Exhibit No. MPG-1T
Docket UE-161204
Witness: Michael P. Gorman

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFIC POWER & LIGHT COMPANY, Respondent.	)	DOCKET UE-161204

RESPONSE TESTIMONY OF MICHAEL P. GORMAN

ON BEHALF OF

COLUMBIA RURAL ELECTRIC ASSOCIATION, INC. (“Columbia REA”)

April 21, 2017

TABLE OF CONTENTS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q. WHAT IS YOUR OCCUPATION?

A. I am a consultant in the field of public utility regulation and a Managing Principal of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. These are set forth in Exhibit No. MPG-2.

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. I am appearing on behalf of Columbia Rural Electric Association, Inc. ("Columbia REA"). Columbia REA is a non-profit electric cooperative with more than 4,500 member accounts and nearly 1,200 miles of electric line throughout Walla Walla, Umatilla and Columbia counties. Columbia REA and Pacific Power & Light Company ("PP" or the "Company") operate in similar geographic market areas.

Q. WHAT IS THE PURPOSE OF YOUR RESPONSE TESTIMONY?

A. I will respond to the proposed revisions PP witness R. Bryce Dalley is proposing to PP Rule 6, and to include a stranded cost fee in Schedule 300.

Q. PLEASE SUMMARIZE YOUR POSITIONS AND RECOMMENDATIONS.

A. My positions and recommendations in my testimony are summarized as follows:

1. PP's proposal to modify Rule 6 to require departing customers to either pay PP's cost of removal of equipment on customers' premises, or to purchase said equipment at its fair market value should be rejected. Instead, Rule 6 should continue to allow PP to charge customers for its unrecovered cost of removing the dedicated customer equipment or alternatively, to sell the equipment to the customer at its net book value.

2. PP's proposed definition of "facilities" provided in its redlined tariff under Rule 1 as it applies to Rule 6 should be rejected. Facilities subject to the cost of removal or purchase from PP under Rule 6 should be limited to only customer dedicated distribution facilities, as Rule 6 appears intended to apply to only facilities on customer premises. Common distribution facilities, transmission and production facilities should be excluded from the definition of "facilities" that would be subject to a payment for cost of removal or buyout under Rule 6.

3. PP's cost of removal under Rule 6 should reflect the net salvage costs PP has already recovered from customers via depreciation expense. PP's current depreciation rates include a component for salvage value expense.[1/] This salvage value component of depreciation rates provides PP recovery of the expected cost of removing facilities at their end of economic life. Customers leaving the system, to the extent the equipment must be removed, should only pay PP's cost of removing the equipment that has not already been reimbursed by the customer via depreciation rates. That is, the portion of net salvage expense that has already been collected by PP for that equipment should be deducted from any payment the customer makes upon request to remove that equipment from service under Rule 6.

4. PP's proposed changes to Rule 6 to require customers to purchase the equipment at fair market value rather than net book value should be rejected. Customers should have the right to buy the equipment at PP's net book value. Allowing PP to recover the unrecovered cost of its investment will make it whole, relative to retaining the customer on the system, and the need for exiting customers to pay premiums to prevailing net book value to produce windfalls to remaining customers produces unjust economic charges on exiting customers.

5. PP's proposal to include in Schedule 300 a stranded cost fee for customers is unjustified and should be denied. PP does not have an exclusive right to serve these customers. Thus, it should not be allowed to impose economic constraints that restrict a customer's right to choose alternative suppliers consistent with tariffs, rules and conditions approved by the Washington Utilities and Transportation Commission ("WUTC") and which are consistent with Washington state law.

Comments on Walla Walla – Historical Context

Q. DID PP WITNESS DALLEY OFFER A SUMMARY OF THE HISTORICAL CONTEXT FOR THE WALLA WALLA AREA SERVED BY BOTH PP AND COLUMBIA REA?

A. Mr. Dalley explains that neither PP nor Columbia REA have an exclusive franchise service territory for this area (Exh. RBD-1T at 2). He states that PP and Columbia

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[1/] Rates approved in UE-130052.

REA have not negotiated a service area agreement despite ongoing efforts (*Id*. at 3). He acknowledges that PP customers in these counties can therefore choose to permanently disconnect from PP and switch electric service providers (*Id*.). He also opines that PP has lost significant load since 1999 due to customers switching from PP to other suppliers. (*Id*. at 5). He alleges that Columbia REA has solicited PP customers to switch to Columbia REA during this time period. He also opines that customers are "cherry picked" by Columbia REA. Mr. Dalley describes the customers that have left PP for Columbia REA as "high margin customers."

