TABLE OF CONTENTS

[QUALIFICATIONS 1](#_Toc425238942)

[PURPOSE AND SUMMARY OF TESTIMONY 2](#_Toc425238943)

[WALLA WALLA—HISTORICAL CONTEXT 2](#_Toc425238944)

[WWCC IS A NOMINAL PARTY 7](#_Toc425238945)

[PACIFIC POWER’S NET REMOVAL TARIFF 10](#_Toc425238946)

[Procedural History of the Net Removal Tariff 10](#_Toc425238947)

[Terms of the Net Removal Tariff 14](#_Toc425238948)

[EVOLUTION OF COST CALCULATIONS UNDER THE NET REMOVAL TARIFF 17](#_Toc425238949)

[OPERATIONAL REASONS FOR REMOVING UNDERGROUND FACILITIES
UPON A CUSTOMER’S REQUEST FOR PERMANENT DISCONNECTION 22](#_Toc425238950)

[Duty Imposed Under the NESC 23](#_Toc425238951)

[Net Book Value Does Not Capture All of the Actual Costs Resulting from a
Customer’s Request to Permanently Disconnect 24](#_Toc425238952)

ATTACHED EXHIBITS

Exhibit No. RBD-2: Walla Walla Service Area Maps

Exhibit No. RBD-3: Complainant’s Response to DR 35

Exhibit No. RBD-4: Professional Resume of Mr. Stanley M. Schwartz

Exhibit No. RBD-5: January 3, 2013 Agreement between WWCC and Columbia REA

Exhibit No. RBD-6: November 30, 2012 Electric Service Agreement

Exhibit No. RBD-7: Columbia REA Customer Requested Work Agreement

Exhibit No. RBD-8: Additional Documents Relating to the Removal of Conduit on Columbia REA Property

Q. Please state your name, business address, and present position with Pacific Power & Light Company (Pacific Power or Company), a division of PacifiCorp.

A. My name is R. Bryce Dalley and my business address is 825 NE Multnomah Street, Suite 2000, Portland, Oregon 97232. I am currently employed as Vice President, Regulation for Pacific Power.

# QUALIFICATIONS

Q. Please describe your education and professional experience.

A. I received a Bachelor of Science degree in Business Management with an emphasis in finance from Brigham Young University in 2003. I completed the Utility Management Certificate Program at Willamette University in 2009, and I have also attended various educational, professional, and electric industry-related seminars.

I have been employed by Pacific Power since 2002 in various positions within the regulation and finance organizations. I was appointed Manager of Revenue Requirement in 2008 and was promoted to Director, Regulatory Affairs and Revenue Requirement in 2012. I assumed my current position as Vice President, Regulation, in January 2014. I am responsible for all regulatory activities in Washington, Oregon, and California.

Additionally, I oversee a number of other departments in the Company, including the Customer and Regulatory Liaison Department. The ten members in that department work closely with the Washington Utilities and Transportation Commission (Commission) Staff in resolving customer complaints. The members of that team ensure internal processes and systems comply with all tariffs. Additionally, they represent the Company in the process of seeking approval of tariff revisions.

# PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. My testimony addresses a number of issues arising from the general competitive practices of Columbia Rural Electric Association (Columbia REA), as well as its specific actions to secure the Walla Walla Country Club (WWCC or Club) as its customer. Those general practices and specific actions have further highlighted the operational and safety reasons for removal of facilities when a customer requests permanent disconnection.

Q. Please list the topics addressed in your testimony.

A. Mr. William G. Clemens, Pacific Power’s Regional Business Manager, addresses the significant safety reasons for removal of facilities when a customer requests permanent disconnection.[[1]](#footnote-1)My testimony addresses the following:

* The unique circumstance resulting from Columbia REA exceeding its historical mandate and capitalizing on the absence of a service area agreement with Pacific Power by aggressively pursuing Pacific Power’s customers;
* The terms and application of Pacific Power’s net removal tariff; and
* The operational reasons for removing facilities when a customer requests permanent disconnection.

# WALLA WALLA—HISTORICAL CONTEXT

Q. Does Pacific Power provide electric utility service to communities in Eastern Washington?

A. Yes. In 1910, four small electric companies in Astoria and Pendleton, Oregon, and Walla Walla and Yakima, Washington, became Pacific Power. The new company served 7,000 customers. Since that time, Pacific Power has grown to serve communities throughout Eastern Washington.

**Q. Is Washington unique among the states served by PacifiCorp?**

A. Although PacifiCorp serves customers in six states (California, Idaho, Oregon, Utah, Washington, and Wyoming), its tariff provisions related to permanent disconnection and removal of facilities are unique to Washington. Unlike any other state jurisdiction in which PacifiCorp provides electric service, Washington does not have statutory provisions granting exclusive service areas to electric utilities. Because PacifiCorp’s service areas in its other states are exclusive, it does not face safety or operational concerns related to customer requests for permanent disconnection arising from competition with other utilities for customers.

