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June 21, 2010

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

Oregon Public Utility Commission  
550 Capitol Street NE, Suite 215  
Salem, OR 97310-2551

Attn: Filing Center

RE: **Docket No. UE 219**  
**PacifiCorp's Application to Implement the Provisions of Senate Bill 76**

Please find enclosed the original and five (5) copies of PacifiCorp's reply testimony of Company witnesses Andrea L. Kelly, Cory E. Scott, and R. Bryce Dalley.

It is respectfully requested that all data requests related to this filing be addressed to:

By e-mail (preferred): [datarequest@pacificorp.com](mailto:datarequest@pacificorp.com)

By regular mail: Data Request Response Center  
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Please direct any informal correspondence and questions regarding this filing to Joelle Steward, Regulatory Manager, at (503) 813-5542.

Sincerely,

Andrea L. Kelly  
Vice President, Regulation

cc: Service List for Docket No. UE 219

## CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document, in Dockets UE 219, on the date indicated below by email and/or US Mail, addressed to said parties at his or her last-known address(es) indicated below.

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DATED: June 21, 2010

  
\_\_\_\_\_  
Ariel Son  
Coordinator, Regulatory Operations

Docket No. UE-219  
Exhibit PPL/203  
Witness: Andrea L. Kelly

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF THE STATE OF OREGON**

**PACIFICORP**

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**Reply Testimony of Andrea L. Kelly**

**June 2010**

1 **Introduction**

2 **Q. Are you the same Andrea L. Kelly who submitted direct testimony in this**  
3 **proceeding?**

4 A. Yes.

5 **Purpose and Overview of Reply Testimony**

6 **Q. What is the purpose of your reply testimony?**

7 A. My reply testimony responds to certain recommendations in the testimony of  
8 Industrial Customers of Northwest Utilities (“ICNU”) witness Mr. Randall J.  
9 Falkenberg and the testimony of Oregon Public Utility Commission Staff  
10 (“Staff”) witness Ms. Kelcey Brown. Specifically, my reply testimony:

- 11 • Explains the policy reasons supporting a Commission disclaimer of  
12 jurisdiction under ORS 757.480 in this proceeding;
- 13 • Responds to ICNU’s unsubstantiated conclusion that the total cost to Oregon  
14 is higher than would be the case, absent Oregon Senate Bill 76 (“SB 76”);
- 15 • Addresses Staff and ICNU recommendations regarding the refund provision  
16 in the current tariff language of Schedule 199;
- 17 • Discusses the information customers receive on their monthly bill related to  
18 the Klamath surcharges;
- 19 • Demonstrates that the interest rate assumed for the surcharge calculation and  
20 the annual collection rate is consistent with the Klamath Hydroelectric  
21 Settlement Agreement (“KHSA”); and
- 22 • Further explains the basis for the Company’s rate spread proposal.

23

1 **Disclaimer of Jurisdiction**

2 **Q. How does the application address the eventual transfer of the Klamath dams**  
3 **and related lands to the entity that will remove the dams?**

4 A. The application asks that the Commission recognize that SB 76 has preempted the  
5 operation of the Commission property transfer statute, ORS 757.480. In the  
6 alternative, the application requests that the Commission approve the transfer  
7 under the statute contingent upon satisfaction of the conditions precedent for the  
8 transfer in the KHSA and the filing by PacifiCorp of the information required by  
9 OAR 860-027-0025.

10 **Q. What does Staff recommend on this request?**

11 A. Staff recommends that the Commission not address this request “until such time  
12 as PacifiCorp decides on dam removal.”

13 **Q. How does the Company respond to this recommendation?**

14 A. Under the KHSA, PacifiCorp is obligated to transfer the Klamath facilities to the  
15 third-party dam removal entity subject to the satisfaction of numerous conditions  
16 precedent. As such, in executing the KHSA, PacifiCorp has already made its  
17 decision to pursue dam removal under the terms of the KHSA.

