism (TAM) and the adoption of a new Renewable Cost
4 Adjustment Clause (RCAC);
- 5 • Outline the key costs categories that will be included in the RCAC and the
6 process for an annual review and update of these costs;
- 7 • Explain the proposed rate design for implementing rate changes under the
8 RCAC; and
- 9 • Discuss the deferral application that PacifiCorp is filing under separate cover
10 to capture relevant costs of eligible renewable resources between September 1,
11 2007 and January 1, 2009.

12 **Overview of Senate Bill 838**

13 **Q. What is Senate Bill 838?**

14 A. Senate Bill 838 is the Oregon Renewable Energy Act, which was enacted on June
15 6, 2007. This law establishes a Renewable Portfolio Standard (RPS) for
16 electricity, which requires large, Oregon electric utilities to meet 25 percent of
17 their Oregon load by 2025 with electricity generated by eligible renewable
18 resources. This target is phased-in starting with 5 percent of load served by
19 renewables in 2011, 15 percent in 2015, and 20 percent in 2020.

20 Section 13 of the bill provides that “all prudently incurred costs associated
21 with compliance with a renewable portfolio standard are recoverable in the rates
22 of an electric company.” Further, it requires the Commission to establish an
23 automatic adjustment clause, or other method that allows timely recovery of

1 prudently-incurred costs, by January 1, 2008. This testimony outlines PacifiCorp's
2 proposal for implementing the automatic adjustment requirements of the Act.

3 **Automatic Adjustment Requirements**

4 **Q. Please summarize PacifiCorp's proposal to implement the automatic**
5 **adjustment requirements of the Act.**

6 A. PacifiCorp proposes that timely recovery of prudently incurred eligible costs be
7 provided through the continuation of the existing TAM and the establishment of
8 an RCAC. As discussed in detail below, the TAM already provides for the timely
9 reflection in rates of the net variable power cost (NVPC) impacts of renewable
10 resources. The establishment of the RCAC would allow for timely recovery of the
11 remaining revenue requirement impacts that are not reflected in NVPC.

12 **Q. Please briefly describe the TAM.**

13 A. The TAM was adopted by the Commission in Order No. 05-1050, Docket UE
14 170. It is a relatively narrow, streamlined proceeding where the Company's
15 NVPC are updated annually, subject to a prudence review. On April 1 of each
16 year, the Company files estimated NVPC for the following calendar year that
17 incorporate updates to the: forward price curve; forecast loads; normalized hydro
18 generation; forecast fuel prices; contract updates; plant heat rates; planned outages
19 and de-rates; wheeling expenses; new resource acquisitions; and state allocation
20 factors. The Company files updates to the estimated NVPC in July and November.
21 The variable costs of new resources (or in the case of wind, the zero-cost energy)
22 that go into service prior to the test year are included in the NVPC calculation.

1 The TAM filing includes supporting documentation. A procedural
2 schedule is set by an Administrative Law Judge that allows parties the opportunity
3 to develop an evidentiary record, conduct discovery, introduce evidence, conduct
4 cross-examination, submit written briefs and request oral argument.

5 **Q. Please briefly describe PacifiCorp's RCAC proposal?**

6 A. The RCAC will be a supply service surcharge, like the TAM, through which the
7 Company will recover, in a timely manner as required by law, the revenue
8 requirement related to new renewable generating resources and associated
9 transmission that is not included in NVPC. As shown on Exhibit PPL/101 and
10 discussed later in my testimony, the revenue requirement to be recovered through
11 the RCAC for renewable generating resources includes return on ratebase,
12 operations and maintenance expense, depreciation expense, property taxes, and
13 renewable energy tax credits. The RCAC would be filed on the same date
14 annually as the TAM and would follow a similar procedural process to allow
15 parties the opportunity for a thorough review.

16 **Q. What is the benefit of coordinating the RCAC with the TAM?**

17 A. Implementing the RCAC in conjunction with the TAM ensures that the principle
18 of matching costs and benefits is satisfied. The RCAC will allow recovery of the
19 Company's total revenue requirement for new eligible renewables when the
20 energy benefits are flowed through to customers. Additionally, linking the RCAC
21 to the TAM promotes regulatory efficiency in two ways. First, it utilizes a
22 regulatory mechanism with established procedural processes. Second, because the
23 TAM and the RCAC will both require a review of new resources, the additional

1 workload for parties is minimized.

2 **RCAC Cost Components**

3 **Q. What are the major cost components to be included in the RCAC?**

4 A. The RCAC will consist of renewable facility costs that are not yet included in
5 general rates, the variable costs of which are included in the TAM. An example is
6 the revenue requirement of new wind facilities that are not included in current
7 rates, such as Leaning Juniper, which went into service in September 2006. The
8 benefits of the zero-cost wind energy of this plant are currently being passed
9 through to customers through the TAM in 2007 and 2008.

10 As shown in Exhibit PPL/101, the revenue requirement of Leaning Juniper
11 for which the Company will seek recovery in the RCAC consists of a return on the
12 plant investment at the most recently authorized rate of return, a project-specific
13 forecasted fixed operation and maintenance expense, plant accumulated
14 depreciation, depreciation expense, applicable property taxes and any production
15 tax credits for the facility.