Pacific Power’s net removal tariff is not only unique among PacifiCorp’s state jurisdictions, but it is also unique among electric utilities in Washington. To protect customers, avoid duplicative facilities, and prevent disputes over service area, most utilities in Washington have service area agreements. Although Washington does not have allocated service areas, the Washington Legislature has stated that it is in the public interest for cooperatives and public utilities to establish service area agreements to prevent duplication of facilities. Pacific Power agrees with the legislature, and all neighboring utilities in Washington have successfully negotiated service area agreements—including public utility districts, municipal utility districts, rural electric associations and cooperatives, and other investor-owned utilities—except Columbia REA.

In just two counties in Washington (Columbia and Walla Walla), the regulated electric utility (Pacific Power) has been unable to negotiate a service area agreement with the rural electric association (Columbia REA), despite engaging in negotiations—including negotiations mediated by Commission Staff. Pacific Power customers can therefore choose to permanently discontinue receiving service from the Company and switch electric service providers. This unique situation requires a tariff governing the terms of permanent disconnection, including appropriately charging departing customers for the total actual costs of disconnection. Such a tariff is necessary to protect Pacific Power’s remaining customers from cost shifting.

Q. Is Pacific Power party to any service area agreements with a rural electric association in Eastern Washington?

A. Yes. For 20 years, Pacific Power and the Benton Rural Electric Association (Benton REA) have enjoyed a great working relationship under a service area agreement. In fact, the Company and Benton REA just renewed the agreement with another 20-year term.

Q. What is the Rural Electrification Act of 1936?‎

A.‎ The Rural ‎Electrification Act of 1936 was enacted to provide federal loans to further “rural ‎electrification and the furnishing of electric energy to persons *in rural areas ‎who are not ‎receiving central station service*[.]”[[2]](#footnote-2)

**Q. When did Columbia REA first begin its efforts to compete in the greater Walla Walla area serviced by Pacific Power?**

A. As mentioned previously, Pacific Power has served customers in Columbia and Walla Walla counties since 1910. Pacific Power did not have any customers requesting permanent disconnection to switch electric utility providers until 1999, which ultimately necessitated the filing of the net removal tariff. My understanding is that Pacific Power and Columbia REA had an informal agreement that whichever utility’s facilities were closer to a customer would serve that customer. This agreement prevented duplication of facilities and safety and operational concerns. Columbia REA respected that agreement until a management change in 1999.

**Q. Since 1999, have there been any efforts to establish a service area agreement with Columbia REA?**

A. Pacific Power filed a motion to suspend proceedings in Docket UE-001734 on July 27, 2001, indicating an interim service area agreement had been reached with Columbia REA. The Commission granted Pacific Power’s request to suspend proceedings, approved the interim service area agreement in Docket UE-011085, and appointed a mediator to assist with the negotiations of a permanent service area agreement. Between July 2001 and May 2002, Pacific Power and Columbia REA had several meetings to discuss the terms of a permanent service area agreement but were unable to reach such an agreement. The details of the negotiations are protected under a confidentiality agreement. On May 21, 2002, the Company notified the Commission that negotiations were unsuccessful and requested to proceed with Docket UE-001734.

Pacific Power and Columbia REA resumed service area negotiations starting on May 15, 2003. Those negotiations formally ended July 29, 2004, again with no agreement being reached. The details of those negotiations are also protected under a confidentiality agreement.

In 2007, Pacific Power reached out to the CEO of Columbia REA about a service area agreement. The CEO of Columbia REA informed Pacific Power’s President that Columbia REA would not solicit customers served by Pacific Power but declined to sign an agreement. From 2007 to the present, the number of permanent disconnections requested has increased significantly, making it clear that Columbia REA actively solicited Pacific Power’s customers in spite of the informal agreement that had been reached. This has resulted in numerous safety and operational concerns about the effect on rates for Pacific Power’s remaining customers. Given these safety and operational concerns, in September 2013, Pacific Power’s President requested in writing that the Columbia REA CEO work with Pacific Power to negotiate a service area agreement. Columbia REA did not acknowledge the request in a written response, although Pacific Power and Columbia REA communicated by telephone. The Pacific Power President raised the issue and requested support from the mayors of Walla Walla, College Place, and Dayton, which are communities that have been adversely affected by Columbia REA’s active solicitation and installation of duplicate facilities. Each mayor committed to support a service area agreement. In addition, the Mayor and City of College Place recommended including a requirement for a service area agreement as part of a right-of-way safety ordinance.