Mr. Dalley concludes that PP losing these customers has the effect of potentially increasing costs to PP's remaining customers. He asserts that certain adjustments the Company is proposing to its rate schedules are intended to mitigate economic harm to remaining customers. (*Id*. at 9).

Q. ARE ANY OTHER WITNESSES FOR COLUMBIA REA TESTIFYING IN RESPONSE TO MR. DALLEY'S ASSERTIONS ON THIS ISSUE?

A. No. Columbia REA has informed me that, while it disputes Mr. Dalley's statements and his characterization of Columbia REA's practices, it is my understanding that these issues are outside of the scope of this proceeding. In its order granting Columbia REA's petition to intervene, the Commission noted that it would "not broaden the scope of this proceeding to address how [PP's] rates, terms, and conditions may affect the legal or property interests of the nonregulated utilities."[2/] I understand that Columbia REA intends to comply with this order. Nonetheless, while the purported reason for PP's proposed changes to Rule 6 and Schedule 300 is to prevent cost shifting to its remaining customers, the practical effect of PP's proposed change to

[2/] Order 04 P. 12.

Rule 6 and Schedule 300 would be to effectively eliminate competition between PP and Columbia REA by creating economic impediments for PP customers to choose to switch to another service provider. As such, my testimony focuses on the impact of PP's proposed tariff changes on its customers and whether those changes are consistent with PP's rate regulation by the Commission.

Q. DO YOU HAVE ANY DIRECT KNOWLEDGE OF SWITCHING ACTIVITY THAT TAKES PLACE IN THE WALLA WALLA SERVICE AREA AS DESCRIBED BY MR. DALLEY?

A. No. While Mr. Dalley makes a number of claims regarding Columbia REA's competitive practices, the Company has largely been unable to support these claims in discovery. For instance, despite painting a picture of unrestrained "cherry-picking" of customers by Columbia REA, as shown in its response to CREA data request 0040 the Company was unable to provide a single instance of such behavior (*See* Exhibit No. MPG-3). For these reasons, I will set aside Mr. Dalley's comments concerning Columbia REA's "solicitation" efforts because they appear to be based on unsupported conjecture.

Q. ARE THERE FACTS OTHER THAN THE UNSUPPORTED STATEMENTS MR. DALLEY HAS PROVIDED THAT COULD DEMONSTRATE WHY CERTAIN TYPES OF PP'S WASHINGTON CUSTOMERS HAVE DEMONSTRATED AN INTEREST IN SWITCHING SUPPLIERS?

A. Yes. A simple review of how PP's rates compare relative to other investor-owned utilities in the Northwest suggests that PP is more likely to lose its larger customers due to competitive alternatives than its smaller customers. For example, based on Edison Electric Institute ("EEI") data, I performed a rate comparison for PP's residential, commercial and industrial customers over the period 2009-2016. As shown on my Exhibit No. MPG-4, page 1, for residential customers, PP's rates in the state of Washington have been consistently amongst the lowest for investor-owned utilities in the Northwest region including Idaho, Montana, Nevada, Oregon, Utah, Washington and Wyoming. The same is found in a commercial rate comparison, although PP's competitive position has been declining over time.

For industrial rates, PP's industrial rates are not as competitive with other regional investor-owned electric utilities. For this reason, PP is more likely to lose a large customer on its industrial rate, for price competitive reasons than it is for a small customer.

Q. ARE THERE OTHER REASONS WHY LARGER CUSTOMERS MAY BE MORE WILLING TO LEAVE PP'S SYSTEM AND CHOOSE AN ALTERNATIVE SUPPLIER?

A. Yes. Under PP's tariff rules, customers must pay PP for the cost of all facilities used by PP to provide service. For a larger customer, PP's distribution facilities may be large enough to where they are dedicated, or largely dedicated, to a single customer. As such, when a large customer buys PP's dedicated distribution facilities, those same distribution facilities can be used to provide service to the same customer from an alternative supplier.

Q. ARE YOU AWARE OF ANY OTHER REASONS LARGE OR SMALL CUSTOMERS WOULD CHOOSE TO LEAVE PP'S SERVICE FOR AN ALTERNATIVE SUPPLIER?

