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REBUTTAL TESTIMONY OF BRADLEY G. MULLINS**

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**EXHIBIT LIST**

Exh . No.\_\_(BGM-7) – Company General Service Contract

Exh. No.\_\_(BGM-8C) – Company Responses to Club Data Requests

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Bradley G. Mullins, and my business address is 333 SW Taylor Street, Suite  
4 400, Portland, Oregon 97204.

5 **Q. ARE YOU THE SAME BRADLEY G. MULLINS WHO PREVIOUSLY FILED**  
6 **TESTIMONY IN THIS PROCEEDING?**

7 A. Yes. I filed Complainant Testimony on behalf of the Walla Walla Country Club (the  
8 “Club”), which is presently served by Pacific Power & Light Company (“Pacific Power”  
9 or the “Company”).

10 **Q. WHAT TOPICS WILL YOUR TESTIMONY ADDRESS?**

11 A. My Rebuttal Testimony addresses matters raised by the Company in the Direct  
12 Testimony filing of Mr. R. Bryce Dalley. Specifically, my Complainant Rebuttal  
13 Testimony focuses on the proper application of the Company’s Net Removal Tariff, as  
14 contained in Rule 6 of Pacific Power’s General Rules and Regulations for Washington, to  
15 the Club’s request for permanent disconnection.

16 **Q. ARE OTHER WITNESSES SUBMITTING REBUTTAL TESTIMONY ON**  
17 **BEHALF OF THE CLUB IN THIS PROCEEDING?**

18 A. Yes. Club Exhibit No.\_\_(JCT-4T) contains the Complainant Rebuttal Testimony of Mr.  
19 Jeffrey C. Thomas, who in his capacity as Club General Manager will discuss issues  
20 related to electric service facilities located on Club property in the context of Company  
21 testimony. In addition, Club Exhibit No.\_\_(DJM-5T) contains the Complainant  
22 Rebuttal Testimony of Mr. David J. Marne, P.E., who will respond to issues concerning

1 the National Electric Safety Code (“NESC”) and safety standards associated with  
2 permanent disconnection.

3 **Q PLEASE PROVIDE AN OVERVIEW OF YOUR REBUTTAL TESTIMONY.**

4 A. This proceeding concerns the application of the Net Removal Tariff as it existed when the  
5 Club requested to be permanently disconnected from the Company’s system.<sup>1/</sup> It is not a  
6 proceeding to present allegations of additional stranded costs that are not currently  
7 reflected in the Net Removal Tariff. Nor is it a proceeding to raise arguments aimed at  
8 the Columbia Rural Electric Association (“Columbia REA”), as the Net Removal Tariff  
9 should be applied consistently, regardless of the utility that the Club ultimately selects as  
10 its service provider. Rather, this proceeding concerns the specific facts and  
11 circumstances surrounding the Club’s request for permanent disconnection and how the  
12 Net Removal Tariff should apply to that request.

13 The facts are that no party will benefit if the facilities located on the Club  
14 property are removed through costly and invasive deconstruction activities, as advocated  
15 by the Company. Removing the facilities will only serve to impose a large cost onto the  
16 Club, with no benefit to the Company relative to transferring the facilities at net book  
17 value. As a result, it is in the public interest that a transfer occur in order to avoid these  
18 unnecessary costs and invasive practices.

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<sup>1/</sup> The Company explains that it began including net book value in cost calculations related to the Net Removal Tariff in late 2012. Exh. No.\_\_(RBD-1T) at 18:18-19. My testimony does not contain any legal conclusions as to the ultimate propriety of the Company’s practice of progressively interpreting the Net Removal Tariff, or as to the tariff’s application to the sale and transfer of facilities absent removal. My testimony addresses issues of fair valuation under the Company’s application of the Net Removal Tariff.

1           In terms of valuation, the Company offered to sell facilities to the Club for an  
2 amount that exceeded net book value (i.e., \$66,718, which equaled the contractor’s bid to  
3 remove the conduit),<sup>2/</sup> which would result in recognition of a book gain on the facilities  
4 that are removed from service pursuant to the Club’s request for permanent  
5 disconnection. However, I disagree that the Company should be permitted to retain any  
6 gains from facilities that are removed from service pursuant to a request for permanent  
7 disconnection. The Net Removal Tariff requires the Company to credit the “salvage” or  
8 resale value of facilities back to the departing customer. Thus, to the extent the Company  
9 recognizes a gain as a result of selling facilities—regardless of whether the facilities are  
10 sold to the departing customer or a third party—that gain should be refunded back to the  
11 departing customer under the Net Removal Tariff.