**Q. Please describe some of the competitive practices employed by Columbia REA in Walla Walla and Columbia counties since 1999.**

A. The Company is aware of direct solicitations that Columbia REA has made to existing Pacific Power customers by in-person visits to businesses, media ads and direct electronic mail. These solicitations have included offers of rates that are lower than Pacific Power’s authorized rates, offers to cover the line extension expenses, offers to pay the cost of removing facilities such as the offer in this case, as well as offers to lock rates for five years.

**Q. What is the direct result of the Columbia REA’s competitive practices in Walla Walla and Columbia Counties since 1999?**

A. The most concerning result is the unnecessary and unsafe duplication of facilities caused by Columbia REA’s aggressive pursuit of Pacific Power’s customers. The competitive practices employed by Columbia REA have drastically changed the landscape in Walla Walla. To illustrate this impact, I have provided maps of Pacific Power’s Walla Walla service area as it existed in 1997, 2007, 2010 and 2013, as Exhibit No. RBD-2.

Columbia REA’s practices also have resulted in a drastic increase in permanent disconnections. As reported in the thoroughgoing report filed in November of 2013 in Docket UE-132182, between 2003 and 2012, Pacific Power permanently disconnected 68 customers. In 2013 alone, Pacific Power provided 44 estimates for permanent disconnection.

# WWCC IS A NOMINAL PARTY

**Q. How is the context regarding Columbia REA and its actions in Walla Walla relevant in this proceeding?**

A. While the WWCC is the named Complainant, as reflected by its prior actions before the Commission on the topic of Pacific Power’s net removal tariff, as well as the documents produced in this proceeding, Columbia REA is the driving force and the real party in interest in this docket.

**Q. Has Columbia REA been active before the Commission on the topic of Pacific Power’s net removal tariff?**

A. Yes. Columbia REA has intervened in all proceedings relating to the net removal tariff. Most recently, it intervened in Docket UE-132182 and proposed a number of changes to Schedule 300 and Rule 6, all pertaining to facilities removal. Clearly, Columbia REA seeks a more favorable environment to continue its pursuit of customers, unimpeded by the cost of necessarily removing facilities.

**Q. What did Columbia REA do when Pacific Power elected to withdraw the portion of its proposed tariff revision pertaining to Schedule 300 and Rule 6, to allow for gathering additional information regarding the costs of removal and other operational and safety considerations presented by customer requests for permanent disconnection?**

A. First, it objected to the withdrawal. Shortly after the Commission granted Pacific Power’s motion to withdraw and dismissed Columbia REA as a party, a civil lawsuit was initiated against Pacific Power in Walla Walla County Superior Court.

**Q. Was the WWCC the named plaintiff in that action?**

A. Yes. Pacific Power has since learned, however, that Columbia REA was entirely responsible for funding that action, which was ultimately removed to the United States District Court for the Eastern District of Washington and dismissed by the Honorable Lonny R. Suko.

**Q. Specifically, what has Pacific Power learned about the relative roles of Columbia REA and the WWCC in prior civil litigation and in this proceeding against Pacific Power?**

A. Initially, two law firms were listed as counsel to the WWCC in this proceeding, Witherspoon Kelley and Reese ‎Baffney Frol & Grossman. ‎The lead attorney was Stanley Schwartz, who is General Counsel to Columbia REA.[[3]](#footnote-3) When the civil action was dismissed by Judge Suko and this proceeding was initiated, a third law firm was added to the team, Davison Van Cleve. It appears that Columbia REA’s General Counsel, Mr. Schwartz, remains the lead attorney. Columbia REA is responsible for paying the fees of all three law firms as well as all court costs and other litigation-related expenses.[[4]](#footnote-4)

Additionally, Columbia REA has agreed to be responsible for all costs associated with disconnection from Pacific Power, with the exception of the WWCC paying $271.00 per month on a thirty-six month, no-interest loan of $9,790.50.[[5]](#footnote-5)

Under the terms of their Electric Service Agreement, Columbia REA anticipates the cost of constructing necessary facilities on the WWCC property will total $318,732.50.[[6]](#footnote-6) Columbia REA is entirely responsible for all of the actual construction costs.[[7]](#footnote-7) Securing the use of facilities installed by Pacific Power at net book value would save Columbia REA considerable expense. That is one of the primary policy issues presented in this proceeding—whether Columbia REA should enjoy a competitive advantage at the expense of remaining Pacific Power customers.

Q. Is the true issue presented bigger than what is reflected in Complainant’s testimony?

A. Certainly. Columbia REA is a real party in interest. It is paying three law firms to prosecute its position, through the nominal Complainant, the WWCC. Pacific Power understands there are a number of other customers who have been solicited by Columbia REA and are simply sitting on the sidelines, while awaiting the outcome of this matter.