18 PacifiCorp believes that it is appropriate for the Commission to consider  
19 all elements of the implementation of the KHSA in the same application rather  
20 than in several applications spread over time. Requiring subsequent approval  
21 proceedings would effectively create an additional, unilateral precondition on  
22 KHSA implementation, namely the requirement to return to the Commission and  
23 seek a disclaimer of jurisdiction or approval to transfer the hydroelectric assets to

1 the Dam Removal Entity, after the Commission has already authorized the  
2 surcharge and depreciation ratemaking adjustments. PacifiCorp believes that such  
3 an additional step is unnecessary, as no transfer authority will be effective unless  
4 all the KHSA preconditions are met, and it will create additional uncertainty in  
5 other parties' minds as to whether the Commission will fully support  
6 implementation of the KHSA.

7 **Costs to Oregon Customers**

8 **Q. How do you respond to ICNU's conclusion that "the total cost to Oregon is**  
9 **higher than would be the case, absent SB 76" (ICNU/100, Falkenberg/4, ll.**  
10 **10-11)?**

11 A. It is unsupported. The Company's economic analyses demonstrate that the total  
12 cost to Oregon customers under the terms of the KHSA compares favorably  
13 against the alternatives without the KHSA. Witnesses for Staff and the Citizens'  
14 Utility Board reviewed the Company's economic analyses and reached the  
15 conclusion that the terms of the KHSA are prudent and in the best interest of  
16 Oregon customers.

17 **Q. Did ICNU review the Company's economic analyses?**

18 A. No. Neither ICNU's consultant nor its counsel reviewed the confidential and  
19 highly confidential analyses that form the basis of the Company's decision to  
20 enter into the KHSA.

21 **Schedule 199 Refund Provision**

22 **Q. Does Schedule 199 presently contain a refund provision?**

23 A. Yes. The tariff states that it shall remain in effect "pending review by the



1 Commission as to whether the imposition of surcharges under the KHSA results  
2 in rates that are fair, just and reasonable or during any period of judicial review of  
3 such a finding. If the rates resulting from these surcharges are finally determined  
4 not to be fair, just and reasonable the surcharges shall be refunded pursuant to  
5 ORS 757.736, Subsection (5).”

6 **Q. Does your direct testimony sponsor a revision to Schedule 199 that removes**  
7 **this refund condition?**

8 A. Yes. Exhibit PPL/201 revises Schedule 199 to remove the refund condition. As a  
9 part of the application, the Company is requesting that the Commission allow  
10 Schedule 199 to go into effect without the refund condition upon a final  
11 determination under ORS 757.736(4) that the dam removal surcharges result in  
12 rates that are fair, just and reasonable.

13 **Q. What is the basis for the Company’s request?**

14 A. Under the provisions of ORS 757.736(5) the surcharges are subject to refund if:  
15 (1) the Commission, in this proceeding, determines that the surcharges result in  
16 rates that are not fair, just and reasonable, or (2) the Commission’s decision in this  
17 proceeding is subject to judicial review and rates reflecting the surcharge are  
18 finally determined not to be fair, just and reasonable. If neither of these events  
19 occur, the provisions of ORS 757.736(5) no longer apply. Instead ORS  
20 757.736(10) then applies.

21 **Q. Please describe the provisions of ORS 757.736 (10).**

22 A. The section of the law states:

23 “If one or more of the Klamath River dams will not be removed, the  
24 commission shall direct PacifiCorp to terminate collection of all or part of

1 the surcharges imposed under this section. In addition, the commission  
2 shall direct the trustee of the appropriate trust account under Section 5 of  
3 this 2009 Act to apply any excess balances in the accounts to Oregon's  
4 allocated share of prudently incurred costs to implement Federal Energy  
5 Regulatory Commission relicensing requirements."

6 Under this statute, customer refunds from the trust accounts occur only if there are  
7 excess funds after Oregon-allocated relicensing costs are paid. As such, the  
8 likelihood of a customer refund once ORS 757.736(5) is satisfied is significantly  
9 diminished.

10 **Q. With respect to the proceeds from the surcharges, Mr. Falkenberg asserts**  
11 **that "these funds should not be used by PacifiCorp for other purposes."**  
12 **(ICNU/100, Falkenberg/5, ll. 14-15.) How do you respond?**

13 A. His assertion is in conflict with the statutory provisions quoted above. In  
14 addition, as noted in my direct testimony, the Commission controls the disposition  
15 of funds from the trust funds, not PacifiCorp.

