

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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

**RESPONSE TESTIMONY OF BRADLEY G. MULLINS
ON BEHALF OF BOISE WHITE PAPER, L.L.C.**

April 21, 2017

TABLE OF CONTENTS

I. INTRODUCTION AND SUMMARY 1

II. BACKGROUND 2

III. IMPACTS OF NET REMOVAL TARIFF REVISIONS 7

 a. Tariff Applicability..... 8

 b. Actual Cost of Removal 14

 c. Fair Market Value 18

 d. Covered Facilities..... 23

IV. STRANDED COST RECOVERY FEE 26

EXHIBIT LIST

Exhibit BGM-2: Regulatory Appearances of Bradley G. Mullins

Exhibit BGM-3: Company Responses to Data Requests

1 **I. INTRODUCTION AND SUMMARY**

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. PLEASE STATE YOUR OCCUPATION AND ON WHOSE BEHALF YOU ARE**
6 **TESTIFYING.**

7 A. I am an independent energy and utilities consultant representing customers throughout
8 the United States. I am appearing on behalf of Boise White Paper, L.L.C. (“Boise”),
9 which is served by Pacific Power & Light Company (“Pacific Power,” “PacifiCorp,” or
10 the “Company”). Boise purchases electric services from the Company for its paper mill
11 in Wallula, Washington, and is the Company’s largest customer in Washington.

12 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.**

13 A. I have a Master of Science degree in Accounting from the University of Utah. I started
14 my career as a Tax Consultant at Deloitte, where I ultimately specialized in research and
15 development tax credits. Subsequently, I worked at PacifiCorp as an analyst involved in
16 power supply cost forecasting. Now, I provide professional services to utility customers
17 on matters related to utility ratemaking. I have sponsored testimony in regulatory
18 jurisdictions throughout the United States, including before the Washington Utilities and
19 Transportation Commission (“WUTC” or the “Commission”). A list of my regulatory
20 appearances can be found in Exhibit BGM-2.

21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

22 A. I respond to the Direct Testimony of Mr. R. Bryce Dalley on behalf of the Company.
23 Specifically, I discuss the history of the Net Removal Tariff and the reasons why the
24 Commission should not adopt the tariff changes the Company seeks in this matter. I also

1 discuss reasons why the Commission should reject the proposal of the Company for a
2 retail stranded cost rate for retail customers who may choose to permanently disconnect
3 from the Company's system.

4 **Q. PLEASE PROVIDE A BRIEF OVERVIEW OF YOUR TESTIMONY.**

5 A. The Net Removal Tariff was originally approved to allow the Company to seek
6 compensation for the service of physically removing utility-owned facilities located on
7 the premises of a customer. In this matter, the Company seeks to extend the reach of the
8 Net Removal Tariff to cover more circumstances and more costs, including an
9 unprecedented new retail rate to cover stranded costs. I recommend that the Commission
10 reject proposals to extend the reach of the Net Removal Tariff.

11 In addition, much of the revised tariff language the Company proposes is unclear
12 and ambiguous, and thus, requires clarification on several key points, if changes are to be
13 made.

14 Finally, I disagree with the Company's definition and calculation of stranded
15 costs: the amount of fixed-costs considered in a ratemaking proceeding is not the same
16 thing as stranded costs. In the absence of an explicit, holistic state policy surrounding
17 this type of charge, I recommend that the Commission not approve the Company's
18 calculation of stranded costs in this matter.

19 **II. BACKGROUND**

20 **Q. WHAT IS THE NET REMOVAL TARIFF?**

21 A. The Company originally coined the term "Net Removal Tariff" to describe the various
22 pieces of language, terms and conditions dispersed throughout its tariff sheets and
23 implemented to allow the Company to charge a customer the costs associated with

1 removing utility property from a customer’s location when the customer changes utility
2 service providers.^{1/} The name is somewhat of a misnomer since the Net Removal Tariff
3 is not a single, self-contained tariff sheet, but rather, can be found in the tariff book
4 generally under Rule 6 (Facilities on Customer’s Premises), Rule 1 (Definitions), and
5 Schedule 300 (Charges as Defined by the Rules and Regulations). The word “Net” in the
6 term Net Removal Tariff was significant because it referred to the fact that disconnecting
7 customers were to receive a credit based on the salvage value of removed facilities.^{2/}

8 **Q. WHEN WAS THE NET REMOVAL TARIFF ORIGINALLY ADOPTED?**

9 A The Commission first adopted the Net Removal Tariff in its Eighth Supplemental Order
10 Rejecting Original Proposed Tariff Revision and Approving Modified Tariff Proposal
11 (“Order 08”) in Docket UE-001734,^{3/} although the Company’s filing in that matter had its
12 roots in earlier advice filings and the Company’s 1999 General Rate Case.^{4/} In the
13 UE-001734 matter, the Company originally proposed the Net Removal Tariff as a simple
14 rule, requiring customers pay the “cost to remove the facilities less salvage value,”^{5/} when
15 requesting to be permanently disconnected from the Company’s distribution system. In
16 its original filing, the Company identified removal costs as “labor associated with pulling
17 the PacifiCorp meter and removing poles, conductor and transformers.”^{6/} Of note, there

^{1/} WUTC v. PacifiCorp, Docket UE-001734, Transcript; Volume 4 at 69:21-70:2 (September 20, 2002).

^{2/} Docket UE-001734, Exh. WGC-T, Direct Testimony of William G. Clements at 2:2-4 (May 11, 2001). See also Exh. BGM-3 at 1 (the Company’s Response to Boise Data Request (“DR”) 008) (confirming the Company did not request approval of either Fair Market Value charges or stranded cost recovery in the original Net Removal Tariff).

^{3/} Docket UE-001734, Eighth Suppl. Order (Nov. 27, 2002).

^{4/} See, e.g., WUTC v. PacifiCorp, Docket UE-991832, Stipulation at ¶ 13 (June 16, 2000); Docket UE-991832, Third Suppl. Order at ¶ 48 (Aug. 9, 2000); Docket UE-001734, Second Suppl. Order at ¶ 22 (July 9, 2001).

^{5/} Docket UE-001734, Exh. WGC-T, Direct Testimony of William G. Clements at 2:2-4.

^{6/} Id. at 2:5-7.

1 was no contemplation in that proceeding that the Company might remove or charge for
2 customer-supplied equipment, such as the conduit and equipment foundations.

3 In Order 08, the Commission ultimately rejected the language the Company had
4 originally proposed and adopted Staff's Modified Tariff Proposal,^{7/} which contained
5 several important clarifications relative to the Company proposal. Not only was Staff's
6 Modified Tariff Proposal more narrowly tailored, it included a number of specific
7 clarifications relative to the Company's proposal. For example, Staff's clarified that,
8 with a limited exception, the Net Removal Tariff "charge applies only to removal of
9 those distribution facilities serving the customer that are not on public easement."^{8/} In
10 the current proceeding, the Company seeks to fundamentally rewrite this important
11 consideration in the original establishment the Net Removal Tariff.

12 **Q. WHAT SERVICES DOES THE COMPANY PROVIDE WITH RESPECT TO**
13 **THE NET REMOVAL TARIFF?**

14 A. The services the Company provides under the Net Removal Tariff were originally limited
15 to the physical act of removing utility-owned facilities located on the premises of a
16 customer. This was later expanded somewhat to include a provision for the "net book
17 value" of removed facilities,^{9/} as well as some minor language changes.

18 Notwithstanding, the Net Removal Tariff was not, and is not today, meant to apply to

^{7/} Order 08 at ¶ 82.

^{8/} Docket UE-001734, Exh. HBM-T1, Testimony of Henry B. McIntosh at 6:2-3 (July 2, 2001).

