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June 17, 2015

***Via Electronic Mail***

Steven V. King

Executive Director and Secretary

Washington Utilities & Transportation Commission

1300 S. Evergreen Park Drive S.W.

P.O. Box 47250

Olympia, Washington 98504-7250

Re: Docket No. U-140621 – Cost Impact Reply Comments of Avista Utilities

Avista Corporation, dba Avista Utilities (“Avista” or “Company”), submits the following Reply Comments in accordance with the Washington Utilities and Transportation Commission’s (“Commission’s”) Notice of Opportunity to Respond to Small Business Economic Impact Statement (SBEIS) Questionnaire (“Notice”) issued May 27, 2015 in Docket U-140621.

Avista appreciates the opportunity to provide information related to the estimated cost impact and additional expenses related to Third Revised Draft Rules.

# 480-54-020 DEFINITIONS

**480-54-020(11) Net Cost of a Bare Pole Definition Allows Phone Companies to Charge Higher Rates**

ILECs have “super depreciated” their pole plant over the years so that it may now have a negative value. To illustrate this, the depreciation carrying charge factor that Avista used in 2014 joint use rate calculations is 2.91%. As an example, Frontier’s same factor in their rates as reported to Avista is 27.36%. Once the plant essentially has no value, the alternative gross-cost formula allows the rates to be re-inflated, creating a double win for the ILEC pole owner. It is unclear how this will be applied by ILECs in the future; however, a comparison can be made between Washington and Idaho. In Washington, the standard formula has allowed Frontier pole rates to increase a moderate 25% over the previous 5 years. However, in Idaho where Frontier uses the gross-cost formula, rates have increased by 117% within the same period. A conservative estimate for this change would be $20,000 annually based on total annual pole rental costs that Avista pays to others in Washington State currently at $120,000.

**480-54-020(20) Usable Space Definition Lowers Rates at the Smallest Common Denominator**

The presumption that a pole is assumed to have 13.5-feet of useable space is contrary to existing agreements and includes safety space preserved to protect communication workers. While this does align with the FCC formulas, this reduction in rates will result in the conveyance of a subsidy from our customers to the telecommunication, cable and all other companies that will now seek attachment. This single change drastically reduces annual pole attachment revenue by 26% from TV and ILEC phone providers.

The changed pole formula will create an estimated $275,000 annual loss of revenue based on 2014 rate calculations. Washington TV providers will see a $135,000 reduction. Washington phone providers will see a $140,000 reduction.

# 480-54-030 ACCESS, MAKE-READY WORK AND TIMELINES

**480-54-030(11) Overlashing Safety Issues**

By not requiring an application or detailed design for overlash requests and the accelerated timeline for projects up to 300 poles, additional resources are presumed to be needed. Each overlash requested will need to field audited by Avista in advance of construction and the jobs need to be prioritized above new pole route requests. An estimate of 2000 overlashed poles per year to be audited and enforced for compliance would be a new process for Avista and it is expected that at least one FTE would be required at an added expense of $90,000 per year. This assumes there is not a substantial growth in overlash requests, and in that case the costs could escalate even more.

# 480-54-050 MODIFICATION COSTS; NOTICE; TEMPORARY STAY

**480-54-050(1) Owner Pays for Additional Capacity to Preserve Joint Use Space**

If a communication company occupies space on a pole and that space later needs to be recovered by a pole owner to serve its own customers (*e.g.,* by installing a transformer), the pole owner may now bear the expense of replacing the pole even though that expense would not have to be incurred if the communications attacher were not attached to the pole taking up the space it occupies plus the 40-inch Communications Worker Safety Zone. The cost to replace a pole in such situations is $5,000 or more. Financially, of course, it makes no sense to allow an attachment on a pole for $10 a year and risk replacing that pole later for $5000 or more. Based on a total inventory of 240,000 poles, it is estimated conservatively that Avista might replace 100 poles per year under these circumstances. Therefore, the annual cost to Avista’s ratepayers would be estimated at $500,000 ($5,000 X 100 = $500,000).

# 480-54-060 RATES

**480-54-060(2) Pole Rate Formula Reduces Rates Significantly**

As mentioned above under 480-54-020(20) Definitions of Usable Space, Avista expects revenue losses for TV and phone pole attachments to be an estimated $275,000 annually.

In addition, the failure to adopt the FCC pre-2011 Telecom formula will reduce the annual pole attachment revenue by 56% from telecommunication and other providers. This translates into an estimated revenue reduction of $302,000 based on 2014 rates.

The formula also changes the factor for the ratio of a bare pole to total pole from 85% (contractual amount) to 95% (FCC amount) when calculating ILEC pole rates. This has about a 10% effect on rates charged by ILECs and the additional expense to Avista would be estimated at $12,000 annually.

**480-54-060(3) Duct and Conduit Rate Formula Reduces Rates Significantly**

Avista’s flat rate for duct rental has remained unchanged for 15 years and our program has been mutually beneficial to all parties, including the customers served in the downtown Spokane Network. The components of the new proposed formula have not been developed or calculated, but early estimates foresee that Avista may see a $100,000 annual loss of duct rental revenue based on the total 2014 duct rental revenue of $214,000.

# 480-54-070 COMPLAINT

**480-54-070 Excluding Sanctions Will Have a Detrimental Effect**

Staff notes that the Commission cannot authorize damages or delegate its authority to impose penalties, and in its previous recommendations associated with Draft Rule 480-54-070, Staff has stated it would be bad public policy to delegate penalty authority even if it were lawful.

The problem with these conclusions is that it leaves utility pole owners defenseless against these violations. Without any risk of penalty, licensees lack the incentive to bear the full cost and expense of constructing and maintaining their facilities in a safe and reliable manner.

One such component is the failure to transfer communication facilities from old poles to new poles when they are replaced. Avista will continue to spend a great deal of man hours fielding, identifying and re-notifying communication companies to make pole transfers. We also spend time with city inspectors who may hold work permits open until the job is done because asphalt and concrete repairs are often delayed. Return visits to the poles are often required because of failures to timely transfer. Based on the assumption that 1000 hours of man hour time per year is devoted to managing these delinquent communications company transfers, then the cost to Avista’s ratepayers would be $60,000 per year (1000 hours X $60/hour = $60,000).

# SUMMARY

Based on the estimates noted above, the annual additional costs and expenses to Avista’s ratepayers, due solely to communications attachments, are assessed as follows:

|  |  |
| --- | --- |
| Rates Charged by ILEC phone companies |  $ 20,000  |
| Useable Space Definition Charge |  $ 275,000  |
| Overlashing Safety Audits |  $ 90,000  |
| Additional Pole Capacity |  $ 500,000  |
| Telecom Rate Reduction |  $ 302,000  |
| Bare Pole Ratio |  $ 12,000  |
| Duct Rate Reduction |  $ 100,000  |
| Pole Transfers |  $ 60,000  |
| **Total Per Year** |  **$ 1,359,000**  |

# CONCLUSION

What is noted in this document is not all inclusive and over time, the Company may find there are additional costs that cannot be anticipated at this point.

Avista again appreciates the opportunity to provide these comments, and we look forward to participating in any future workshops or discussions. If you have any questions regarding these comments, please contact Frank Binder at 509-495-4270 or at frank.binder@avistacorp.com or myself at 509-495-4975 or at linda.gervais@avistacorp.com.

Sincerely,

/s/Linda Gervais/

Manager, Regulatory Policy

Avista Utilities

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