A. There does not seem to be a clear understanding of customers' perceptions of PP versus Columbia REA with regard to customer and quality of service. PP has refused to provide any customer satisfaction surveys performed in Washington, or identity the last time a PP executive level manager visited the service territory (Exhibit No. MPG-5, PP responses to Boise data requests 0039 and 0040).

Further, an assessment of service quality or customer satisfaction could not be made based on the information PP was willing to provide in this proceeding. Specifically, in response to CREA data request 007, PP refused to provide service interruption data to assess its service quality (*Id.*).

Consequently, customers may be deciding to switch from PP to an alternative supplier due to a preference to work with locally based utilities, or because of service quality issues at PP. Either way, there may be additional explanations for why customers choose to switch from PP service to an alternative supplier.

Q. DO YOU HAVE A RECOMMENDATION TO THE COMMISSION ON WHAT PRINCIPLE THE COMMISSION SHOULD USE IN ORDER TO DETERMINE WHETHER OR NOT ANY CHANGES TO PP'S RULE 6 AND SCHEDULE 300 ARE APPROPRIATE?

A. Yes. In PP's Securities and Exchange Commission ("SEC") 10-K at 2, it describes its obligations for providing service to its utility customers. There it states as follows:

> PacifiCorp's operations are conducted under numerous franchise agreements, certificates, permits and licenses obtained from federal, state and local authorities. The average term of the franchise agreements is approximately 25 years, although their terms range from five years to indefinite. Several of these franchise agreements allow the municipality the right to seek amendment to the franchise agreement at a specified time during the term. PacifiCorp generally has an exclusive right to serve electric customers within its service territories and, in turn, has an obligation to provide electric service to those customers. In return, the <u>state utility commissions have established rates on a cost-of-service basis, which are designed to allow PacifiCorp an opportunity to recover its costs of providing services and to earn a reasonable return on its investments</u>. (Emphasis added)

As outlined in the statement above, utility rates should be cost based and equitably balance the interests of PP and its customers. No customer should be obligated to subsidize PP's cost of providing service to any other customer. Conversely, it would not be appropriate for PP to require a customer to compensate it for more than its actual cost of service. I recommend the Commission use this as the guiding principle in determining the reasonableness of PP's proposed changes to its tariff rates and Rules.

Q. IN HIS TESTIMONY, PP WITNESS DALLEY ASSERTS THAT PP DOES NOT HAVE AN EXCLUSIVE RIGHT TO SERVE CUSTOMERS IN THE WALLA WALLA AREA. PLEASE COMMENT.

A. The WUTC has set the standard terms and conditions for which all PP's existing customers must meet their obligations to PP. In turn, the Commission establishes the rules and protocols for PP's obligations to its customers. Because PP's customers served in the Walla Walla area receive service based on cost of service pricing, then PP's obligation to provide service, and those customers' obligation to pay prices reflecting its cost of providing service, should represent the basis for establishing the terms of fair treatment for customers that leave or stay with PP. Fair treatment should not be dictated by PP.

<u>Proposed Tariff Rule Change</u>

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED CHANGES TO ITS TARIFF RULES IN THIS PROCEEDING.

A. The Company proposes to change Rule 6 to include two options for customers who opt to obtain service from another provider and permanently disconnect from the Company's system. Those options include: (1) payment of actual costs of removal; and (2) fair market value purchase.

Mr. Dalley goes on to state that if a customer chooses to pay PP its actual cost of removal, the customer would receive an estimated cost of removal and any applicable fees which must be paid by the customer in advance. The actual cost of removal and related fees would be either refunded to the customer from what was prepaid, or additional charges will be made once facilities have been removed. (Exh. RBD-1T at 10).