^{9/} There have been conflicting accounts of the circumstances through which Net Book Value was added to the Net Removal Tariff. Compare PacifiCorp's Report on Permanent Disconnection and Removal of Facilities ("Report"), Docket UE-132182, Report at 12 (Nov. 27, 2013) (noting Net Book Value began to be included in "late 2012," though no discussion is provided as to how the addition of Net Book Value was approved), with WUTC v. PacifiCorp, Docket UE-130043, Exh. PLT-1T at 9:14-11:3 (June 21, 2013) (testifying that, although presented merely as "housekeeping" changes, the Company made "significant" changes to the Net Removal Tariff in 2012, including the addition of Net Book Value calculations).

1 facilities other than those located on customer premises. This should be evident from the
2 fact that most of the Net Removal Tariff language can be found in Rule 6, which bears
3 the title “Facilities On Customer’s Premises.” In fact, the Commission found the Net
4 Removal Tariff to be reasonable due in part to the limited scope of services that were to
5 be provided under the Net Removal Tariff, equating the scope of the tariff services to be
6 similar to that of a line extension.^{10/} Similar to line extensions, the Net Removal Tariff
7 established “charges ... imposed on customers for *particular services rendered* that do
8 not set forth a specific dollar amount to be assessed.”^{11/}

9 **Q. HOW IS THE NET REMOVAL TARIFF LIKE A LINE EXTENSION?**

10 A. A line extension is a discrete service provided by the Company at the request of an
11 individual customer. If a customer requests a line extension, the Company will install
12 electrical facilities to the service location of that customer. This may include a new
13 service drop, new transformers, and new distribution facilities—although it does not
14 include conduit, trenching and equipment foundations, which must be provided by the
15 customer.^{12/} Subject to certain allowances and provisions, the customer requesting a line
16 extension must pay the actual cost of the facilities the Company provides pursuant to its
17 request. The Net Removal Tariff was similar to a line extension because it originally
18 allowed the Company to collect a fee from customers for the discrete service of
19 physically removing and salvaging Company-owned facilities located on a customer’s
20 property.

^{10/} Order 08 at ¶ 39.

^{11/} Id. (emphasis added).

^{12/} PacifiCorp, 2016 Electric Service Requirements, 2nd Edition, § 5.1, available at:
<https://www.pacificpower.net/con/esr.html>. See Exh. BGM-3 at 16 (the Company’s Response to Boise DR
0042) (referring to this address).

1 **Q. HOW WOULD THE SCOPE OF SERVICE CHANGE UNDER THE PROPOSAL**
2 **OF THE COMPANY?**

3 A. If the proposal of the Company were to be approved, the rates charged under the Net
4 Removal Tariff would no longer be tied to the service of physically removing utility
5 property from a customer’s premises. In fact, the rates charged would not be tied to any
6 identifiable service the Company might provide. For example, the Stranded Cost
7 Recovery Fee the Company proposes is based on a theory of future costs recovery, which
8 is neither certain, nor verifiable. Thus, under the Company’s proposal, the scope of the
9 Net Removal Tariff would expand to include charges that are based more on theories
10 about how a utility incurs cost, rather than rates for a discrete service the Company might
11 provide.

12 **Q. IS THE COMPANY RELITIGATING ISSUES THAT HAVE RECENTLY BEEN**
13 **DECIDED?**

14 A. Yes. The Commission recently rejected the Company’s proposal to assess a fee based on
15 the Fair Market Value of underground conduit and equipment foundations (vaults), which
16 were not necessary to remove pursuant to a request for permanent disconnection.^{13/} The
17 Commission found that it did not pose safety concerns for these facilities to be abandoned
18 on Company premises.^{14/} The Company requests to relitigate many of the same issues in
19 this proceeding.^{15/}

^{13/} Walla Walla Country Club (“WWCC”) v. Pacific Power, Docket UE-143932, Order 05 (May 5, 2016).

^{14/} Id. at ¶¶ 6-7.

^{15/} See, e.g., Exh. RBD-1T at 6:17-19 (claiming, in regard to WWCC, that “the facts that gave rise to the case [are] the same general facts necessitating revision of the Company’s tariffs governing the terms of permanent disconnection”); id. at 10:2-4 (claiming “the facts and circumstances presented in WWCC clearly illuminated the need to revise the tariffs”); Exh. BGM-3 at 7 (the Company’s Response to Boise DR 0016(a)) (confirming “that the facts and circumstances in WWCC are relevant to the current proceeding”); id. at 26 (the Company’s Response to Public Counsel DR 3) (confirming proposed purchase revisions are only applicable to underground conduits and vaults).

1 I do not think it is necessary to restate all of the reasons discussed in this recently
2 decided matter why it is more equitable if conduit and equipment foundations are
3 abandoned, rather than being removed at great, unnecessary cost.^{16/} One important thing
4 that was not fully discussed in that matter, however, was the fact that customers must, at
5 their own expense, provide all conduit, trenching and equipment foundations. I believe
6 this fact undermines the equity of using Fair Market Value for abandoned equipment.

7 **Q. WHAT CONCLUSIONS HAVE YOU REACHED FROM YOUR REVIEW OF**
8 **THE HISTORY OF THE NET REMOVAL TARIFF?**

9 A. Much of the Company's proposal directly contradicts the purpose of the Net Removal
10 Tariff, and for that reason, should not be approved. The Net Removal Tariff was
11 narrowly designed to permit the Company to provide a service of physically removing
12 equipment from customer premises. Adoption of the Company's proposal will require
13 the Commission to approve charges not tied to any specific service provided by the
14 Company, and accordingly, should not be considered.

15 **III. IMPACTS OF NET REMOVAL TARIFF REVISIONS**

16 **Q. WHAT ARE THE IMPACTS OF THE PROPOSED NET REMOVAL TARIFF**
17 **REVISIONS?**

18 A. It is the obligation of the Company to demonstrate the reasonableness of the tariff
19 revisions it has proposed.^{17/} Notwithstanding, in many instances, the language the
20 Company proposes in the Net Removal Tariff is unclear and/or ambiguous. In addition,
21 some of the changes are only described at a superficial level in testimony, or not
22 described at all. In some instances, it appears that the revisions the Company has

^{16/} See generally Docket UE-143932, Exh. BGM-1CT, Confidential Complainant Testimony of Bradley G. Mullins (June 24, 2015).

^{17/} RCW § 80.04.130.

1 proposed to its tariff sheets are actually more complicated, and could be interpreted to
2 have greater reach than implied in testimony and discovery. For this reason, the proposed
3 language needs to be further refined, if it is to be used at all, in the Company's tariff
4 sheets.

5 **Q. ARE YOU PERSUADED BY THE REASONABLENESS OF THE COMPANY'S**
6 **PROPOSAL, BASED ON THE TESTIMONY AND EXHIBITS REVIEWED?**

7 A. No. I have not been persuaded that the Company's proposed Net Removal Tariff
8 modifications are justified or necessary on the basis of Direct Testimony and supporting
9 exhibits of Mr. Dalley. For any discussion on legal issues surrounding the burden of
10 proof of the Company, I would defer to counsel. If the Commission decides to adopt Net
11 Removal Tariff changes, however, I am proposing specific modifications designed to
12 improve the clarity of existing terms, as well as provide some discussion of why some of
13 the terms should be eliminated altogether.

14 **Q. WHAT SPECIFIC CHANGES DO YOU PROPOSE?**

15 A. My proposed changes are identified in the following subsections of testimony.

16 **a. Tariff Applicability**

17 **Q. HAS THE COMPANY PROPOSED TO CHANGE CIRCUMSTANCES IN**
18 **WHICH THE NET REMOVAL TARIFF WILL APPLY?**

19 A. Yes.

20 **Q. UNDER WHAT CIRCUMSTANCES DOES THE CURRENT NET REMOVAL**
21 **TARIFF APPLY?**

22 A. The existing Net Removal Tariff applies only when a "[c]ustomer requests Permanent
23 Disconnection of Company's facilities,"^{18/} "where the Customer has either requested the

^{18/} Rule 6.I.