12           Finally, the Company’s claims that transferring the facilities at net book value  
13 will provide a competitive advantage to the Club’s new service provider are unfounded.  
14 The motivation behind transferring the facilities is to avoid expensive, invasive, and  
15 unnecessary deconstruction activities at the cost of the Club.

16           Accordingly, I continue to recommend that the Commission find it to be in the  
17 public interest that the facilities be transferred to the Club at net book value, as discussed  
18 in my Opening Complainant Testimony.

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<sup>2/</sup> Complaint of the Walla Walla Country Club (“Complaint”), Exh. D.

1 **II. STRANDED COSTS ISSUES**

2 **Q. WHAT ARGUMENT HAS THE COMPANY PRESENTED REGARDING**  
3 **STRANDED COSTS?**

4 A. The Company claims that the net book value calculations required under the Net  
5 Removal Tariff do not capture all the costs resulting from a permanent disconnection  
6 request.<sup>3/</sup> More specifically, the Company suggests that “additional stranded costs should  
7 be evaluated as part of the net removal tariff to ensure remaining customers are not  
8 negatively harmed by a departing customer.”<sup>4/</sup>

9 **Q. DO YOU AGREE THAT ADDITIONAL STRANDED COSTS SHOULD BE**  
10 **EVALUATED IN THIS PROCEEDING?**

11 A. No. The controversial issues raised by the Company surrounding additional stranded  
12 costs have no bearing on how the Net Removal Tariff should be applied in this  
13 proceeding. This proceeding concerns the application of the Net Removal Tariff as it  
14 currently exists. To the extent that the Company now believes that there are other  
15 stranded investment costs not reflected in the Net Removal Tariff, that is not a reason to  
16 depart from the existing tariff and to charge the customer more than the amount  
17 authorized under the existing tariff.

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<sup>3/</sup> Exh. No.\_\_(RBD-1T) at 24:12-13.

<sup>4/</sup> Id. at 25:15-16.

1 III. FAIR VALUE ISSUES

2 Q. WHAT ARE THE SPECIFIC FACILITIES UNDER REVIEW IN THIS  
3 PROCEEDING?

4 A, Exh. No.\_\_(BGM-4C) includes the Company’s most recent net book value calculation  
5 for the facilities under examination in this proceeding.<sup>5/</sup> The list consists of a number of  
6 small capital items, including underground conduit, cables, meters and small  
7 transformers. As can be noted from the exhibit, many of the facilities were built several  
8 decades ago. For example, the list includes a wood pole, meter and overhead cable that  
9 were constructed back in 1968. In addition, the facilities in question are also relatively  
10 inexpensive pieces of equipment, with the majority of facilities costing less than a few  
11 hundred dollars.

12 Q. WHY DOES THE COMPANY BELIEVE IT IS INAPPROPRIATE TO  
13 TRANSFER THE FACILITIES AT NET BOOK VALUE?

14 A. The Company now states that it does not agree to sell or transfer underground facilities to  
15 customers requesting permanent disconnection because such facilities must, according to  
16 the Company’s interpretation of the NESC, be either removed or maintained—i.e., not  
17 abandoned via sale and transfer.<sup>6/</sup> A “non-abandonment” policy was not in effect in  
18 2013, however, as seen in the Company’s General Service Contract which explicitly  
19 provided that the “Company may abandon in place” underground facilities “that are no

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<sup>5/</sup> Exh. No.\_\_(BGM-4C) (Company Response to Club Data Request (“DR”) 081, Exh. N). See also Complaint, Exh. D (containing the original 2013 calculation for the same facilities); Exh. No.\_\_(BGM-8C) (Company Response to Club DR 090, Exh. O) (contrasting 2013 and 2015 net book value calculations) (including a duplicate copy of Exh. O, enlarged over two pages to allow for easy reading).