16 **Q. In light of these provisions, how do you respond to ICNU's recommendation**  
17 **that PacifiCorp track the surcharge proceeds on a class or customer basis?**

18 A. PacifiCorp is agreeable to ICNU's request that the Company track the amount of  
19 collections on a customer class basis. Tracking collections at a customer level is  
20 neither practical nor pragmatic given the diminished likelihood of a customer  
21 refund.

22 **Q. What information do customers receive on the monthly bill related to the**  
23 **surcharges?**

24 A. Each surcharge is separately identified as a line item on the monthly bill. In  
25 addition, customers received a bill message notifying them of the surcharges on

1 the first bill on which the surcharges appeared. Therefore, Mr. Falkenberg's  
2 recommendation for a separate bill stuffer is unnecessary, because customers will  
3 have already been made aware of the level and purposes of the surcharge, and will  
4 be made aware of any changes in the future, as such changes occur, consistent  
5 with the Company's usual customer information practices.

6 **Surcharge Calculation**

7 **Q. Please explain the calculation of the surcharges contained in Schedule 199.**

8 A. As discussed in my direct testimony, Section 7.3.2.A of the KHSA set the initial  
9 targeted surcharge collection at \$172 million, well under the \$200 million cap set  
10 by ORS 757.736(3) and the KHSA. This target was based on an analysis  
11 undertaken during negotiations that collected the surcharges over a ten-year  
12 period and assumed a 3.5 percent interest rate on the trust balance. The analysis  
13 is attached to the KHSA as Appendix H.

14 **Q. How was the 3.5 percent interest rate assumption determined?**

15 A. As part of the negotiations of the KHSA. Collectively, the parties to the  
16 agreement determined that the assumption was reasonable. Generally, the  
17 expectation of parties to the KHSA was that the trust funds would be invested in a  
18 manner that did not put the principal at risk, leading to a lower expected return on  
19 investment.

20 **Q. Can the surcharge collection level be adjusted in the future if the interest  
21 rate assumption is not correct?**

22 A. Yes. Actual interest earned will be one of the factors to consider when evaluating  
23 the need for adjustments to the surcharge collection.

1 **Q. How does PacifiCorp respond to ICNU's proposal that Schedule 199 be**  
2 **modified to include a different rate for each of the ten years that the**  
3 **surcharge will be in place based on the Company's load forecast in the**  
4 **Integrated Resource Plan?**

5 A. The Company does not believe this is necessary since the tariff will need to be  
6 updated on a periodic basis to reflect actual collections and updated load  
7 forecasts. The Company and the Commission will monitor collections and the  
8 Company will file to update the surcharge collections as necessary.

9 **Rate Spread**

10 **Q. How does Schedule 199 currently assign responsibility for the surcharges**  
11 **among customer classes?**

12 A. Schedule 199 is designed to allocate the surcharges among customer classes based  
13 on each class' share of generation revenues, while ensuring that the impact on  
14 each customer class does not exceed 2 percent and is not less than 1.5 percent.  
15 This proposal recognizes that the dam removal surcharges are a generation-related  
16 cost, while mitigating disparity among the classes.

17 **Q. Is an allocation based on each class' share of generation revenues consistent**  
18 **with practices in other Oregon proceedings?**

19 A. Yes. PacifiCorp's Transition Adjustment Mechanism ("TAM") is an annual  
20 update to the Company's net power costs. The TAM for 2011 net power costs is  
21 currently pending as Docket UE 216. The TAM Guidelines to which all parties  
22 have agreed spread TAM-related price changes based on each class' share of

1 generation revenues. This recognizes that the costs related to the TAM are  
2 generation-related, as is the dam removal surcharge.

3 **Q. How do you respond to ICNU's assertions that the rate spread in the**  
4 **Company's general rate case should be applied in this case?**

5 A. The general rate case includes all elements of revenue requirement, including  
6 distribution- and transmission-related costs. Any proposal to apply the rate spread  
7 from the general rate case to the Klamath surcharge must be reviewed carefully in  
8 light of this distinction.