1 Company permanently disconnect the Company's facilities or chosen to be served by
2 another electric utility provider."^{19/}

3 **Q. HOW WOULD THE NET REMOVAL TARIFF APPLY UNDER THE**
4 **COMPANY'S PROPOSAL?**

5 A. The Company's proposed revisions would apply the Net Removal Tariff in three distinct
6 scenarios. Specifically, the Net Removal Tariff would apply when a departing customer:
7 "1) requests the Company to permanently disconnect Company's Facilities; 2) chooses to
8 be served by another electric utility provider; or 3) obtains redundant service from
9 another electric utility provider."^{20/} Thus, the Company seeks to expand the Net
10 Removal Tariff to include a new category of circumstance, where a customer obtains
11 "redundant services" from another electric utility provider.

12 **Q. IS THE LANGUAGE RELATED TO REDUNDANT SERVICES NECESSARY?**

13 A. I do not see the necessity for such language. From my review of the information the
14 Company has presented in this matter, it is not evident that circumstances surrounding
15 redundant facilities are actually a problem for the Company. In discovery, the Company
16 stated that, based on its definition, "there are currently no circumstances of redundant
17 service and resulting redundant facilities in Pacific Power's Washington service area."^{21/}
18 The Company also identified only two instances where it has discovered redundant
19 facilities,^{22/} and I do not think that the Company was foreclosed from applying the Net
20 Removal Tariff in those instances based on the existing language. This undercuts the
21 need for the proposed change to the tariff applicability language.

^{19/} Rule 1 (defining "Permanent Disconnection").

^{20/} Pacific Power Proposed Revision to Rule 6.I., Sheet R6.2.

^{21/} Exh. BGM-3 at 22 (the Company's Response to Boise DR 0063(a)).

^{22/} Id. at 30 (the Company's Response to Columbia Rural Electric Association ("Columbia REA") DR 0025).

1 In addition, if a customer were truly taking services from both the Company and
2 another electric utility provider, the customer will have already chosen to be served by
3 another electric utility provider. Thus, the customer would already be subject to the
4 second criterion in the Company's proposed Net Removal Tariff.

5 **Q. DID THE COMPANY PROVIDE A DEFINITION OF REDUNDANT ELECTRIC**
6 **SERVICE?**

7 A. No. The Company did not define the term "redundant service" in its proposed tariff
8 revisions, and thus, it is entirely unclear what services the Company might consider to be
9 redundant. What is clear from discovery, however, is that the term "redundant services"
10 is not meant to apply to any particular circumstance of which the Company is currently
11 aware.^{23/}

12 **Q. DID BOISE REQUEST THAT THE COMPANY PROVIDE A DEFINITION OF**
13 **REDUNDANT SERVICES?**

14 A. Yes. In response to Boise DR 0021(a), the Company defined the term "redundant
15 electrical service" as follows: "situations in which a customer is simultaneously receiving
16 electric service from more than one provider at the same location."^{24/}

17 **Q. DID THE DEFINITION OF THE COMPANY IDENTIFY WHAT WOULD BE**
18 **CONSIDERED TO BE THE "AT SAME LOCATION?"**

19 A. No. The words "at the same location" may be susceptible to a broad range of
20 interpretations and may engender controversy. It is not clear, as to the degree of
21 electrical interconnection that is required for different loads to be considered "at the same
22 location." As I understand, nothing under the current framework in Washington prohibits
23 a single entity from receiving electrical services from different providers for different

^{23/} Id. at 22 (the Company's Response to Boise DR 0063(a)).

^{24/} Id. at 8 (the Company's Response to Boise DR 0021(a)).

1 loads, even if the loads are located on the same parcel of land. Thus, it is not clear if, for
2 example, two separate structures, with no electrical connection between the two, might be
3 considered to be the at same location, and subject to the Net Removal Tariff, under the
4 Company's proposal. Similarly, if an existing customer were to build an entirely new
5 structure, with a new load, it is not clear if the customer is prohibited from taking
6 electrical services from another utility provider, with respect to the new structure, without
7 applying the Net Removal Tariff. Based on the lack of any express testimony on this
8 matter, my understanding is the Company intended the term "location" to apply narrowly.

9 **Q. HAS THE COMPANY PROVIDED CLARIFICATION ABOUT WHETHER A**
10 **LOAD IS "AT THE SAME LOCATION" IN DISCOVERY?**

11 A. Yes. As I have reviewed the discovery responses, the Company is using the term
12 "location" to describe a structure or improvement, or the portion thereof, which is
13 electrically connected and configured for a single point of delivery. For instance, the
14 Company illustrates redundancy by presenting a scenario of "changing the *internal*
15 wiring to bypass the Company's meter"^{25/} Likewise, the Company expressly refers to the
16 intended application of tariff terms as to "a customer who allows another service provider
17 to install power to a *structure* already being served by Pacific Power."^{26/} Still further, in
18 the only two instances in which the Company ever claims redundant service to have
19 existed, both involved single structures.^{27/} For example, the Company's Response to
20 Columbia REA Data Request 0041 identifies a single residence which was

^{25/} Id. (emphasis added).

^{26/} Id. at 9 (the Company's Response to Boise DR 0022) (emphasis added). See also id. at 31 (the Company's Response to Columbia REA DR 0041 (defining "redundancy" as pertaining to "one structure").

^{27/} See id. at 30 (the Company's Response to Columbia REA DR 0025) (referring to an alleged discovery of "a second meter base on the other side of the building" and "two other meters on the same building").

1 simultaneously receiving full requirements service from both the Company and another
2 utility provider. Moreover, based on the examples provided by the Company, a “single
3 structure” seems to better capture the intent of the proposed definition of “redundant”
4 electrical service.

5 **Q. ARE THERE OTHER ASPECTS OF THE APPLICABILITY LANGUAGE THAT**
6 **YOU RECOMMEND BE CLARIFIED?**

7 A. Yes. If viewed in isolation from the other requirements, the second criterion—which
8 would require that the Net Removal Tariff apply to *any* customer that “chooses to be
9 served by another electric utility provider”—could also be interpreted expansively. The
10 mere fact that a customer might choose to be served by another provider should not, in
11 and of itself, be a reason to apply the Net Removal Tariff. Taken in its broadest sense, the
12 language could be interpreted to apply to just about any load in Washington that is being
13 served by a utility provider other than the Company.

14 A more practical question of interpretation, however, arises under this language
15 with respect to new loads. If an entity develops a new load and, with respect to the new
16 load, “chooses to be serviced by another electric utility provider,” it is not necessarily
17 clear if the Net Removal Tariff will apply based on the language revisions of the
18 Company.

19 **Q. DOES THE COMPANY INTEND FOR THE NET REMOVAL TARIFF TO**
20 **APPLY TO NEW LOADS?**

21 A. There is no express testimony on this matter. In addition, when asked in discovery
22 whether the Net Removal Tariff revisions would apply to new loads, the Company was
23 not responsive.^{28/} Thus, absent any affirmative statements on the part of the Company

^{28/} Id. at 25 (the Company’s Response to Boise DR 0068(d)).

1 that it intends to apply the provisions of the Net Removal Tariff—including the Stranded
2 Cost Recovery Fee—to new loads, one must assume that the Company does not intend to
3 apply the tariff in that manner.