16 **Q. In addition to the revenue requirement of new generation facilities, are there
17 other costs that could be recovered in the RCAC?**

18 A. Yes. Senate Bill 838 specifically identifies associated transmission as eligible for
19 recovery through the automatic adjustment clause. The Company expects to incur
20 costs in the future for new transmission needed to deliver the output of renewable
21 energy facilities. For example, in the MidAmerican Energy Holdings Company's
22 acquisition of PacifiCorp in Docket UM 1209, PacifiCorp identified transmission
23 projects that it would pursue to facilitate delivery of renewable resources into

1 PacifiCorp's system (General Commitment 34). PacifiCorp will seek recovery of
2 these costs, as appropriate, through the RCAC in the future.

3 **RCAC Process**

4 **Q. Please explain how the RCAC will be processed by the Commission.**

5 A. On April 1, 2008 and each year thereafter, the Company will file new proposed
6 rates for Schedule 202, with supporting documentation. The proposed tariff sheet
7 is attached as Exhibit PPL/102. The RCAC will (1) include the revenue
8 requirement of any new facilities that will be in service by the end of the calendar
9 year and which are included in the annual TAM filing, (2) include new
10 transmission related to renewable energy resources; and (3) recalculate the
11 revenue requirement of any resources already approved for recovery in the RCAC,
12 which have not yet been incorporated into rates through a general rate case. This
13 third step will ensure that customers' rates reflect the reduction in rate base due to
14 depreciation as well as provide a current forecast of all costs within the upcoming
15 calendar year.

16 For instance, on April 1, 2008, the Company will file for recovery of new
17 eligible facilities that were not included in rate base in the Company's last rate
18 case, UE 179, and are forecast to be in service by the end of 2008. These same
19 resources will also be included in the NVPC for the 2009 TAM. The Company
20 will begin recovering the RCAC-related revenue requirement from customers
21 beginning January 1, 2009, consistent with the TAM rate change.

22 By filing April 1 each year, with rates to become effective January 1 the
23 following year, the parties will have adequate time to review the filing. As

1 provided in SB 838, Section 13(4), the matter could be scheduled for hearing, if
2 requested by any party, with a proceeding established to develop an evidentiary
3 record for a final Commission decision.

4 **Q. How will the Commission determine prudence of new resources in the**
5 **RCAC?**

6 A. New resources for which the Company seeks recovery in the RCAC will be
7 subject to the same resource prudence support as any other new resource added to
8 the Company's generation or transmission portfolio. Evidence regarding the
9 prudence of a resource will be submitted at the time the Company files its RCAC
10 application.

11 Resource prudence decisions should be equally applicable to the TAM and
12 the proposed RCAC. It would be contrary to balanced regulatory principles to
13 accept power cost advantages of a resource in the TAM and deny all or part of the
14 resource that produced those benefits in base rates or through the RCAC.

15 **Q. What happens to resources that come on line during the year that were not**
16 **included in the TAM and RCAC forecast?**

17 A. The costs of these resources will not be included in rates until January 1 of the
18 following year.

19 **Q. What if the TAM is revised or eliminated?**

20 A. A revision to or elimination of the TAM process will likely necessitate the need to
21 redesign the RCAC.

1 **Q. How will the Company address resources in the RCAC at the time of a**
2 **general rate case?**

3 A. At the time of a general rate case, resource costs being recovered in the RCAC
4 will be rolled into general rates and Schedule 202 will be reduced to zero until
5 new resources are added in the next annual review.

6 **Q. Should the Commission consider an earnings review in conjunction with**
7 **approval of this mechanism?**

8 A. No. Senate Bill 838 did not make recovery of renewable energy investment and
9 associated transmission investment subject to an earnings review. An earnings
10 review could thwart the clear intent of the legislature to provide for timely cost
11 recovery of renewable energy investments. Therefore, no such conditions are
12 appropriate.

13 Moreover, the Commission already has sufficient tools in place to monitor
14 the earnings of PacifiCorp. The Commission may commence an investigation of
15 PacifiCorp's rates under its general investigative powers. Additionally, paragraph
16 11 in the Stipulation adopting the Revised Protocol (Order No. 05-021, Docket
17 UM 1050) requires PacifiCorp to establish a credit for customers if (1) the annual
18 results of operation shows that PacifiCorp's return on equity is more than 200
19 basis points above the most recently authorized rate of return and (2) if the
20 Oregon allocation factors are forecasted to decline in the upcoming year.
21 Furthermore, the Company and the Citizens' Utility Board recently reached
22 agreement in Docket UE 191 regarding the development of a process for
23 monitoring the level of generation costs in rates and updating the Embedded Cost

1 Differential of the Revised Protocol as necessary. This agreement was designed
2 to respond to concerns regarding the potential impacts of automatic adjustment
3 mechanisms in Oregon.