Q. DID PP DEFINE FACILITIES THAT WOULD BE SUBJECT TO THE RULE 6 DISMANTLEMENT COST OR BUYOUT?

A. Yes. PP defined facilities in Rule 1, which is referenced in Rule 6, as follows:

> Facilities: Electric infrastructure designed, built, and installed to provide service, including but not limited to transmission and distribution lines, service drops, transformers, poles, risers, conduit, vaults, and any other equipment used to supply electricity.[3/]

Q. IS PP'S DEFINITION OF FACILITIES SUBJECT TO RULE 6 REASONABLE?

A. No. The equipment impacted by Rule 6 should be limited only to customer-dedicated equipment or, as Rule 6 currently prescribes, facilities on customer premises. This definition should include only the direct distribution and customer-related equipment that is used exclusively to serve the customer that chooses to switch suppliers. I propose PP's definition of facilities be modified as follows:

> Facilities: Customer dedicated ~~E~~electric infrastructure designed, built, and installed to provide service, including but not limited to ~~transmission and distribution lines,~~ service drops, transformers, poles, risers, conduit, vaults, and any other equipment used exclusively to supply electricity on a customer's premises.

Q. WHY WOULD IT BE APPROPRIATE TO LIMIT RULE 6 DISMANTLEMENT COSTS OR BUYOUT TO ONLY CUSTOMER DEDICATED EQUIPMENT?

A. The Company's proposed revisions to Rule 6 and Rule 1 raise questions about whether removal costs will be limited to only the facilities used to provide service to a departing customer. The Company has included a definition of "Facilities" to encompass infrastructure that is more often located outside of a particular customer's

[3/] Rule 1, General Rules and Regulations – Definitions, Third Revision of Sheet No. R1.2 Canceling Second Sheet No. R1.2, Issued November 14, 2016.

premises, including transmission lines, transformers, poles, and "any other equipment used to supply electricity." Furthermore, the current Rule 6 specifies that PP will remove "only those facilities that need to be removed for safety or operational reasons, and only if those facilities were necessary to provide service to Customer" and specifies that the cost of removal will not include facilities located in a public right of way or area lights. These restrictions have been removed in the Company's proposed revisions to Rule 6.

To the extent any distribution equipment is also used to serve other customers, it should not be included in the transaction costs between a customer that leaves PP service. Equipment that continues to be used to serve remaining customers will still be used and useful to PP retail operations. For instance, PP's costs for production and transmission are common related facilities that can be used to serve other customers on its system in Washington, or across its multi-jurisdictional state system, after a customer terminates service in Washington. Also, distribution equipment that is used to serve more than one customer should be excluded from the facilities definition as it relates to Rule 6.

Q. DO YOU HAVE ANY COMMENTS CONCERNING MR. DALLEY'S PROPOSED CHANGE TO RULE 6 IN THE EVENT CUSTOMERS REQUEST PP TO REMOVE FACILITIES CURRENTLY BEING USED TO SERVE THEM?

A. Yes. I agree that PP should be fully compensated for the actual cost of removing distribution facilities that are dedicated to serving the customers that choose to switch suppliers. However, the amount of compensation to PP should be limited to this amount. Importantly, PP's depreciation rates include a component for net salvage costs, which reflects payment from customers to PP for the expected cost of removing facilities at the time the equipment is retired. These costs of removal are paid to PP while the assets are used to provide service. The salvage compensation provided to PP from customers that choose to switch should be reflected in determining the amount of unrecovered dismantlement costs owed to PP upon a permanent disconnection. PP will over-recover its dismantlement costs from departing customers if net salvage costs already collected from the customer are not considered.

Q. HOW MUCH OF PP'S DEPRECIATION RATES REFLECT RECOVERY OF CUSTOMER DEDICATED DISTRIBUTION FACILITIES?

A. As shown on my Exhibit No. MPG-6, the depreciation rates that were approved by the WUTC for distribution equipment include a component for:

1. The recovery of original investment over its expected remaining life, and
2. A component for cost of removing the facility when it is replaced at its net salvage costs.

Net salvage costs include the expected cost of removal, less salvage cost (selling material retired at market value). As shown on the attached exhibit, approximately 32% of the $11.3 million of distribution depreciation expense that is recovered by PP from Washington customers each year is for expected net salvage costs of distribution assets.

PP should not be allowed to charge a customer for the same cost of removal more than once. As such, I recommend Mr. Dalley's proposed change for his Option 1 be modified to reflect recognition and adjustment to the cost customers are required to pay PP to reflect PP's actual cost of removal less net salvage cost already recovered by PP in its current depreciation rates. Without this provision, PP will recover more than its cost of service from a departing retail customer.

Q. WHY IS THE COMPANY PROPOSING TO CHANGE THE TARIFF TO REQUIRE A PURCHASE AT FAIR MARKET VALUE RATHER THAN NET BOOK VALUE?