# PACIFIC POWER’S NET REMOVAL TARIFF

**Q. What was the impetus for Pacific Power seeking to implement a tariff to charge a customer for the cost to permanently disconnect from Pacific Power’s system when switching utility providers?**

A. As I mentioned previously, Columbia REA’s aggressive solicitation of Pacific Power customers necessitated the filing of a net removal tariff.

## Procedural History of the Net Removal Tariff

**Q. What is the procedural history of the net removal tariff?**

A. On November 9, 2000, in Docket UE-001734, Pacific Power filed a request to implement a tariff to charge a customer for the cost to permanently disconnect from Pacific Power’s system when switching utility providers. The Commission suspended the tariff revisions on November 29, 2000, pending hearings on the Company’s proposal.

On May 11, 2001, the Company filed direct testimony.[[8]](#footnote-8) Commission Staff filed testimony on July 2, 2001, which included alternative tariff language, referred to as the “Modified Tariff Proposal.”[[9]](#footnote-9) Under the Modified Tariff Proposal, the Company would charge all customers requesting to permanently disconnect service if the Company’s facilities used to provide service would not likely be reused by Pacific Power at the site. Commission Staff also proposed a sunset date and reporting requirements. Testimony was filed by Columbia REA, which had been granted intervention in the proceeding on a limited basis on July 3, 2001.[[10]](#footnote-10)

On August 20, 2002, Pacific Power filed rebuttal testimony, which included acceptance of the Modified Tariff Proposal sponsored by Staff.[[11]](#footnote-11) An evidentiary hearing was held on September 20, 2002.

 The Commission issued the Eighth Supplemental Order in Docket UE-001734 approving the Company’s filing on November 26, 2002. In the order, the Commission referenced the sunset date and reporting requirement discussed with the Modified Tariff Proposal; however, neither provision was included in the ordering paragraphs or Appendix A of the order. The Company filed its compliance tariff on December 12, 2002, Advice No. 02-010, Docket UE-021649. The Company later filed substitute pages in Docket UE-021649 on December 20, 2002, and December 23, 2002. On December 30, 2002, the Commission issued its Ninth Supplemental Order in Docket UE-001734 approving the Company’s compliance tariffs. The Company began filing annual reports with the Commission in 2004.

In 2006, the Company reviewed the Commission’s eighth and ninth supplemental orders in Docket UE-001734 and contacted Mr. Henry McIntosh, Commission Staff’s witness in that docket, regarding the sunset date and reporting requirements. The Company asked Mr. McIntosh whether any action was required to address the order’s discussion of the sunset date. Mr. McIntosh agreed with the Company that the ordering paragraphs did not include the sunset date and therefore no action was required. Mr. McIntosh recommended the Company continue to file its annual report. Given this guidance from Commission Staff, the Company did not take any further action related to the sunset date. As advised by Commission Staff, the Company has continued to file an annual report each year.

The first change to the Company’s net removal tariff was filed June 7, 2012, Advice 12-04, Docket UE-120846, in accordance with RCW 80.28.060 and WAC 480-80-105. The purpose of the filing was to relocate the rule from Rule 4, *Application for Electric Service*, to Rule 6, *Facilities on Customer’s Premise,* add clarity to the methodology used to calculate the net removal costs, and add time for the Company to complete the reconciliation of the estimate to actual costs. Before submitting this filling, Pacific Power met with Michael Foisy of Commission Staff to discuss all the changes, using the cover letter it had drafted for the filing as a guide. Commission Staff did not have any objections to the proposed changes, and the proposed filing was added to the No Action Agenda for the Commission’s July 12, 2012 Open Meeting. The tariff revisions became effective on July 13, 2012.

The only other proposed change to the net removal tariff was filed on January 11, 2013, as part of the Company’s general rate case (Docket UE-130043). The initial filing included proposed revisions to Pacific Power’s Schedule 300, *Charges as Defined by the Rules and Regulations*, and Rule 6, *General Rules and Regulations*. Schedule 300 and Rule 6 relating to the costs charged to customers for permanent disconnection, removal of facilities, and reconnection.

Commission Staff, Public Counsel, the Energy Project, and the Columbia REA filed testimony in Docket UE-130043 on June 21, 2013. Public Counsel, the Energy Project, and Columbia REA objected to the Company’s proposed changes to Schedule 300 and Rule 6. Specifically, all three parties questioned the use of estimates of the costs associated with disconnection and reconnection of service, rather than actual cost data, to support the proposed revisions.

In response to the parties’ concerns, Pacific Power filed a motion to withdraw its proposed revisions to Schedule 300 and Rule 6 from Docket UE-130043 on July 11, 2013. In the motion, Pacific Power acknowledged the lack of actual cost data to support its proposed tariff revisions and moved to withdraw the changes to allow the Company to collect and analyze information regarding the actual costs of removal. The Company also took the opportunity to analyze the other operational and safety considerations associated with customer requests for permanent disconnection.