4 **Q. WOULD IT BE APPROPRIATE FOR THE NET REMOVAL TARIFF TO**
5 **APPLY TO NEW LOADS?**

6 A. No. As noted above, the current Net Removal Tariff is limited in scope to include only
7 those utility-owned facilities located on the premises of a customer. Thus, applying the
8 current language of the Net Removal Tariff to new loads would have no consequence
9 because there would be no such facilities to remove. Under the Company's proposed
10 revisions, with a Stranded Cost Recovery Fee, the issue becomes more complicated. If
11 the Net Removal Tariff revisions are applied to new loads, the Company will be allowed
12 to collect a stranded cost fee from any new load, in the event that a consumer chooses
13 another utility provider. Consumers building new loads may have no prior relationship
14 with, or nexus to, the Company. Similarly, the Company should have no expectation of
15 being the service provider of any particular new loads. Accordingly, it would be
16 inappropriate if the language in the Net Removal Tariff were interpreted in such a
17 manner, which was not intended or contemplated by the Company in this matter. In fact,
18 such an expansion would basically create a de facto service territory, the boundaries of
19 which the Company has unlimited discretion in defining.

20 **Q. WHAT REVISIONS DO YOU PROPOSE TO CLARIFY FOR**
21 **CIRCUMSTANCES IN WHICH THE NET REMOVAL TARIFF APPLIES?**

22 A. Assuming any Net Removal Tariff revisions are approved at all, I propose to define the
23 applicability language of the Net Removal Tariff in the following manner:

- 24 1. ~~Except as set forth in I.2. below, The following provisions shall apply~~ when
25 a departing Customer ~~1~~ requests the Company to permanently disconnect

1 Company's Facilities; ~~2) in order~~ to be served by another electric utility
2 provider.; ~~or 3) obtains redundant service from another electric utility~~
3 ~~provider~~. The provisions under this section shall not apply to any new loads,
4 new structures and/or new service locations.

5 **Q. IF THE COMMISSION WERE TO APPROVE A PROVISION REGARDING**
6 **REDUNDANT SERVICES, HOW SHOULD THAT TERM BE DEFINED?**

7 A. While I believe it is unnecessary, if the Commission desires to expand the scope of the
8 Net Removal Tariff to include a provision regarding redundant services, below is a
9 definition of redundant services, which is consistent with my understanding of the
10 Company's proposal:

11 **Redundant Electrical Services:** Refers to situations in which a customer
12 simultaneously receives full requirements electric services from more than
13 one provider at a single structure or improvement, or the portion thereof,
14 which is electrically connected and configured for a single point of delivery.

15 **b. Actual Cost of Removal**

16 **Q. HAS THE COMPANY PROPOSED A NEW DEFINITION FOR THE ACTUAL**
17 **COSTS OF REMOVAL?**

18 A. In Rule 1, the Company proposes a new definition for the term "Actual Cost of
19 Removal." The Company proposes this term be defined as "[a]ll removal costs,
20 including, but not limited to labor costs, contractor costs, costs to investigate redundant
21 services, and Net Book Value of Facilities less Salvage."^{29/}

22 **Q. DO YOU AGREE WITH THIS DEFINITION?**

23 A. No. I have initial concerns with three aspects of this definition.

24 **Q. WHAT IS YOUR FIRST CONCERN WITH THE PROPOSED DEFINITION OF**
25 **ACTUAL REMOVAL COSTS?**

26 A. First, the Company defines the term by referring to "all removal costs" generically in the
27 definition. It would be recursive, and unnecessary, to use the words "all removal costs"

^{29/} Pacific Power Proposed Revision to Rule 1, Sheet No. R1.1.

1 to define the term “Actual Cost of Removal,” as it typically is not preferred to define a
2 term using the same term as that being defined. As a result of the recursive nature of the
3 definition, the definition provides little additional clarity or certainty to a departing
4 customer over the specific costs that the customer may be required to reimburse under the
5 Net Removal Tariff.

6 **Q. WHAT IS YOUR SECOND CONCERN WITH THE DEFINITION OF ACTUAL**
7 **REMOVAL COSTS?**

8 A. Second, the Company includes a new term, “costs to investigate redundant services,”
9 which has not been explained in testimony. I am concerned because it is not necessarily
10 clear what investigatory services might fall under this term. For example, if the
11 Company performs an investigation and discovers that there are no duplicative facilities,
12 it would seem inappropriate for the Company to collect a fee for such an investigation.
13 Similarly, it is not clear what incremental costs the Company might incur to perform such
14 an investigation. Is it the Company’s intention to hire additional employees or
15 contractors, whose sole responsibility is to investigate duplicative services? Given the
16 fact that the issue related to redundant services has not been demonstrated to be a
17 problem, it seems strange and unnecessary that the Company might incur any material
18 amount of cost relating to investigating specific instances of redundant services. In
19 addition, the Company did not discuss this proposed revision in testimony, and
20 accordingly, there is no basis to conclude that such a provision would be reasonable.

21 **Q. WHAT IS YOUR THIRD CONCERN WITH THE DEFINITION OF ACTUAL**
22 **REMOVAL COSTS?**

23 A. Based on further review of the Company’s line extension policies, I disagree that the Net
24 Removal Tariff should include a provision to allow for the recovery of the Net Book

1 Value of removed facilities. To be clear, my primary recommendation is to make no
2 modifications to the Net Removal Tariff, based on my view that the Company has not
3 provided persuasive justification for its proposals. Notwithstanding, if changes are to be
4 made to the Net Removal Tariff, then the propriety of Net Book Value provisions ought
5 to be reexamined as well.

6 **Q. WHY SHOULD THE COMMISSION RECONSIDER THE INCLUSION OF**
7 **PROVISIONS FOR NET BOOK VALUE?**

8 A. The Net Removal Tariff, at least in recent years, has allowed the Company to collect the
9 Net Book Value of removed facilities. Notwithstanding, I believe that it is more
10 appropriate for the provisions regarding the recovery of Net Book Value—i.e., the
11 Company’s “unrecovered investment”—of facilities located on the premises of a
12 customer to be addressed in the Rules and Regulations related to Line Extensions.

13 **Q. HOW DO THE LINE EXTENSION RULES BETTER ADDRESS THE NET**
14 **BOOK VALUE?**

15 A. As I understand, just about any utility-owned facility located on a customer’s premises
16 will have been subject to a line extension at some point. For large customers, the existing
17 line extension rules already contain a provision to require a customer to repay the costs
18 incurred at the Company’s expense for facilities removed pursuant to a request for
19 permanent disconnection. Rule 14.III.A.2 states: “If service is terminated within the first
20 10 years, the Customer must pay a termination charge equal to the Extension Allowance
21 less 1/10th of the allowance for each year service was taken.” I believe that this approach
22 more accurately accounts for the customer contributions when determining the amount of
23 unrecovered investment in cost to customers choosing to permanently disconnect.

1 **Q. SHOULD A SIMILAR APPROACH BE EXTENDED TO SMALL CUSTOMERS?**

2 A. Yes. Applying this provision is a fairer way to ensure that customers are not required to
3 pay for the cost of removed facilities twice: once as a result of the line extension, and
4 again, when permanently disconnecting.