A. Mr. Dalley states that PP is proposing a fair market valuation because it fairly balances appropriate compensation to the Company's remaining customers and payment for facilities benefitting the departing customer. (Exh. RBD-1T at 12, lines 14-16). He admits that physically durable facilities in place for a significant amount of time may have nominal or no net book value. Nevertheless, he believes that these facilities may represent significant value to the departing customer and the new electric service provider relative to the cost of installing replacement facilities.

Q. SHOULD PP'S PROPOSAL TO MODIFY THE TARIFF RATE TO HAVE AN OPTION TO PURCHASE THE FACILITIES AT FAIR MARKET VALUE PRICE BE ADOPTED?

A. No. As clearly enunciated by PP in disclosures to the investment community, customers are not obligated to pay rates that benefit other customers on the system. Rather, customers should be obligated to compensate PP for its actual cost of providing service. If a customer chooses to leave PP's service, under the terms and conditions approved by the WUTC, then that customer should be obligated to pay no more than necessary to provide PP compensation for the facilities that were used to provide service to the customer. Requiring customers to compensate PP for these facilities at the fair market value, which will likely exceed the facilities' net book value, will result in unjust charges to departing customers. If the customers had not left the system, they would have compensated PP based on net book value of the facilities via the original cost rate base form of setting rates. As such, compensation for facilities dedicated to a customer should be purchased from PP at their net book value.

Q. WOULD PAYING PP THE NET BOOK VALUE OF DEDICATED DISTRIBUTION FACILITIES FULLY COMPENSATE IT FOR INCURRED COSTS OF DEPARTING CUSTOMERS?

A. Yes. Mr. Dalley responded to CREA Data Request 0022 (Exhibit No. MPG-7) that if PacifiCorp recovers a net book value less salvage costs, then the proceeds from the sale of that equipment will not impact PacifiCorp's net income to shareholders. But, he argues that receiving a price above net book value is necessary in order to achieve what he believes to be a proper reimbursement to remaining customers.

As noted above, Mr. Dalley's objective appears to be to penalize customers that choose to leave PP service by requiring them to pay a premium above actual facility costs in order to create what he believes to be a proper reimbursement for remaining customers. This results in a subsidization from customers leaving the system to pay cost of providing service to customers that remain on the PP system. This proposal is neither balanced nor consistent with any regulatory compact with which I'm familiar.

Q. AT PAGE 12 OF HIS DIRECT TESTIMONY, MR. DALLEY MAKES THE POINT THAT CERTAIN FACILITIES HAVE A NET BOOK VALUE OF ZERO, THEREBY REQUIRING A PURCHASE PRICE ABOVE THEIR NET BOOK VALUE. PLEASE RESPOND.

A. If the facilities used to serve a departing customer have a net book value of zero, then it is more than likely that those facilities are obsolete and will soon need to be replaced by new facilities. As such, if Mr. Dalley's fair value proposal is adopted, it would result in an economic penalty for departing customers if they are required to both compensate PP at fair market value for the facilities, and then shortly thereafter taking service from a new supplier discover that the facilities are worn out and need to be replaced. Mr. Dalley's proposal would again simply create economic restrictions on customers that may limit their ability to exercise the right to switch suppliers under WUTC rules and approved tariffs.

For these reasons, the Company's proposal to amend its Rule 6 to impose a fair market determination for departing customers before they may retain dedicated facilities should be rejected. Facilities should be sold to the customer departing the system at their net book value.

Proposed Schedule 300 Change

Q. DID PP RECOMMEND ANY OTHER CHANGES TO ITS TARIFFS?

A. Yes. PP is proposing to include a stranded cost recovery fee in its Schedule 300. Mr. Dalley states that this proposed change will require a departing customer to pay a stranded cost recovery fee before permanent disconnection.

Q. WHY IS MR. DALLEY RECOMMENDING A STRANDED COST RECOVERY FEE?

A. He states the purpose of the fee is to mitigate financial impact to remaining customers. He states that when customers leave the system, the remaining customers are at risk of being required to pick up a larger portion of PP costs of service. To prevent the risk of shifting these common costs to other customers, departing customers would pay for the fee before permanently leaving the network.

Q. IS MR. DALLEY'S PROPOSAL FOR STRANDED COST FEES FOR CUSTOMERS THAT CHOOSE TO LEAVE THE SYSTEM CONSISTENT WITH BALANCED REGULATORY TREATMENT?