The Commission granted the Company’s motion to withdraw its proposed revisions to Schedule 300 and Rule 6 from Docket UE-130043 in Order 04, issued July 29, 2013. In that order, the Commission noted that a thoroughgoing review of Schedule 300 and Rule 6 was overdue. Further, reports regarding experience under the tariff would help ensure reasonable conduct by all concerned, and provide data to evaluate the tariff’s operation. Accordingly, Pacific Power was directed to file a new docket a thoroughgoing report detailing its experience in applying Schedule 300 and Rule 6.

On November 27, 2013, Pacific Power filed its “Report on Permanent Disconnection and Removal of Facilities under Schedule 300 and Rule 6” in compliance with Order 04.

## Terms of the Net Removal Tariff

**Q. What does the net removal tariff provide regarding the allocation of costs in the event a customer requests permanent disconnection?**

A. Pacific Power’s net removal tariff is contained in Rule 1, Rule 6 and Schedule 300. Permanent Disconnection is defined as follows: “Disconnection of service where the customer has either requested the Company permanently disconnect the Company’s facilities or chosen to be served by another electric utility provider.”[[12]](#footnote-12) Rule 6 provides: “When Customer requests Permanent Disconnection of Company’s facilities, Customer shall pay to Company the actual cost for removal less salvage of those facilities that need to be removed for safety or operational reasons ….”[[13]](#footnote-13) Pacific Power is required to provide an estimate of the cost of removing facilities, before initiating the work.[[14]](#footnote-14) The customer is required to pay the estimated amount, before disconnection and removal of the facilities[[15]](#footnote-15) No later than 60 days after disconnection and removal, Pacific Power determines the actual cost for removal less salvage, and issues either an invoice or refund.[[16]](#footnote-16)

Schedule 300 of Pacific Power’s tariff also provides that the rate charged for removal of facilities for “non-residential service removals” is the “actual cost less salvage.”[[17]](#footnote-17)

**Q. How is Pacific Power’s net removal tariff applied?**

A. The net removal tariff is necessarily applied in conjunction with safety standards and codes, such as the National Electric Safety Code (NESC), municipal requirements, as well as Company standards and policies.

**Q. In general, how would you describe the history of Pacific Power’s application of the net removal tariff?**

A. The Company has been applying the net removal tariff since its approval in 2002. Because this tariff is so unique, and because Pacific Power’s focus is providing safe and reliable electric service to its customers at just and reasonable rates (and not permanently disconnecting service), the Company has been learning how to appropriately implement the tariff as disconnections are performed. The Company’s focus is safety issues related to duplicate facilities and preventing remaining customers from subsidizing the costs created by departing customers. As reflected in Pacific Power’s thoroughgoing report in Docket UE-132182, application of the net removal tariff has been inconsistent as the Company’s experience and knowledge has increased. As an example, for a period of time, Pacific Power agreed to sell and transfer underground facilities upon permanent disconnection as an accommodation to disconnecting customers.

**Q. Please provide an example of a circumstance in which a former customer requested or insisted upon purchasing underground facilities.**

A. A good example is the City of Walla Walla hydro/water facility. Consistent with Section 4.A of Pacific Power’s franchise agreement with the City of Walla Walla, Pacific Power provided the accommodation. The City contractually assumed ownership of certain facilities. An effort was made to relieve Pacific Power of future liability relating to those facilities. But in light of a provision of the NESC that I will later discuss, there remains a significant issue as to whether Pacific Power is actually relieved of liability, particularly as to third parties. The governing bill of sale included a provision prohibiting use of the facilities by another electric service provider.

**Q. Does Pacific Power continue to accommodate customers requesting permanent disconnection by agreeing to sell and transfer underground facilities?**

A. No. As I will later address, Pacific Power interprets the NESC to obligate the Company to remove or perpetually maintain the underground facilities upon disconnection. The NESC does not provide for contractually transferring the duty to maintain facilities that are not removed and any resulting liability.

**Q. Please provide an example of a circumstance in which Pacific Power removed underground conduit, on the property of a customer requesting permanent disconnection.**

A. On October 31, 2013, Columbia REA submitted a Customer Requested Work Agreement, by which Pacific Power was requested to remove its facilities including underground conduit, on Columbia REA’s property located at 115 East Rees, Walla Walla County, State of Washington.[[18]](#footnote-18) Columbia REA submitted a check for the entire estimated cost of removal. As reflected in the additional documents relating to that removal, Columbia REA has failed to pay the outstanding balance of $2,588, reflected in the final invoice.[[19]](#footnote-19)

**Q. At any point during the process of removal of conduit from its property, did Columbia REA take any of the positions now advocated in this matter through the WWCC?**

A. No. Columbia REA never contended that the conduit should be left in the ground in exchange for payment of net book value.