4 **Rate Design**

5 **Q. What is the Company's proposed rate design for Schedule 202?**

6 A. The Company proposes to collect the RCAC through an equal cents per kilowatt
7 hour surcharge applicable to all customers served under the Company's supply
8 service schedules: Schedule 200, cost-based supply service, Schedule 220,
9 standard offer supply service, and Schedule 230, emergency supply service.

10 **Interim Deferred Accounting**

11 **Q. Does the Company propose to utilize deferred accounting in conjunction with**
12 **the implementation of the RCAC?**

13 A. Yes. Section 13(3) of SB 838 allows flexibility in the means for timely recovery
14 of costs, by providing for such recovery through an automatic adjustment clause
15 or "another method." Section 13a of the Act also states that "The clause or
16 method shall apply to all prudently incurred costs described in section 13 (3) of
17 this 2007 Act incurred by an electric company since the date of the company's last
18 general rate case that was decided by the commission before the effective date of
19 this 2007 Act." SB 838 went into effect on June 6, 2007.

20 PacifiCorp's last general rate case, UE 179, was decided in September
21 2006 with rates effective January 1, 2007. As part of the Stipulation approved by
22 the Commission, PacifiCorp agreed that it would not file a general rate case prior
23 to September 1, 2007. The stay out precludes PacifiCorp from seeking recovery

1 of capital costs, including any deferred recovery, of Leaning Juniper and any other
2 new generating resources before September 1, 2007.

3 Consistent with the terms of the Stipulation in UE 179, the Company will
4 file an application to defer the non-NVPC revenue requirement for Leaning
5 Juniper, beginning September 1, 2007. As previously noted, Leaning Juniper has
6 already been included in the NVPC in customer supply service rates.

7 Additionally, the Company will seek deferral of the costs for the Marengo and
8 Goodnoe Hills wind projects and the Blundell geothermal plant expansion
9 beginning January 1, 2008. These projects are expected to be in service before
10 December 31, 2007 and have been included in the NVPC that go into effect
11 through the TAM in January 1, 2008.

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

13 **A. Yes.**

Docket No. UM-1330
Exhibit PPL/101
Witness: Andrea L. Kelly

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

PACIFICORP

Exhibit Accompanying Testimony of Andrea L. Kelly
Revenue Requirement on Leaning Juniper

August 2007

Pacific Power
Oregon
Renewable Resource Filing
Total Revenue Requirement

Exhibit PPL/101
Kelly/1

| CY 2007 | | | | |
|---|----------------------------|---------------|-----------------|-----------------------------|
| | Leaning Juniper | Factor | Factor % | Oregon Allocated |
| Capital Investment | 175,472,668 | SG | 26.628% | 46,724,647 |
| Depreciation Reserve | (5,556,634) | SG | 26.628% | (1,479,614) |
| Accumulated DIT Balance | (21,864,909) | SG | 26.628% | (5,822,161) |
| Net Rate Base | <u>148,051,125</u> | | | <u>39,422,872</u> |
| | 11.26% | | | 11.26% |
| Pre-Tax Return on Rate Base | <u>16,665,346</u> | | | <u>4,437,628</u> |
| Operation & Maintenance | 3,311,304 | SG | 26.628% | 881,730 |
| Depreciation | 7,018,907 | SG | 26.628% | 1,868,986 |
| Property Taxes | 1,293,185 | GPS | 28.445% | 367,846 |
| Renewable Energy Tax Credit | (9,559,856) | SE | 26.173% | (2,502,069) |
| Oregon Business Energy Tax Credit (BETC) | (1,611,630) | IBT | 30.023% | (483,865) |
| Rev. Req't. Before Franchise Tax & Bad Debt | <u>17,117,256</u> | | | <u>4,570,256</u> |
| Franchise Taxes | | | | 106,944 |
| Bad Debt Expense | | | | 28,059 |
| Total Revenue Requirement | | | | <u><u>4,705,259</u></u> |
| Revenue Requirement September to December 2007 | | | | <u><u>1,568,420</u></u> |

Docket No. UM-1330
Exhibit PPL/102
Witness: Andrea L. Kelly

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

PACIFICORP

Exhibit Accompanying Testimony of Andrea L. Kelly
Proposed Schedule 202

August 2007

PACIFIC POWER & LIGHT COMPANY
Renewable Cost Adjustment Clause
SUPPLY SERVICE ADJUSTMENT

OREGON
SCHEDULE 202

Purpose

This schedule recovers, between rate cases, the costs to construct or otherwise acquire facilities that generate electricity from renewable energy sources and for associated electricity transmission.

Applicable

To Residential Consumers and Nonresidential consumers who take supply service under Schedule 200, 220 and 230.

Energy Charge

The adjustment rate is listed below by Delivery Service Schedule.

| Schedules | Rate Adjustment |
|---|---------------------|
| 4, 23, 28, 30, 41, 47/48, 52, 54, 15, 50, 51, 53 | 0.000 cents per kWh |

(N)

(N)

Issued: August 21, 2007 P.U.C. OR No. 35
Effective: With service rendered on and after
January 1, 2008 Original Sheet No. 202

Issued By
Andrea L. Kelly, Vice President, Regulation

TF1 202.NEW

Advice No. 07-016
Docket No. UM-1330