A. No. The Company's proposal is seriously flawed and appears to simply create economic restrictions to prevent customers from switching from PP's service, per the existing terms of its Tariff Rules and taking service from a competing supplier. Yet, the WUTC's tariff mechanisms currently describe the terms and conditions of service for PP and it is undeniable that customers have the right to choose an alternative supplier under Washington law and, consequently, WUTC approved tariffs. Indeed, the very fact that PP has a tariff to address the costs of customers switching to another supplier implicitly acknowledges this right.

Importantly, while Mr. Dalley cites various authorities for the idea that stranded costs can result from competition and deregulation, he never establishes that PP is in fact incurring stranded costs due to competition in its Washington service territory (Exh. RBD-1T at 13-14). Mr. Dalley's citation to FERC's Order 888 establishing open access transmission is particularly odd in this regard. As he notes, FERC requires that a utility's stranded costs be "legitimate, prudent and verifiable," something PP has failed to establish here.[4/]

Furthermore, as Mr. Dalley also appears to recognize, FERC authorized the collection of stranded costs in Order 888 because it was fundamentally restructuring the interstate transmission market and concluded that "utilities that made large capital expenditures or long-term contractual commitments to buy power years ago should [not] now be held responsible for failing to foresee the actions this Commission would take to alter the use of their transmission systems in response to the fundamental changes that are taking place in the industry."[5/]

Conversely, PP has been knowingly operating in a competitive market for decades. The Company provides no explanation for why the Commission should impose a stranded cost recovery fee now. Rather, PP's stranded cost recovery fee

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4/ Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, 61 F.R. 21,540 at 21,629 (May 10, 1996) ("Order No. 888"); Exh No. RBD-1T at 14.

5/ Id.

would violate the regulatory principle I established earlier: it would require departing customers to subsidize the service of remaining customers. This is not a balanced regulatory approach.

Q. DOES MR. DALLEY'S TESTIMONY ACCURATELY DESCRIBE THE FACILITIES THAT SHOULD BE SUBJECT TO A STRANDED COST FEE, IF THE WUTC WANTED TO IMPLEMENT SUCH A FEE?

A. No. Mr. Dalley's concept of stranded cost recovery has not been defined based on the facilities which he believes will be become "stranded" in the event a customer chooses to switch suppliers. For example, PP's allocated share of production resources will not be stranded by a customer's decision to switch suppliers. Rather, PP's production resources will continue to be available to serve PacifiCorp's retail customers in its multi-state jurisdiction areas. Hence, the basis for stranded production resources has not been established.

Second, Mr. Dalley has not established that there will be any change in the use of transmission assets serving customers in the Walla Walla area, regardless of whether or not they are served at retail by PP, Columbia REA or any other retail supplier in this district. Indeed, customers switching suppliers may have no impact on the use of transmission assets that bring power into the Walla Walla distribution control area.

Third, the idea of remaining customers paying an increased share of production and transmission costs has not been proven to exist by Mr. Dalley. For example, there are several aspects in PacifiCorp's 2017 integrated resource plan which refute that loss of customers in these affected areas will impact costs to other customers in a material way. For example, at page 2 of the Executive Summary of PacifiCorp's 2017 IRP, it states that PacifiCorp will add 1,100 MW of new wind resources in 2021, and approximately 905 MW of repowered wind projects in 2019 and 2020. This is despite the fact that in years 2018-2021, PacifiCorp's planning reserve margin is well above the 13% minimum planning target which indicates that new generating capacity resources are not needed due to customer loads. During 2018-2021, PacifiCorp starts at a planning reserve margin of 24.8% and drops down to 19.9% by 2021. (2017 Integrated Resource Plan, Volume I, Table 1.2 at page 11). Based on these planning criteria, it is not evident that PacifiCorp's cost of production capacity is being determined by only customers' load impact on resource planning reserves.

Q. HOW DOES MR. DALLEY PROPOSE TO ESTABLISH A STRANDED COST FEE?

A. At page 15 of Mr. Dalley's testimony, he describes a stranded cost fee for residential customers and a separate one for non-residential customers. For residential customers, he proposes to subtract net power cost revenues from total revenues. This product would then be divided by average annual customers to develop a non-net power cost revenue per customer. This non-net power cost revenue per customer number would be levelized over the next 10 years, and discounted back using a discount rate of 6.38%. Using this methodology, he proposes a stranded cost fee for residential customers of $6,153.