5 **Q. DOES THE NET REMOVAL TARIFF PROPERLY ACCOUNT FOR**
6 **CONTRIBUTIONS IN AID OF CONSTRUCTION (“CIAC”) OR**
7 **CUSTOMER-SUPPLIED EQUIPMENT?**

8 A. No. The Company does not have a well-defined process to account for CIAC or
9 customer-supplied equipment associated with line extensions on an asset-by-asset basis.
10 Thus, the Company has stated that it “often” has no way of knowing how much of any
11 particular asset was funded by an individual customer.^{30/} The Company has also stated
12 that it only gives credit against the Net Removal Tariff costs for a line extension amount
13 if it was paid within the past five years.^{31/} Accordingly, when it originally obtained its
14 line extension, a customer may have paid for 100% of the cost of facilities located on its
15 premises. Yet, if that customer were to seek to have those facilities removed under the
16 Net Removal Tariff, the customer would still be required to pay the book value of the
17 facilities, simply because the Company is unable to identify the specific amounts
18 contributed by the customer. Under my proposal, only the line extension amounts
19 actually incurred and specifically funded by the Company, such as line extension
20 allowances, would be eligible for reimbursement based on the Net Book Value, if a
21 customer chooses to disconnect.

^{30/} Exh. BGM-3 at 2-3 (the Company’s Response to Boise DR 0013 and Attachment Boise 0013-1 (the Company’s Response to WWCC DR 40)).

^{31/} Id. at 2, 4-5 (the Company’s Response to Boise DR 0013 and Attachment Boise 0013-1 (the Company’s Response to WWCC DRs 47, 71)).

1 **Q. SHOULD THE COST OF REMOVAL INCLUDE THE BOOK VALUE OF**
2 **CUSTOMER-SUPPLIED FACILITIES?**

3 A. No. Pursuant to the Company’s 2016 Electric Service Requirements, 2nd Edition, a
4 customer must supply, at its own expense, “all trenches, backfill, compaction, conduit,
5 and equipment foundations. The customer is responsible for boring if that method is
6 used.”^{32/} Requiring the customer to reimburse the Company for the Net Book Value of
7 these customer-supplied facilities would not be appropriate because doing so allows the
8 Company to recover a cost that it never actually incurs.

9 **Q. BASED ON THESE CONCERNS, WHAT DEFINITION WOULD BE**
10 **APPROPRIATE FOR “ACTUAL COST OF REMOVAL”?**

11 A. If Net Removal Tariff revisions are to be made, I would propose the following:

12 Actual Cost of Removal: ~~All removal costs, including, but not limited to~~
13 Labor costs and contractor costs associated with the service of removing
14 Company-owned facilities from the premises of a customer, other than
15 those facilities supplied by the Customer. ~~costs to investigate redundant~~
16 ~~services, and Net Book Value of Facilities less Salvage.~~ Actual Cost of
17 Removal does not include the cost of removing facilities provided by the
18 Customer, including the cost associated with trenches, backfill, compaction,
19 conduit, and equipment foundations.

20 **c. Fair Market Value**

21 **Q. HOW DOES THE COMPANY PROPOSE TO USE THE TERM FAIR MARKET**
22 **VALUE IN THE CONTEXT OF THE NET REMOVAL TARIFF?**

23 A. The Company proposes a new defined term, “Fair Market Value,” as “[t]he price at
24 which Facilities would sell on the open market between a willing buyer and a willing
25 seller as determined by the Company or a Company requested third party appraisal.”^{33/} If

^{32/} PacifiCorp, 2016 Electric Service Requirements, 2nd Edition, § 5.1, available at:
<https://www.pacificpower.net/con/esr.html>.

^{33/} Pacific Power Proposed Revision to Rule 1, Sheet R1.2.

1 a customer chooses to permanently disconnect, the Company proposes to provide the
2 customer with the option to “[p]urchase underground conduit and vaults at Fair Market
3 Value in lieu of removal, and pay Actual Cost of Removal of all Facilities not sold.”^{34/}

4 **Q. HOW IS THE COMPANY’S PROPOSAL DIFFERENT FROM THE CURRENT**
5 **NET REMOVAL TARIFF?**

6 A. Under the applicable precedent in the WWCC proceeding, the departing Company may
7 abandon certain conduit and equipment foundations if the customer reimburses the
8 Company for the unrecovered investment or Net Book Value of such facilities.^{35/} The
9 Company seeks to reverse that treatment.

10 **Q. DO YOU AGREE WITH THIS USE OF FAIR MARKET VALUE FOR**
11 **ABANDONED FACILITIES IN THE NET REMOVAL TARIFF?**

12 A. No. The equity concerns surrounding the use of Fair Market Value were discussed at
13 length in the WWCC proceeding and the Company presents no new information that was
14 not considered in the WWCC matter. Accordingly, it would be procedurally unfair for
15 the Commission to reconsider that issue in this proceeding.

16 **Q. HOW EXPANSIVE IS THE PROPOSED LANGUAGE?**

17 A. The proposed language would provide the Company with unfettered discretion in
18 determining the Fair Market Value,^{36/} and for that reason alone should be rejected. In the
19 WWCC proceeding, it was established that the Company is held harmless with respect to
20 customer-supplied facilities if the disconnecting customer pays the Net Book Value of

^{34/} Pacific Power Proposed Revision to Rule 6, Sheet No. R6.3.

^{35/} Docket UE-143932, Order 05 at ¶ 7.

^{36/} See Exh. BGM-3 at 10-11 (the Company’s Response to Boise DR 0025(b)) (confirming that Fair Market Value would be determined without customer input, i.e., solely “by the Company or a Company requested third party appraisal”).

1 assets, which are not necessary to remove pursuant to the request for permanent
2 disconnection.^{37/} In fact, my current understanding is that the use of Net Book Value
3 overcompensates the Company. As explained above, the way the Company accounts for
4 CIAC and facilities contributed by the customer results in Net Book Value calculations
5 which are already inflated. Notwithstanding, the Company now proposes that it be
6 allowed to abandon property located on customer premises for a gain, a result that I do
7 not believe to be in the public interest.

8 **Q. IS THE USE OF FAIR MARKET VALUE REASONABLE FOR**
9 **UNDERGROUND FACILITIES?**

10 A. No. A major portion of the “Fair Market Value” of underground facilities is related to
11 the labor cost associated with trenching and excavating. For example, the actual market
12 value of PVC conduit is quite small, yet the cost of trenching and installing the conduit
13 into the ground can be quite high. The Company implies that, as a result of abandoning
14 conduit and equipment foundation, it is giving up property of great value when a
15 customer disconnects; yet, the Fair Market Value—in, say, a 20-year-old piece of
16 conduit—lies not in the cost of the equipment itself, but more in the cost of trenching and
17 excavating.

18 This begs the question, if the Company intends to charge for the installed cost of a
19 facility, including the value of a trench, of what ownership interest the Company has in
20 the trenching located on a customer’s premises to begin with. In response to Boise Data
21 Request 47, the Company confirmed that it does not assume any ownership interest in the
22 soil, backfill or any other aspect of a trench once a customer begins to take service.^{38/}

^{37/} Docket UE-143932, Order 05 at ¶ 4 n.2.

^{38/} Exh. BGM-3 at 17 (the Company’s Response to Boise DR 47).

1 Yet, the Company, through its proposal related to Fair Market Value, would presumably
2 be permitted to still seek to charge departing customers the cost of trenching and
3 excavating as a component of installing replacement facilities in its proposed Fair Market
4 Value calculations.

5 The equity of this proposal is particularly egregious once one considers the fact,
6 noted above, that customers must provide all trenches, backfill, compaction, conduit, and
7 equipment foundations at their own expense in order to take service from the Company.
8 In response to Boise Data Request 48, the Company confirmed that when a customer
9 provides, at its own expense, the trenching, conduit, and equipment foundations
10 necessary to take underground service from the Company, no cost is reflected in rate base
11 for such amounts.^{39/}

12 In response to Boise Data Request 67(d), the Company also stated that it “does
13 not intend to include the cost of trenching and excavating in Fair Market Value
14 assessments if assets are sold to the customer who was originally responsible for the cost
15 of trenching and excavation with the installation.”^{40/} Notwithstanding, this nuance has
16 not been documented in the revised language the Company proposes.