# EVOLUTION OF COST CALCULATIONS UNDER THE NET REMOVAL TARIFF

Q. Has Pacific Power’s method of calculating costs under the net removal tariff evolved over time?

A. Because implementation of the net removal tariff has been a learning process for the Company, the Company’s cost calculation methods have been refined over time. New issues have also arisen as permanent disconnection requests have increased.

When the Company’s tariff was initially approved in 2002, the charges for removal of residential service drops and meters only were set at $200 for overhead service and $400 for underground service. These charges were based on the Company’s estimated cost for performing the work. For all other removals, the charge was set at “Actual Costs, Less Salvage.” The Company initially considered net removal costs as the labor cost to remove the facilities less any salvage value. This charge was intended to be reasonable and fair, but to also avoid or lessen the impact on remaining customers. Net book value of the removed facilities was not included in the calculation. The salvage value was determined from the Company’s Retail Construction Management System (RCMS).

As the Company gained experience in applying the net removal tariff, the methodology for the calculation was refined. In 2003, the Company identified situations where the salvage value exceeded the actual (labor) costs. In this situation, using the actual (labor) cost less salvage resulted in a credit to the customer. This made it clear that not all costs were being included using this calculation methodology. Pacific Power therefore modified how it determined salvage value and began to offset salvage by the net book value of the removed facilities. If the calculation resulted in a positive number, then the customer was credited a salvage value. If it resulted in a negative number, no credit for salvage would be applied to the job. The Company followed this policy until late 2012.

With the significant increase in removal work performed in 2010 and 2011, the Company again reviewed its calculation methodology and determined that it needed to update its calculation of net book value because the remaining net book value of the removed facilities was not being appropriately captured in the calculation. Since the net book value of the removed facilities is a cost that the Company incurs as a result of the customer’s request to permanently disconnect electric service, the Company considers net book value a component of the actual cost of the removal. Beginning in late 2012, the Company included the remaining net book value of the removed facilities in the actual cost for removals. The method used to calculate net book value is further described below.

The Company also determined that a more consistent approach to establishing salvage value of electric facilities for removal work was necessary. The Company therefore developed a template worksheet to determine salvage value.

A. Method to Calculate Net Book Value

Net Book Value Calculation:

Net Book Value = Retirement Amount (Gross Plant) – Accumulated Depreciation

The Company uses the group depreciation method for its fixed assets; the estimated accumulated depreciation for an asset within an asset group is the calculated depreciation for the asset based on its vintage and the retirement characteristics (the approved survivor model or Iowa Curve) for the asset group.

The retirement amount of the asset is determined as follows:

Specific Asset Identification (gross cost):

The removed asset is specifically identified from the Company’s property records.

Assets Using Handy Whitman Index (gross cost):

If the removed asset is not specifically identified in the Company’s property records, then the Company will apply the Handy-Whitman Index of Public Utility Construction Cost (HW). The HW was developed specifically for electric utility construction and used to trend earlier valuations and original cost records to estimate reproduction cost at prices prevailing at a certain date. The index consists of prices and cost trends for basic materials, labor, and equipment.

The calculation for a removed asset using the HW is:

* Retirement amount = Vintage year HW (1) / Current year HW \* Cost of new asset
1. Vintage year is the estimated year that the removed asset was originally installed.

Mass Assets (gross cost):

Mass assets are typically referred to as poles and conductor where the assets are tracked by location, vintage year, and asset class. Mass assets are retired based on the average costs of all assets for the given location, vintage year, and asset class. The calculation for a removed Mass Asset is:

* Retirement amount = Average costs of installed asset for a given location, vintage year (1), asset class \* quantity retired.

B. Method of Salvage Value Calculation

The Company provides a full salvage value if facilities are to be reused by the Company in their current condition.  This value is the average price from Pacific Power’s material management accounting system (SAP MM).  For transformers older than two years, the Company sends the transformers in for maintenance before redeploying them. For these transformers, the salvage value used is a percentage of the SAP MM price.

 The Company performs annual inventory audits at all of its locations. Additionally, every three to four years there is an internal audit performed by an internal finance team. The last internal audit conducted for the Company’s Walla Walla district occurred in 2011. The Company completed its internal audit of its Yakima district September 2013.