<sup>6/</sup> Exh. No.\_\_(RBD-1T) at 16:9-13.

1 longer useful to Company.”<sup>7/</sup> In fact, given the five-year term of the General Service  
2 Contract cited, it appears that the Company will still allow for underground facility  
3 abandonment.

4 Moreover, the Company suggests that the Club will save “considerable expense”  
5 by acquiring the facilities at net book value.<sup>8/</sup> Accordingly, the Company implies that the  
6 facilities should be sold for an amount that exceeds the net book value, although no  
7 specific recommendation was made as to what the fair value should be.<sup>9/</sup> The Company  
8 admits that it has performed no evaluation of the market value of the removed  
9 facilities.<sup>10/</sup> Notwithstanding, the Company does suggest that it would cost \$94,500 to  
10 construct new underground facilities.<sup>11/</sup>

11 **Q. DO YOU AGREE THAT IT WOULD COST \$94,500 TO RECONSTRUCT THE**  
12 **UNDERGROUND FACILITIES ON THE CLUB PROPERTY?**

13 A. No. The Company’s reference to the new construction cost does not relate to nor account  
14 for the age of the facilities that would be transferred. A twenty-year-old transformer, for  
15 example, is less valuable than a brand new transformer. Similarly, a twenty-year-old  
16 conduit and conductor are also less valuable than a brand new conduit and conductor.  
17 None of the valuations presented by the Company, other than net book value, properly  
18 account for the age of the facilities to be transferred.

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<sup>7/</sup> Exh. No.\_\_(BGM-7).

<sup>8/</sup> Exh. No.\_\_(RBD-1T) at 26:1-17.

<sup>9/</sup> Id.

<sup>10/</sup> Exh. No.\_\_(BGM-8C) (Company Response to Club DR 088).

<sup>11/</sup> Exh. No.\_\_(RBD-1T) at 26:1-7.

1 **Q. IS FAIR VALUE REFLECTED IN THE NET REMOVAL TARIFF?**

2 A. Yes. As detailed in Table 1 of Exh. No.\_\_(BGM-1T), the terms of the Net Removal  
3 Tariff require the Company to credit the “salvage value” of the removed facilities against  
4 the Net Removal Tariff charge. Salvage value, as it is commonly defined, represents the  
5 value of reselling or reusing an asset at the end of its useful life. Thus, for purposes of  
6 the Net Removal Tariff, the salvage value, by definition, is equivalent to the market value  
7 of the removed facilities at the time that they are taken out of service, after considering  
8 both age and condition.

9 **Q. WHAT VALUE DID THE COMPANY ORIGINALLY ASSIGN TO THE**  
10 **FACILITIES?**

11 A. The Company’s initial Net Removal Tariff charge calculations assumed that the salvage  
12 value of the facilities located on the Club property was only \$1,792,<sup>12/</sup> an amount that is  
13 nearly immaterial relative to the most recent net book value calculation of \$24,049.<sup>13/</sup>  
14 This valuation is in sharp contrast to the Company’s claims in Direct Testimony that the  
15 facilities should be valued at an amount above net book value. It also demonstrated that  
16 the Club, in offering to pay the full net book value, would more than compensate the  
17 Company for the fair value of the facilities.

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<sup>12/</sup> Complaint, Exh. D.

<sup>13/</sup> Exh. No.\_\_(RBD-1T) at 26:9. See also Exh. No.\_\_(BGM-4C) (Company Response to Club DR 081, Exh. N); Exh. No.\_\_(BGM-8C) (Company Response to Club DR 090, Exh. O) (contrasting 2013 and 2015 net book value calculations).

1 **Q. DO YOU AGREE WITH HOW THE COMPANY HAS CHARACTERIZED**  
2 **SALVAGE VALUE IN ITS DIRECT TESTIMONY?**

3 A. No. The Company suggests that the Net Removal Tariff charge calculation only includes  
4 a salvage value if the facilities can be reused in their current condition.<sup>14/</sup> I disagree with  
5 this characterization of salvage value, as it is not consistent with any accounting  
6 definition of salvage value that I am aware of. As noted, salvage value is defined as the  
7 value of selling, or the market value, of an asset at the time it is removed from service,  
8 even if the asset cannot be used by the Company in its current condition. For example,  
9 even if a conductor cannot be reused by the Company in its current condition, it still may  
10 have value as scrap, depending on the market conditions for scrap metal.