17 **Q. DOES THE COMPANY ACTUALLY OWN UNDERGROUND FACILITIES**
18 **SUPPLIED BY THE CUSTOMER?**

19 A. I believe that this is an interesting legal question which ought to be addressed by counsel.
20 As I view these facilities, it would seem absurd if the Company were to obtain absolute
21 ownership of underground facilities supplied by a customer and located on a customer’s
22 premises. While the Company may have a right to use customer-supplied equipment,

^{39/} Id. at 18 (the Company’s Response to Boise DR 48).

^{40/} Id. at 24 (the Company’s Response to Boise DR 67(d)).

1 such as conduit and equipment foundations, I do not believe it obtains any outright
2 ownership in such property when it begins providing service to a customer. From my
3 perspective, conduit and equipment foundations represent fixtures on the real property of
4 a customer, and while the Company may have an easement that would allow it to use
5 such facilities to provide service, I question whether the Company obtains the type of
6 ownership that would allow it to sell, or remove, fixtures to the land that a customer has
7 put into place in order to receive service.

8 A vault, for example, is a void in the earth surrounded by a foundation. While the
9 Company may have an easement that would allow it to use the space created by the vault
10 for transformers and other similar equipment, it is not clear to me that the Company has
11 an absolute ownership right to the space that is created by the vault, such that the vault
12 must be sold back to the customer, or refilled with dirt, once service is terminated. If a
13 customer terminates service, I would logically conclude that the easement of the
14 Company with respect to using underground facilities provided by the customer would
15 also terminate, requiring no consideration on the part of the customer. I recognize,
16 however, that the legal nuances surrounding these questions may not be straightforward,
17 and thus, would defer to counsel on this matter.

18 **Q. WHAT SPECIFICALLY DO YOU PROPOSE WITH RESPECT TO THE**
19 **PROVISIONS REGARDING FAIR MARKET VALUE?**

20 A. In all events, even if some Net Removal Tariff changes are approved, I propose to strike
21 the sections in the Company's proposal regarding the Fair Market Value of removed
22 facilities. This would include striking the definition in Rule 1, as well as the operating
23 language in proposed Rule 6.I.1.b. It would be unfair to parties if the Company was
24 allowed to relitigate this issue, which was recently decided. In addition, such a provision

1 would be unnecessarily remunerative to the Company, particularly considering the fact
2 that much of the Fair Market Value of removed facilities is related to trenching,
3 equipment foundations, and conduits, for which a customer must pay when taking service
4 from the Company.

5 **d. Covered Facilities**

6 **Q. WHAT CHANGES DOES THE COMPANY PROPOSE WITH RESPECT TO**
7 **FACILITIES SUBJECT TO THE NET REMOVAL TARIFF?**

8 A. Mr. Dalley proposes that the Net Removal Tariff no longer apply just to limited facilities
9 located on customer premises.^{41/}

10 **Q. DOES THE COMPANY PROPOSE A NEW DEFINITION FOR FACILITIES?**

11 A. Yes. The Company propose a new definition for Facilities to be “Electric infrastructure
12 designed, built, and installed to provide service, including but not limited to transmission
13 and distribution lines, service drops, transformers, poles, risers, conduit, vaults, and any
14 other equipment used to supply electricity.”^{42/}

15 **Q. WHAT ARE YOUR CONCERNS WITH THIS ASPECT OF THE COMPANY’S**
16 **PROPOSED REVISIONS?**

17 A. As a result of the way in which the term facilities is used throughout the tariff, I am
18 concerned that such an expansive definition could apply to any number of types of
19 equipment with little nexus to the customer choosing to disconnect. Nor are my concerns
20 assuaged by the fact that the Company proposes to eliminate the requirement that
21 removal costs may be charged “only if those facilities were necessary to provide service
22 to Customer.”^{43/}

^{41/} Exh. RBD-1T at 10:13-15.

^{42/} Pacific Power Proposed Revision to Rule 1, Sheet No. R1.2.

^{43/} Pacific Power Proposed Revision to Rule 6, Sheet No. R6.2.

1 **Q. DID THE COMPANY EXPLAIN THE NEED FOR THIS CHANGE?**

2 A. No. The referenced testimony offers no explanation for why such a change would be
3 reasonable. I am aware of no evidence the Company has presented that would indicate
4 that the exclusion of facilities located on a public right-of-way from the Net Removal
5 Tariff might pose a problem.

6 **Q. IS IT REASONABLE TO EXPAND THE NET REMOVAL TARIFF TO**
7 **INCLUDE FACILITIES LOCATED ON A PUBLIC RIGHT OF WAY?**

8 A. No. This issue was explicitly addressed in the Modified Tariff Proposal of Staff in
9 Docket UE-001734, after Staff testified that the Company’s original proposal was “not
10 clear” as to “the facilities that may be subject to removal.”^{44/} The Company later
11 clarified that facilities subject to removal were “limited to distribution facilities,” and that
12 the Net Removal Tariff would “not apply to primary facilities *in the public right-of-*
13 *way.*”^{45/} Consequently, as stated in the Modified Tariff Proposal ultimately supported by
14 the Company and approved by the Commission, customer charges “shall not include any
15 amount for any distribution facilities located on public easement (other than the meter
16 and service drop).”^{46/}

17 To this day, the Net Removal Tariff still prohibits the Company to demand any
18 removal charges for “facilities located on public right of way (other than the meter and
19 service drop).”^{47/} Likewise, the Net Removal Tariff has always expressly stated that

^{44/} Docket UE-001734, Exh. HBM-T1, Testimony of Henry B. McIntosh at 3:12-14.

^{45/} Id. at 3:14-18 (emphasis added). See also Exh. BGM-3 at 2, 6 (the Company’s Response to Boise DR 0013 and Attachment Boise 0013-1 (the Company’s Response to WWCC DR 27, Attach Club 027, UE-001734 PacifiCorp Response to WUTC DR 2.15)).

^{46/} Docket UE-001734, Eighth Suppl. Order, App. A, Rule 4(f)(3).

^{47/} Rule 6.I.1.

1 removal costs for facilities on public easements or right of way may only be charged “if
2 Customer specifically requests such facilities be removed.”^{48/}

3 **Q. ARE THERE OTHER UNEXPLAINED CHANGES RELATED TO THE**
4 **FACILITIES SUBJECT TO REMOVAL?**

5 A. Yes. The Net Removal Tariff has historically applied only to facilities that need to be
6 removed for safety or operational reasons. As the Company has reworded the Net
7 Removal Tariff, however, this significant provision has been lost. The Company offers
8 no explanation for why it is reasonable to eliminate that provision, which played a role in
9 the outcome of the recent WWCC proceeding.^{49/}

10 **Q. WHAT DO YOU RECOMMEND?**

11 A. If approved at all, I recommend paragraph 5 of Pacific Power’s Proposed Revision to
12 Rule 6.I be clarified as follows:

13 Facilities subject to Permanent Disconnection and Removal ~~may be located~~
14 ~~in a right of way, private property, or any other property used to provide the~~
15 ~~departing Customer electric service~~ include Facilities located on the
16 premises of a Customer that need to be removed for safety or operational
17 reasons, and only if those facilities were necessary to provide service to
18 Customer. Except where a Customer specifically requests facilities located
19 on public right of way be removed, Facilities subject to Permanent
20 Disconnection and Removal shall not include any facilities located on
21 public right of way (other than the meter and service drop) or for the
22 removal of area lights which have been installed and billed for a minimum
23 of three years.

^{48/} Compare Docket UE-001734, Eighth Suppl. Order, App. A, Rule 4(f)(4), with Rule 6.I.2.

^{49/} See Docket UE-143932, Order 05 at ¶¶ 4-7.