C. Other Cost Calculation Issues

1. *Line Extension Costs*

Pacific Power’s Washington Rule 1, approved by the WUTC, defines “extensions” as:

[A] branch from, a continuation of, or an increase in the capacity of Company owned transmission or distribution lines or facilities that have not been removed, at customer request, within the last five years. An Extension may be single-phase, three-phase, or a conversion from single-phase to three-phase. The Company will *own, operate and maintain* all Extensions made under these Rules. (Emphasis added)

Facilities are those things designed, built, installed, or otherwise used to serve the specific function of providing electric power and service. The demarcation point between a customer’s facilities and the Company’s facilities is the point of attachment. The Company owns all facilities up to the point of attachment, as well as the meter. Customers own the facilities beyond the point of attachment, excluding metering.

The Company does not have a specific reporting process that provides a summary of all the facilities that were paid for or provided by customers through a line extension. The Company can identify the facilities provided by customers through a line extension through a manual review of individual work orders. The Company does not include facilities that were provided or installed by customers in the original line extension when determining net book value.

In the context of its various interventions in proceedings before the Commission, Columbia REA has questioned whether the Company provides a credit to those customers who paid a portion of the installation costs for the facilities being removed. The Company has not historically included line extensions that were paid for by customers in its calculations for permanent disconnection. In reviewing the actual cost calculation methodology, the Company made a change to incorporate customer contributions made toward the original installation as a credit towards the net book value of the facilities removed. Removal requests made within five years of the line extension installation are eligible for a proportional line extension credit. This five-year timeframe is consistent with the duration used for customer refunds on line extensions.[[20]](#footnote-20) It is important to note, however, that facilities that were paid for as part of a line extension could be removed at no cost to the departing customer if the facilities are located within the public right-of-way. Since 2003, the Company has completed a total of 9,514 line extensions in Washington. Of those line extensions, two had permanent disconnections completed within five years of the line extension being installed.

# OPERATIONAL REASONS FOR REMOVING UNDERGROUND FACILITIES UPON A CUSTOMER’S REQUEST FOR PERMANENT DISCONNECTION

Q. Has Pacific Power ultimately concluded that operational reasons require removal of underground facilities when any customer requests a permanent disconnection?

A. As I previously mentioned, Mr. Clemens addresses the safety reasons necessitating removal of underground facilities when a customer requests permanent disconnection. In addition to those safety reasons, Pacific Power has concluded that operational considerations necessitate removal of underground facilities whenever a customer requests permanent disconnection.

## Duty Imposed Under the NESC

Q. Please identify and discuss the operational reasons for necessarily removing all underground facilities upon a customer’s request for permanent disconnection.

A. First, Pacific Power interprets the NESC to require removal of all underground facilities unless the utility provider is willing to assume the duty to perpetually maintain those facilities after permanent disconnection.

NESC Part 3, Safety Rules for the Installation and Maintenance of Underground Electric Supply and Communication Lines, Section 313.B.3, requires that the Company’s unused underground lines and equipment either be removed or maintained in a safe condition. Because the Company has an obligation both to reduce costs for its customers and comply with the requirements of the NESC, the Company determined that all Company facilities not likely to be reused by Pacific Power to serve its customers would be removed as part of a customer’s request to permanently disconnect service, including underground facilities. This eliminates the need for the Company to track or to maintain the facilities or to remove them at a later date.

I have reviewed the testimony of Mr. Marne, submitted on behalf of the Complainant. Mr. Marne essentially concedes that NESC Section 3 does not provide for the sale of underground facilities to a departing customer or the new utility provider, with termination of the duty of perpetual maintenance. Specifically, Mr. Marne avoids that issue by stating: “NESC Rule 313.B.3 does not provide specific details for individual circumstances.”[[21]](#footnote-21) Pacific Power has carefully reviewed the NESC and there is absolutely no limitation upon the duty of the disconnecting utility provider to remove or maintain the underground facilities in a safe condition. Pacific Power is simply not prepared to expose its remaining customers to the potential negative financial ramifications of failing to strictly adhere to the governing provisions of the NESC.

Q. You previously mentioned that Pacific Power no longer agrees to accommodate a disconnecting customer by selling underground facilities. Did the terms of the net removal tariff play any role in that ultimate decision?

A. Yes. The net removal tariff does not provide for the sale of underground facilities upon permanent disconnection. Pacific Power concluded that the few accommodations afforded to departing customers since the net removal tariff was initially approved in 2002 were inconsistent with the net removal tariff.

## Net Book Value Does Not Capture All of the Actual Costs Resulting from a Customer’s Request to Permanently Disconnect

Q. Columbia REA, through the Club in this matter, argues that departing customers should be allowed to purchase underground facilities for just net book value. Would that be sufficient to cover all of the actual costs to Pacific Power’s remaining customers?

