PC Data Request 9

Refer to the Direct Testimony of R. Bryce Dalley, Exhibit No. RBD-1T, at 15:2-16:
"To calculate the Stranded Cost Recovery Fee for residential customers the Company first subtracts net power cost revenues from total revenues. The Company then divides this revenue by average annual customers to develop non-net power cost revenue per customer. Finally, a discount rate of 6.38 percent is applied to calculate the net present value of the non-net power cost revenue paid by Washington customers over a ten-year period.

The Stranded Cost Recovery Fee for non-residential customers (Schedules 24, 36, 40, and 48) is calculated the same way as for residential customers, except the resulting non-net power cost revenue paid by non-residential customers over the ten-year period is divided by the average annual revenue instead of the number of customers to calculate a cost-to-revenue ratio. Please refer to Exhibit No. RBD-4 for the calculation of Stranded Cost Recovery Fees for residential and non-residential customers. Using a ten-year period is consistent with the time period utilized in Pacific Power's calculation of the Consumer Opt-Out Charge on Schedule 296 in Oregon for customers voluntarily opting out of the system."

Please answer the following:

a. Please explain how the Company determines if the Stranded Cost Recovery Fee and its associated calculations are fair and equitable.
b. Please explain what net power cost revenues are and why they are subtracted from total revenues.
c. Please explain why it is appropriate to estimate stranded costs based on non-net power cost revenue.
d. Please confirm if the calculation of the Stranded Cost Recovery Fee is affected by a customer's decision to pay the actual removal cost or Fair Market Value for facilities. If confirming, please explain how and why the Stranded Cost Recovery Fee is affected.
e. Please describe what utility infrastructure or functions are specifically tied to the stranded fixed costs to be recovered by the Stranded Cost Recovery Fee.
f. Please explain if the collected Stranded Cost Recovery Fees from residential and non-residential customers will be distributed to remaining customers within the same class or across customer classes.

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a. Please refer to Company witness Mr. R. Bryce Dalley's direct testimony beginning on line 9 of page 13 through line 14 of page 16 for a discussion of the Stranded Cost Recovery Fee including its calculation and why it is fair and equitable.

b. Net power costs include the cost of fuel, wholesale power purchases, and wheeling expense and are offset by wholesale sales revenue. Net power costs were subtracted from retail revenues, because they are costs that are generally variable in nature and can reasonably be assumed to be avoidable from loads that switch to another utility.

c. It is appropriate to estimate stranded cost from non-net power cost-related revenue because by doing so the Company recovers all of the costs required to serve customers that are essentially fixed and not avoidable if a customer decides to switch to another utility.

d. The Stranded Cost Recovery Fee is not affected by a customer's decision to pay the actual removal cost or Fair Market Value for facilities.

e. The Stranded Cost Recovery Fee is designed to recover stranded utility costs that are fixed in nature, including fixed transmission costs, fixed generation costs, distribution costs (includes substations, poles and conductor, line transformers and meters), customer service costs, as well as administrative and general expense.

f. Please refer to lines 10 through 14 on page 16 of Mr. Dalley's direct testimony. Stranded Cost Recovery Fees would ultimately be distributed to remaining customers within the same class.

PREPARER: Robert Meredith

SPONSOR: R. Bryce Dalley