1 **IV. STRANDED COST RECOVERY FEE**

2 **Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE STRANDED**
3 **COST RECOVERY FEE THE COMPANY PROPOSES?**

4 A. I recommend that the Commission not approve the Stranded Cost Recovery Fee the
5 Company proposes in the Net Removal Tariff revisions in this matter. To my knowledge,
6 the Company's proposal for a retail rate for stranded cost recovery would be, if approved,
7 unprecedented in Washington State. Puget Sound Energy did make a similar proposal in
8 1995 in Docket UE-950570, but ultimately withdrew its proposal for a retail stranded cost
9 tariff in that matter. Accordingly, the standard of approving such a revision remains
10 high.

11 Further, there are material flaws in the Company's proposal, such that it would
12 not be ideal for the Commission to adopt a comprehensive policy towards stranded cost
13 recovery as a component of the Net Removal Tariff in this matter. In my opinion, a
14 better way to address the significant issue related to stranded cost recovery from retail
15 customers is through a holistic review of direct access and retail wheeling policies in
16 Washington, similar to that currently being contemplated in regard to the Stipulation in
17 Docket UE-161123.^{50/}

18 **Q. WHY DO YOU RECOMMEND THE COMMISSION NOT APPROVE**
19 **PROPOSALS RELATING TO THE STRANDED COST RECOVERY FEE?**

20 A. The calculations the Company describes as stranded cost in testimony are not
21 representative of actual costs stranded when a customer chooses to permanently
22 disconnect. Rather, the Company's calculations are based on the decoupling revenues

^{50/} See WUTC v. Puget Sound Energy, Docket UE-161123, Joint Memorandum in Support of the Full Settlement Stipulation ¶ 11 (Apr. 11, 2017).

1 established in the Company's 2015 rate filing, Docket UE-152253.^{51/} The Company
2 requests that the Commission adopt a view that every dollar of revenue requirement,
3 other than a power cost, is a stranded cost. It should be apparent to most, however, that
4 this is not a reasonable view of stranded costs. The unreasonableness of this assumption
5 should also be evident from the fact that the Company proposes to calculate stranded
6 costs as a static value over a long-term, ten-year period. In addition, even if one were to
7 consider the Company's approach to be reasonable, the Company omits key factors
8 influencing its ability to avoid stranded costs, including the impacts associated with
9 reductions to jurisdictional allocation factors.

10 **Q. ARE DECOUPLING REVENUES AN APPROPRIATE MEASURE OF**
11 **STRANDED COSTS?**

12 A. No. Decoupling revenues represent an amount of fixed costs modeled in revenue
13 requirement for a single test year. The term stranded costs, on the other hand, is
14 generally used as a term of art to describe investments that become obsolete due to some
15 sort of regulatory change, or what the Company equates in this instance to the departure
16 of a customer to another utility provider. Stranded costs are often defined as ongoing
17 amounts that the Company may incur with respect to departing loads, such as a cost
18 generator that a utility acquired to serve a particular customer load, following departure
19 of a customer. In addition, stranded costs, by necessity, would include only those costs
20 which the Company cannot avoid when a departing customer leaves.^{52/}

21 Thus, factors such as the extent a stranded cost may be avoided by using a
22 generator to serve retail loads of customers in other jurisdictions, or through making

^{51/} This can be noted in the workpapers accompanying the Company's Response to WUTC Data Request 1.
^{52/} Exh. BGM-3 at 27-28 (the Company's Response to Public Counsel DR 9(c)) (confirming this principle).

1 secondary sales, need to be carefully considered when determining the extent of stranded
2 costs related to a customer departure. The Company, however, has not performed a
3 detailed analysis of stranded costs. In this sense, the highly fact-specific variables
4 applicable to such considerations lead me to commend the propriety of the Commission's
5 statement that "[s]tranded costs' are determined on a case-by-case basis."^{53/}

6 **Q ARE FIXED COSTS THE SAME THING AS STRANDED COSTS?**

7 A. No. There are many costs that may be characterized as a fixed cost in the context of a
8 rate case, which are not stranded when a customer departs a utility's system. The
9 designation of any particular cost in a rate case as fixed or variable is typically a function
10 of how ratemaking is performed. Utility ratemaking requires an analysis of a number of
11 different types of costs. In Washington, this analysis occurs based on a modified
12 historical test year approach.^{54/} Some of the costs evaluated in a rate case are considered
13 to be fixed and not tied directly to the level of sales. Other costs, however, such as power
14 costs and some production costs, are modeled as a variable cost, forecast to vary based on
15 the level of sales. The distinction between amounts that are demand- or energy-related in
16 a rate case is an important consideration when performing cost allocation and designing
17 rates. The mere fact that a cost may be considered fixed and/or demand-related in a rate
18 case, however, does not necessarily mean that the amount is stranded if a customer
19 departs the Company's system.

^{53/} Air Liquide America Corp., et al. v. Puget Sound Energy, Inc., Dockets UE-001952 and UE-001959
(*consolidated*), Eleventh Suppl. Order at ¶ 34 n.18 (Apr. 5, 2001). But see Exh. BGM-3 at 15 (the
Company's Response to Boise DR 0033(b)) (confirming that the Company did not consider this statement
by the Commission).

^{54/} WUTC v. Avista Corp., Dockets UE-160228 and UG-160229 (*consolidated*), Order 06 at ¶ 61 n. 119 (Dec.
15, 2016).

1 Over time, one expects that a utility will appropriately size its operations to the
2 retail requirements of customers it serves. Accordingly, if a customer departs, the scope
3 of the utility's operations should similarly decline, although it may take some amount of
4 time for this reduction in scope to occur. Some fixed costs may be immediately avoided
5 when a customer leaves. For example, immediately after a customer leaves, the
6 Company will no longer incur the cost associated with reading the customer's meter,
7 taking calls from the customer at its call center, etc., even though those costs would be
8 considered stranded for ten years in the analysis proposed by the Company. It may take
9 longer for the Company to eliminate other fixed costs, such as the cost of generation
10 assets, although over time the departure of a customer will allow the Company to retire
11 existing facilities and/or avoid acquiring new generating facilities.

12 For example, in the Company's 2017 Integrated Resource Plan ("IRP"), the
13 Company forecast a need for new system generating resources, necessary to serve load
14 and demand as early as 2021.^{55/} To be clear, these new resources will not be reflected in
15 rates under the existing jurisdictional allocation methodology used in Washington. If a
16 customer departs, however, the need to acquire new resources, as well as transmission
17 necessary to deliver output from the resources, will decline. Notwithstanding, the
18 Company did not consider the fact that a departing customer may provide system benefits
19 by allowing the Company and its remaining customers to avoid new future resources in
20 the ten-year analysis it performed.

^{55/} Re Pacific Power, UE-160353, 2017 Integrated Resource Plan, Volume I at 2 (Apr. 4, 2017).

1 Similarly, the Company identified a new economic opportunity related to
2 repowering wind facilities in its 2017 IRP.^{56/} If this opportunity truly is economic to
3 customers, the benefits associated with the project to remaining customers will increase if
4 a customer departs, as the economic benefits of the project will be spread over a smaller
5 load. The Company has performed no reasonable quantification of these types of benefits
6 associated with departing loads to remaining customers.