A. No. Other fixed costs of providing service to customers would be shifted to other Pacific Power customers. In effect, even in a circumstance where a customer pays the net book value associated with facilities on a customer’s property, Pacific Power’s other customers would absorb fixed transmission and generation costs no longer borne by the departing customer. Although the net removal tariff is intended to hold Pacific Power’s remaining customers ‎harmless from the effects of a departing customer, not all costs can be captured in the ‎cost calculation.

In addition, the Company’s tariff states the actual cost for removal of facilities may not ‎include any amount for facilities located on a public right-of-way, except for the service ‎drop and meter or unless the customer specifically requested that those facilities to be ‎removed. In 2012, the Company also excluded the removal of area lights from the ‎costs that departing customers would pay, provided that the customer had been billed ‎for the light for a minimum of three years. The Company has been encouraging the ‎removal of area lights due to the costs associated with maintaining and replacing them. ‎By excluding the removal of area lights from the amounts a customer would pay, the ‎Company eliminated any barrier a customer might have from requesting that only the ‎area light be removed.‎

 Because net book value is insufficient to capture the full financial impact resulting from a customer requesting to disconnect from Pacific Power’s system, additional stranded costs should be evaluated as part of the net removal tariff to ensure remaining customers are not negatively harmed by a departing customer. As the Company has gained more experience with the application of the net removal tariff, these issues have surfaced. The Company intends to address these items in a future revision to the net removal tariff, but Pacific Power is not proposing those modifications in this docket.

Q. In the very unique competitive environment resulting from Columbia REA aggressively pursuing customers of a regulated utility, in this case Pacific Power, all in the absence of a service area agreement, would Columbia REA enjoy a competitive advantage by acquiring facilities installed by Pacific Power for just net book value?

A. Yes. Using the immediate circumstance as an example, to install just the underground facilities (conduit and vaults) would cost roughly $94,500. Through the WWCC and its paid experts, Columbia REA seeks to acquire all existing ‎(above-ground and underground) ‎facilities for net book value, $24,049. The total current net book value is $30,813.46 but that includes $6764 of WWCC-provided facilities.

As I mentioned previously, under the terms of their Electric Service Agreement, Columbia REA anticipates the cost of constructing necessary facilities on the WWCC property will total $318,732.50.[[22]](#footnote-22) Columbia REA is entirely responsible for all of those construction costs.[[23]](#footnote-23) Securing the use of Pacific Power owned facilities at net book value would save Columbia REA considerable expense. Pacific Power’s remaining customers should not be required to subsidize Columbia REA’s expansion of its service area.

Q. Does this conclude your direct testimony?

A. Yes.

1. Pacific Power Exhibit No. WGC-1T. [↑](#footnote-ref-1)
2. 7 U.S.C. 902, Sec. 2 (emphasis added). [↑](#footnote-ref-2)
3. Exhibit No. RBD-3 (Complainant’s Response to DR 35) and Exhibit No. RBD-4 (Professional resume of Mr. Schwartz). [↑](#footnote-ref-3)
4. Exhibit No. RBD-5 (January 3, 2013 Agreement between WWCC and Columbia REA). [↑](#footnote-ref-4)
5. *Id.* [↑](#footnote-ref-5)
6. Exhibit No. RBD-6 (November 30, 2012 Electric Service Agreement). [↑](#footnote-ref-6)
7. *Id.* [↑](#footnote-ref-7)
8. Direct Testimony of William G. Clemens on behalf of Pacific Power, Docket UE-001734. [↑](#footnote-ref-8)
9. Testimony of Henry B. McIntosh on behalf of Commission Staff, Docket UE-001734. [↑](#footnote-ref-9)
10. Testimony of Thomas Husted on behalf of Columbia REA, Docket UE-001734. [↑](#footnote-ref-10)
11. Rebuttal Testimony of William G. Clemens on behalf of Pacific Power, Docket UE-001734. [↑](#footnote-ref-11)
12. Rule 1. [↑](#footnote-ref-12)
13. Rule 6. [↑](#footnote-ref-13)
14. *Id*. [↑](#footnote-ref-14)
15. *Id*. [↑](#footnote-ref-15)
16. *Id*. [↑](#footnote-ref-16)
17. Schedule 300. [↑](#footnote-ref-17)
18. Exhibit No. RBD-7 (Columbia REA Customer Requested Work Agreement). [↑](#footnote-ref-18)
19. Exhibit No. RBD-8 (Additional documents relating to the removal of conduit on Columbia REA property). [↑](#footnote-ref-19)
20. Rule 14, Section II.B. and Section IV.C. [↑](#footnote-ref-20)
21. Exhibit No. DJM-1CT, p. 2, ll. 17-18. [↑](#footnote-ref-21)
22. Ex. RBD-6 (November 30, 2012 Electric Service Agreement). [↑](#footnote-ref-22)
23. *Id.* [↑](#footnote-ref-23)