For non-residential customers, he is proposing a similar calculation but based on revenues related to the non-residential customers. There, PP would estimate the non-net power cost associated with a non-residential customer over a 10-year period. This product then would be divided by the average annual revenue rather than the number of customers to calculate a cost to revenue ratio.

Mr. Dalley argues that a 10-year period is consistent with the time period utilized in PP's calculation of the customer opt-out charge on Schedule 296 in Oregon for customers voluntarily choosing an alternative energy supplier. The Company is proposing a stranded cost fee for non-residential customers set using a formula of 4.5x the customer's annual revenue. PP contends that this multiplier will capture the various variations in size and impacts for departing non-residential load.

Finally, Mr. Dalley proposes that any stranded cost fees would be tracked by rate schedule and deposited in the deferral account set up for a decoupling mechanism.

Q. IS MR. DALLEY'S PROPOSED STRANDED COST EXIT FEE REASONABLE?

A. No. Mr. Dalley's proposed stranded cost exit fee is flawed and creates unjustified economic barriers to customers who would choose to leave PP for an alternative supplier. I have reached this conclusion for the following reasons:

1. Mr. Dalley's proposed stranded cost exit fee methodology does not account for the revenue the Company receives through Rule 6, which requires the exiting customer to either pay for the removal of the facilities, or to purchase them from PP. Hence, the proposed stranded cost fee will double recover these same facility costs: first in Rule 6 and again in a stranded cost fee in Schedule 300. This issue would be aggravated if PP's proposed changes to Rule 6 to require the customer to purchase the facilities at fair market value are adopted.

2. Mr. Dalley's stranded cost fee does not consider whether or not there will be any impact on transmission facilities serving all retail customers in the Walla Walla area, irrespective of who those customers take retail distribution service from. As such, switching customers may have no impact on the use or payments for transmission services in this district. As such, Mr. Dalley has not proven that transmission service will be impacted nor will any transmission facility be stranded by a customer choosing a different retail supplier.

3. Facilities that are not removed or purchased from PP are available to serve other customers. Mr. Dalley's methodology does not recognize that PP production resources can produce revenues from other customers even if some retail customers permanently leave PP service. That is, production facilities can be used to produce margin by making wholesale sales transactions which can provide PP

and its remaining customers compensation for capacity costs that would have otherwise been used to serve a customer that chose to leave the system.

4. Further, the production resources that would have been used to serve customers that chose to leave the system, may be available to serve the increased number of customers PacifiCorp is planning to add over its planning period. In this instance, the production resources would not be stranded.

For these reasons, Mr. Dalley provides no legitimate basis nor accurate support for PP's proposal for a stranded cost fee, either based on a 4.5x revenue multiplier for non-residential customers or a flat fee for residential customers. With respect to the former, Mr. Dalley merely states that there are variations in load requirements for non-residential customers and that this revenue multiplier "captures the variations in size and impact" (Page 16). But the proposed 4.5x multiple of revenue results in double recovery of certain costs and includes charges for costs which have not been shown to be, or likely will not be, "stranded" by a Washington customer's decision to switch suppliers. The revenue multiplier factor is simply erroneously developed and results in nothing more than an economic penalty for customers that choose to switch suppliers.

Moreover, the Company is proposing to apply this multiplier to each individual customer's annual revenue, not to the average revenue of the nonresidential class. This does not "capture variations" in customer size and load factor, nor does it distinguish between PP cost that will be stranded or costs that can be redirected to serve other customers.

Similarly, with regard to the 10-year period over which PP calculates the stranded cost recovery fee, the Company provides no evidence to demonstrate that any of its assets will be stranded for this long, if they are at all. Mr. Dalley merely cites to the requirements of a direct access program PP has in another state without explaining how the "Consumer Opt-Out Charge" associated with this program is sufficiently similar to the circumstances he identifies as the basis for the tariff changes PP proposes in this docket (Exh. RBD-1T at 15).

For these reasons, I recommend that the Commission reject PP's proposed stranded cost recovery fee.

Q. DOES THIS CONCLUDE YOUR RESPONSE TESTIMONY?

A. Yes, it does.

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