11 **Q. HOW SHOULD THE SALVAGE VALUE BE CALCULATED IF FACILITIES**  
12 **ARE ACTUALLY SOLD?**

13 A. The design of the Net Removal Tariff formula, which deducts salvage value from net  
14 book value, protects the Company against recognition of a book loss on assets that are  
15 removed pursuant to a request for permanent disconnection under Rule 6. Absent any  
16 compensation under the Net Removal Tariff, the Company would recognize a net loss on  
17 the removed assets equal to net book value minus salvage value. The formula, however,  
18 also restricts the Company from recognizing any book gains on the removed assets as  
19 well. To the extent that the salvage value exceeds net book value in the Net Removal  
20 Tariff calculation, the resulting book gain should be credited back to the departing  
21 customer pursuant to the terms of the tariff.

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<sup>14/</sup> Exh. No.\_\_(RBD-1T) at 20:5-16.

1            Provided that the facilities are actually sold—whether it be to the departing  
 2 customer, a scrap metal recycler, or some other third party—the salvage value should be  
 3 equal to the actual sales price of the facilities. Thus, any amount paid by the departing  
 4 customer to acquire the removed facilities must be credited back to the departing  
 5 customer as salvage value in the Net Removal Tariff charge calculation. The net result is  
 6 that the departing customer should never pay any more or less than the net book value as  
 7 a result of the Net Removal Tariff charge.

8            Table 3, below, provides an illustration of how the sale of the facilities to the  
 9 departing customer would impact the amount ultimately paid by the departing customer  
 10 under the Net Removal Tariff.

**Table 3**  
Impact of Transfer Price on Net Removal Tariff Charge Calculation

<u>1n</u>	<u>Below NBV</u>	<u>NBV Transfer</u>	<u>Above NBV</u>
	<u>Transfer</u>		<u>Transfer</u>
1    Removal Cost	\$ -	\$ -	\$ -
2    Net Book Value	24,049	24,049	24,049
3    Salvage Value (Transfer Price)	(10,000)	(24,049)	(50,000)
4    Net Rem. Tariff Charge (Refund)	\$ 14,049	\$ -	\$ (25,951)
5    Paid by Customer - ([3] - [4])	\$ 24,049	\$ 24,049	\$ 24,049

11    **Q    PLEASE PROVIDE AN OVERVIEW OF TABLE 3.**

12    A.    Table 3 is an illustration of how the amount paid by the departing customer to acquire the  
 13 removed facilities impacts the Net Removal Tariff charge calculation. As discussed  
 14 above, the salvage value represents the sales price to the departing customer.

1            Assuming that the facilities are transferred at net book value (center column),  
2            there is no Net Removal Tariff charge, as the salvage value equals the net book value. If  
3            the facilities were to be transferred for \$50,000 (right column), the amount paid by the  
4            departing customer would be offset by a Net Removal Tariff refund of \$25,951, resulting  
5            in a net payment of \$24,049. Similarly, if the facilities were to be transferred for only  
6            \$10,000 (left column), the departing customer would have to pay an additional Net  
7            Removal Tariff charge of \$14,049, resulting in a net payment of \$24,049. Accordingly,  
8            regardless of what fair value is assigned to the facilities that are removed from service,  
9            the net amount paid by a customer pursuant to the Net Removal Tariff should never be  
10           more or less than net book value.

11 **Q. PLEASE SUMMARIZE.**

12 A. I disagree that the Club should be required to pay any more than net book value to  
13 acquire the facilities that will be removed from service pursuant to its request for  
14 permanent disconnection. The Net Removal Tariff calculation should not permit the  
15 Company to recognize gains as a result of selling the facilities that are removed from  
16 service as a result of the Club's request. Because the Club is required under the terms of  
17 the Net Removal Tariff to take full cost responsibility over the facilities located on its  
18 property, it would be unfair to provide the Company with a gain on the facilities, as the  
19 full rate base of those is being paid for by the Club.