7 **Q. DID THE COMPANY PERFORM AN IRP ANALYSIS TO DOCUMENT**
8 **STRANDED COSTS?**

9 A. No. Unlike Puget Sound Energy's proposal in Docket UE-161123,^{57/} the Company did
10 not perform any IRP analysis to document stranded costs. In fact, the Company has
11 confirmed that such an analysis supporting its stranded cost proposal was not conducted
12 in relation to other discovery request issues.^{58/}

13 **Q. ARE ALL PRODUCTION COSTS, OTHER THAN NET POWER COSTS,**
14 **CONSIDERED TO BE DEMAND-RELATED IN A RATE CASE?**

15 A. No. Pacific Power uses the Peak & Average methodology for cost of service purposes in
16 Washington,^{59/} in order to classify fixed production costs as either energy-related or
17 demand-related. A fundamental principle underlying such an allocation methodology is a
18 recognition of the fact that, over time, a portion of fixed production costs are variable,
19 and tied to the energy requirements of the respective rate classes. The Company's
20 proposal to treat all fixed costs as stranded costs flies in the face of this allocation

^{56/}

Id.

^{57/}

See, e.g., Docket UE-161123, Exh. JAP-1CT at 5:5-8 (Oct. 7, 2016); id., Exh. JAP-3C (Oct. 7, 2016).

^{58/}

See Exh. BGM-3 at 13-14 (the Company's Response to Boise DR 0032(c)-(d)).

^{59/}

WUTC v. Pacific Power, Docket UE-152253, Order 12 at ¶ 230 (Sept. 1, 2016).

1 principle, as the Company assumes that both the energy-related and demand-related
2 production costs are stranded in the long-term when a customer departs.

3 **Q. WERE NET POWER COSTS UPDATED IN DOCKET UE-152253?**

4 A. No. Thus, the fixed costs the Company proposes, which were derived by deducting net
5 power costs from authorized class revenues, are based on cost information that is stale
6 and outdated. The last time power costs were updated was in Docket UE-140762.

7 **Q. WHY DID THE COMPANY USE A 10-YEAR PERIOD?**

8 A. The Company has offered no evidence that a 10-year period is a reasonable period of
9 time over which to calculate stranded costs. For example, in discovery the Company
10 merely explained that it believes a ten-year period is reasonable in light of its long-term
11 planning cycle.^{60/} The Company does not explain, however, why its long-term planning
12 cycle lends itself to a ten-year period, particularly when the stranded cost fees the
13 Company proposes are not tied to any sort of planning study.

14 **Q. DID THE COMPANY ACCOUNT FOR THE IMPACT OF DEPARTING LOADS**
15 **ON WASHINGTON JURISDICTIONAL ALLOCATION FACTORS?**

16 A. No. The Company admits that it did not account for the impacts of departing loads on
17 allocation factors when calculating stranded cost.^{61/}

18 **Q. WILL THE COST ALLOCATED TO WASHINGTON DECLINE AS A RESULT**
19 **OF DEPARTING CUSTOMER LOADS?**

20 A. Yes. The Company agreed that system costs allocated to Washington will immediately
21 decline as a result of a departing customer load.^{62/}

^{60/} Exh. BGM-3 at 21 (the Company's Response to Boise DR 0056).

^{61/} Id. at 20 (the Company's Response to Boise DR 0055).

^{62/} Id. at 19 (the Company's Response to Boise DR 0054).

1 **Q. SHOULD DECLINING ALLOCATION FACTORS BE TAKEN INTO**
2 **CONSIDERATION WHEN EVALUATING STRANDED COSTS?**

3 A. Yes. If a Washington customer departs, the capacity resources used to serve the
4 Customer's load are freed-up and may be used to provide full requirements service to
5 retail customers in other jurisdictions. This is a benefit to other states, which may avoid
6 costly new capacity additions, as a result of the departure of a Washington customer's
7 load. The value of this freed-up capacity is more than just the market value of
8 incremental secondary sales, as other states may use the generation capacity for reliability
9 purposes.

10 Similarly, Washington's allocation of overhead costs, such as the call center and
11 common transmission costs, will also appropriately decline when a customer departs.
12 The reduction in these costs is appropriate under cost causation principles since
13 Washington will cause less overhead costs to occur when a Washington customer
14 departs. These are important considerations for which the Company did not account in
15 its evaluation of stranded costs, which treats all fixed costs as stranded even though much
16 of the costs are avoidable to Washington ratepayers if a customer departs.

17 **Q. ARE THERE OTHER REASONS WHY LOADS MAY BE LOST, OTHER THAN**
18 **TO ANOTHER SERVICE PROVIDER?**

19 A. Yes. There are many other reasons that loads may be lost other than the scenario where a
20 customer chooses to be served by another service provider. For example, loads may be
21 lost due to economic conditions, such as closure of production facilities. Loads may also
22 be lost to energy efficiency. In these other instances of lost load, however, the Company
23 does not propose to impose a charge for stranded costs resulting from the lost load.^{63/} In

^{63/} Exh. BGM-3 at 29 (the Company's Response to Columbia REA DR 002).

1 fact, in the case of energy efficiency, lost loads are incentivized. For this reason, I
2 believe it is discriminatory to single out loads lost to departing customers for stranded
3 cost recovery, when there are many other instances when lost loads are not subject to
4 such a charge. As a result, I believe the Company's proposal has less to do with
5 economic principles surrounding stranded costs, and more to do with penalizing certain
6 customer behavior.

7 **Q. HOW IS ENERGY EFFICIENCY CONSIDERED DIFFERENTLY FROM THE**
8 **COMPANY'S STRANDED COST PROPOSAL?**

9 A. Washington State typically does not consider lost revenues, or stranded costs, when
10 evaluating the economic impact of loads lost to energy efficiency. Yet, loads lost to
11 energy efficiency present the same economic consequences to the Company, and its
12 remaining customers, as loads lost to another service provider. There may be policy
13 reasons for why energy efficiency is valued in a manner that is more beneficial than the
14 stranded cost proposal of the Company in this matter.

15 **Q. ARE THERE POLICY REASONS TO ENCOURAGE CUSTOMERS TO SELECT**
16 **A LOCAL PUBLIC POWER ENTITY FOR ELECTRICAL SERVICES?**

17 A. Yes. Primarily, it may be politically desirable for the loads in the Northwest to be more
18 reliant on local, carbon-free sources of power supply, rather than being integrated in a
19 multi-state power supply system over which Washington State has little control. By
20 taking electrical services from the Company, loads in the region may become
21 increasingly reliant on out-of-state generating capacity, including environmentally
22 disfavored resources. When a customer's load requirements migrate to a local public
23 power entity, it increases the demand for power generated locally in the Northwest,
24 primarily from hydro resources.

1 **Q. DO THE COMPANY'S SERVICE CONTRACTS WITH ITS CUSTOMERS**
2 **POSSESS A PROVISION FOR STRANDED COST RECOVERY?**

3 A. Under some rate schedules, a customer must execute a term contract in order to take
4 services from the Company.^{64/} As I understand, these contracts do not possess any
5 language that would explicitly allow the Company to collect a stranded cost fee if the
6 customer load were to depart from the Company's system, for whatever reason. Thus,
7 for any customer that executed such a contract to take service from the Company, there
8 would presumably be no expectation, from either the Company or the customer, that a
9 stranded cost fee might be applied in the event that the Customer chose to take services
10 from another supplier. This is problematic since customers will have relied on the
11 explicit exclusion of such a provision when making the initial decision of whether to take
12 services from the Company.

13 **Q. DOES THE LACK OF AN EXPLICIT STRANDED COST PROVISION FAVOR**
14 **GRANDFATHERING?**

15 A. Yes. If the Commission ultimately decides to implement a stranded cost fee, I propose
16 that all customers that have entered into service contracts, prior to the Commission's final
17 determination in the matter, be exempt from such a charge. Absent an express provision,
18 it should be presumed that the Company did not have an expectation of stranded cost
19 recovery with respect to such scenarios.

20 **Q. DOES THIS CONCLUDE YOUR RESPONSE TESTIMONY?**

21 A. Yes.

^{64/} See Sheet No. 48T.3.