9 **Q. Is the Company opposed to an allocation based on an equal percentage to**  
10 **each customer class?**

11 A. No. However, any change to the allocation among customer classes would need  
12 to be done on a prospective basis.

13 **Q. Does this conclude your reply testimony?**

14 A. Yes.

Docket No. UE-219  
Exhibit PPL/304  
Witness: Cory E. Scott

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF THE STATE OF OREGON**

**PACIFICORP**

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**Reply Testimony of Cory E. Scott**

**June 2010**

1 **Introduction**

2 **Q. Are you the same Cory E. Scott who submitted direct testimony in this**  
3 **proceeding?**

4 A. Yes.

5 **Purpose and Overview of Reply Testimony**

6 **Q. What is the purpose of your reply testimony?**

7 A. The purpose of my reply testimony is to provide clarification and respond to an  
8 issue raised in the testimony of Oregon Public Utility Commission Staff (“Staff”)  
9 witness Ms. Kelcey Brown. In her testimony, Ms. Brown indicates that  
10 PacifiCorp’s estimates of costs for Klamath relicensing seem “high compared to  
11 previous estimates in its relicensing proceeding. However, Staff recognizes there  
12 is the potential that these relicensing costs could be even higher than PacifiCorp’s  
13 current estimates.” (Staff/100, Brown/2, line 6-8)

14 **Relicensing Scenario Cost Estimates**

15 **Q. How do the cost estimates used in the relicensing scenario compare to**  
16 **PacifiCorp’s previous cost estimates for specific mitigation measures?**

17 A. The cost estimates for specific mitigation measures included in the relicensing  
18 scenario are consistent with PacifiCorp’s previous cost estimates developed  
19 during the relicensing proceeding, including the final license application and  
20 responses to additional information requests. To develop its relicensing scenario,  
21 PacifiCorp relied upon these previous costs estimates and adjusted these costs for  
22 inflation, as appropriate.

1 **Q. Please explain why differences may exist between PacifiCorp’s estimate of**  
2 **total relicensing costs and prior estimates that have been made during the**  
3 **relicensing proceeding.**

4 A. This filing represents PacifiCorp’s assessment of the comprehensive suite of  
5 mitigation measures that would likely be incorporated into a new license for the  
6 Klamath Project based upon the most current information developed during the  
7 relicensing proceeding. Prior assessments made by other parties during the  
8 relicensing proceeding are not comparable because they have either not included  
9 the full suite of measures likely to be incorporated into a new license, or have  
10 made an assessment of relicensing costs at an earlier time based upon information  
11 that is now dated. For instance, the relicensing scenario in the Federal Energy  
12 Regulatory Commission (“FERC”) final environmental impact statement  
13 (“FEIS”) from 2007 does not include the most current assessment of water quality  
14 mitigation measures that would likely be required since that scenario was  
15 developed before Draft Total Maximum Daily Load (“TMDL”) regulations for  
16 the Klamath River were issued by the states of California and Oregon.

17 **Q. Ms. Brown states that PacifiCorp claimed in 2007 that “...its midline**  
18 **estimate was approximately \$249 million on a net present value basis (in 2006**  
19 **dollars).” (Staff/100, Brown/8, line 12-13). Did this \$249 million cost estimate**  
20 **represent PacifiCorp’s view of relicensing costs?**

21 A. No. The Christensen Associates Energy Consulting, LLC report commissioned by  
22 PacifiCorp and referred to by Ms. Brown identified many issues with the  
23 California Energy Commission’s (“CEC”) analysis, including errors contained



1 within the relicensing scenario developed and analyzed by the CEC. These errors,  
2 when corrected, resulted in an estimated revised cost of \$249 million for the  
3 CEC's relicensing scenario. The \$249 million cost was simply a correction to a  
4 statement of relicensing costs by the CEC and did not reflect PacifiCorp's own  
5 view, or that of its consultants, on the costs of relicensing. Therefore, PacifiCorp's  
6 current assessment of relicensing costs is not inconsistent with previous  
7 statements by PacifiCorp of its own view of relicensing costs.