1 IV. COMPETITION ISSUES

2 **Q. WILL SELLING THE FACILITIES PROVIDE AN UNFAIR ADVANTAGE TO**  
3 **THE CLUB’S NEW SERVICE PROVIDER?**

4 A. No. Certainly, the objective of Rule 6 is to effectuate a fair transfer price without regard  
5 to the cost of interconnection with the new service provider. Rather, the objective is  
6 motivated entirely by avoiding costly, invasive, and unnecessary deconstruction activities  
7 on Club property, including the golf course.

8 **Q. ARE COMPETITIVE CONCERNS A VALID REASON TO REMOVE**  
9 **FACILITIES UNDER A REQUEST FOR PERMANENT DISCONNECTION?**

10 A. No. The Company claims that, due to exclusive service areas in other states, it does not  
11 face “operational concerns related to customer requests for permanent disconnection  
12 arising from competition with other utilities for customers.”<sup>15/</sup> I disagree with the  
13 Company’s framing of competitive utility issues in Washington as “operational concerns”  
14 justifying a necessary facilities removal in relation to a permanent disconnection request.  
15 When the Commission approved the Net Removal Tariff, the Company testified that  
16 “operational concerns” justifying facilities removal involved only the scenario in which  
17 the Company or its customers would otherwise have to “absorb” facilities costs.<sup>16/</sup>  
18 Suggesting that it is a valid operational concern to remove facilities in order to prevent  
19 competition is an improper interpretation of the Net Removal Tariff, which, according to  
20 my understanding, was not established as a tool that would allow the Company to thwart  
21 competition from alternative utility providers.

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<sup>15/</sup> Id. at 3:9-12.

<sup>16/</sup> See Exh. No. \_\_\_(BGM-1CT) at 5-6.

1 **Q. DO “COMPETITIVE PRACTICES,” AS DESCRIBED BY THE COMPANY,**  
2 **SUPPORT ITS ALLEGED JUSTIFICATION FOR REMOVAL OF THE CLUB**  
3 **FACILITIES?**

4 A. No. The Company suggests that a “primary policy issue[] in this proceeding—[is]  
5 whether Columbia REA should enjoy a competitive advantage *at the expense of*  
6 *remaining Pacific Power customers.*”<sup>17/</sup> When asked to describe some of the competitive  
7 practices allegedly employed by Columbia REA, the Company explains that Columbia  
8 REA has used “media ads” and other means to offer “rates that are lower than Pacific  
9 Power’s authorized rates,” and to guarantee such lower rates for up to five years.<sup>18/</sup> In  
10 other words, the Company is suggesting that the provision in the Net Removal Tariff for  
11 removal of facilities should be used to address its “operational concerns” of competitors  
12 publicly offering guaranteed lower electric service rates. Other than making it cost  
13 prohibitive for the Club to switch to a local service provider, removing the facilities  
14 located on the Club property will produce no operational benefit to the Company’s  
15 remaining customers. Accordingly, I disagree that competition is a valid operational  
16 concern for the Company to require the removal of facilities in question, pursuant to the  
17 Net Removal Tariff.

18 **V. CONCLUSION**

19 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

20 A. The Commission should reject the Company’s claim that competitive practices constitute  
21 an “operational concern” that would mandate removal of facilities located on the Club  
22 property under the terms of the Net Removal Tariff. The Company has advanced no

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<sup>17/</sup> Exh. No. \_\_\_(RBD-1T) at 10:1-2 (emphasis added).

<sup>18/</sup> Id. at 6:20-7:4

1 evidence that the Commission approved the Net Removal Tariff on such a basis. In  
2 addition, the competitive practices of Columbia REA are not at issue in this proceeding,  
3 which concerns the application of the existing Net Removal Tariff (Rule 6) to the Club's  
4 request for permanent disconnection.

5 In this case, it is in the public interest to require the facilities located on the Club  
6 property to be transferred at net book value. The Company's existing ratepayers will be  
7 no better off if the facilities are removed through the costly, invasive, and unnecessary  
8 deconstruction activities proposed by the Company.

9 Finally, the Company's discussion of additional stranded costs is entirely  
10 irrelevant to the application of the existing Net Removal Tariff, and should therefore be  
11 disregarded.

12 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

13 **A. Yes.**