8 **Q. Do you agree with Staff that costs could be higher than the cost estimates**  
9 **provided for the relicensing case?**

10 A. Yes. As I stated in direct testimony, I believe costs assumed in the baseline  
11 relicensing scenario are conservative. (PPL/300, Scott/10, line 18.) Along these  
12 lines, the testimony filed by staff at the Oregon Department of Environmental  
13 Quality (Exhibit DEQ/1), Oregon Department of State Lands (Exhibit ODFW/2),  
14 and Oregon Water Resources Department (WRD/1), all point to relicensing  
15 considerations that would provide additional costs to what was assumed in the  
16 relicensing case.

17 **Q. Does this conclude your reply testimony?**

18 A. Yes.

Docket No. UE-219  
Exhibit PPL/400  
Witness: R. Bryce Dalley

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF THE STATE OF OREGON**

**PACIFICORP**

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**Reply Testimony of R. Bryce Dalley**

**June 2010**

1 **Introduction**

2 **Q. Please state your name, business address and present position with**  
3 **PacifiCorp (“Company”).**

4 A. My name is R. Bryce Dalley and my business address is 825 NE Multnomah,  
5 Suite 2000, Portland, Oregon, 97232. I am currently employed as Manager of  
6 Revenue Requirement.

7 **Qualifications**

8 **Q. Briefly describe your educational and professional background.**

9 A. I received a Bachelor of Science degree in Business Management, with an  
10 emphasis in finance from Brigham Young University in 2003. In addition to my  
11 formal education, I have also attended various educational, professional and  
12 electric industry-related seminars. I have been employed by PacifiCorp since  
13 2002 in various positions within the regulation and finance organizations. I  
14 assumed my current position in 2008. My primary responsibilities include the  
15 calculation and reporting of the Company’s regulated earnings or revenue  
16 requirement, application of the inter-jurisdictional cost allocation methodologies,  
17 and the explanation of those calculations to regulators in the jurisdictions in which  
18 the Company operates.

19 **Purpose and Overview of Reply Testimony**

20 **Q. What is the purpose of your reply testimony?**

21 A. My reply testimony addresses the depreciation of the remaining investment in the  
22 four PacifiCorp dams located on the Klamath River (“Project”) as outlined in the  
23 direct testimony of Company witness Andrea L. Kelly. In addition, I address

1 Oregon Public Utility Commission Staff (“Staff”) witness Ming Peng’s  
2 calculation of new depreciation rate schedules for the Project.

3 **Depreciation**

4 **Q. How does PacifiCorp propose to depreciate the remaining investment in the**  
5 **Project?**

6 A. As described in Ms. Kelly’s direct testimony, the Company proposes to depreciate  
7 the remaining investment in the Project on a straight-line basis over the expected  
8 period of generation from the Project, which could end as early as December 31,  
9 2019. This proposal is consistent with ORS 757.734(1).

10 **Q. When would the new depreciation rates be implemented by the Company?**

11 A. In the Company’s pending general rate case, Docket UE 217 (“2010 Rate Case”),  
12 the revenue requirement calculation reflects an accelerated straight-line  
13 depreciation schedule for the Project based on existing plant balances and a  
14 terminal life assumption of December 2019. Consistent with the rate effective  
15 date of the 2010 Rate Case, the new depreciation rates for the Project would  
16 become effective on January 1, 2011.

17 **Q. Will the depreciation rates need to be adjusted to reflect new capital**  
18 **additions and retirements?**

19 A. Yes. As the net book value of the Project fluctuates each month due to capital  
20 additions and retirement activity, the associated depreciation rates will need to be  
21 adjusted to ensure the facilities are fully depreciated prior to the end of the  
22 expected period of generation. As such, the Company requests that the  
23 Commission allow for changes to the Klamath depreciation rates as the net book

1 value changes to avoid un-depreciated balances at the end of the Project's useful  
2 life.

3 **Q. Are the depreciation calculations outlined in Ms. Peng's direct testimony**  
4 **consistent with the Company's 2010 Rate Case filing?**

5 A. Yes. Ms. Peng's proposal is consistent with the Company's revenue requirement  
6 calculation presented in the 2010 Rate Case. Specifically, the depreciation  
7 calculation is developed using a straight-line method based on historical balances  
8 and a terminal life assumption of December 2019.

9 **Q. Does this conclude your reply testimony?**

10 A. Yes.