Exhibit No. MPG-8T
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

CROSS-ANSWERING TESTIMONY OF MICHAEL P. GORMAN

ON BEHALF OF

COLUMBIA RURAL ELECTRIC ASSOCIATION, INC. ("Columbia REA")

May 17, 2017

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

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

4 **Q. ARE YOU THE SAME MICHAEL P. GORMAN WHO HAS PREVIOUSLY**
5 **FILED TESTIMONY IN THIS PROCEEDING?**

6 A. Yes. On April 21, 2017 I filed response testimony on behalf of Columbia Rural
7 Electric Association, Inc. ("Columbia REA").

8 **Q. WHAT IS THE PURPOSE OF YOUR CROSS-ANSWERING TESTIMONY?**

9 A. I will respond to the responsive testimony of Washington State Office of the Attorney
10 General, Public Counsel Unit ("Public Counsel") witness Kathleen A. Kelly.
11 Specifically, I will comment on Ms. Kelly's testimony on Pacific Power & Light
12 Company's ("PP" or the "Company") changes to Rule 6, and the proposal to include
13 an Exit Fee in Schedule 300.

14 **Q. PLEASE DESCRIBE MS. KELLY'S RESPONSE TO THE COMPANY'S**
15 **PROPOSED CHANGES TO RULE 6.**

16 A. Ms. Kelly comments that in the absence of a franchise or service territory agreement,
17 PP needs a means by which to protect existing customers from costs related to
18 customers that are leaving the system. She comments on PP's proposed tariff rate
19 expansion related to recovering costs from departing customers. She observes that PP
20 is planning to change the tariff to include two options for recovering these costs. She
21 observes that the first option (Option 1) develops an Exit Fee based on an engineering
22 and accounting definition of the costs related to serving the customer. In a new
23 proposed second option (Option 2), she testifies that PP proposes to charge departing
24 customers an Exit Fee based on the fair market value of the customer facilities.
25 (Exhibit No. KAK-1T at 10-11).

1 Ms. Kelly does not take issue with the Option 1. However, Ms. Kelly concludes that the Company has not provided sufficient rationale for including all of the facilities it proposes to include in its Exit Fee from departing customers. (Exhibit No. KAK-1T at 6). Indeed, as I explained in my response testimony, the Company plans to include as part of the Exit Fee, facilities that are not dedicated to the customer, but generally are system distribution and/or transmission assets which should not be included in an Exit Fee calculation.

She also takes issue with the Company's proposal for a fair market valuation based on the Company's sole discretion under the Option 2 assessment. She testifies that allowing the Company to be the sole practitioner of the fair market value of departing facilities raises the possibility that the Company will recover costs for the same facilities twice and that using this methodology may be incompatible with the Washington Utilities and Transportation Commission ("Commission") determination in other orders.

She concludes that it would be more appropriate to allow for a fair market value to be determined by an independent appraiser and allow customers the ability to respond to the appraiser's assessment in seeking the Commission's determination of an Exit Fee (Exhibit No. KAK-1T at 11).

Q. ARE MS. KELLY'S COMMENTS ON RULE 6 REASONABLE?

A. In part, yes. For the reasons outlined in my response testimony, I agree that the Company has not provided sufficient rationale for including all the facilities in its definition of "Facility" which PP proposed to include in Exit Fees under its proposed Rule 6. For these reasons, the Company's proposed facility costs under Rule 6 subject to an Exit Fee should remain as is, as I outlined in my response testimony. Any Exit

1 Fee based on the Company's dedicated customer facilities should be limited to the net
2 book value plus salvage cost of said facilities because, as Ms. Kelly testifies, this
3 method is based on sound engineering and accounting practices. Indeed, this is how
4 the current Rule 6 is written, and there is no evidence that this rule has not
5 accomplished the goal identified by Ms. Kelly that remaining customers are protected
6 from costs of departing customers.

7 Indeed, as I noted in my response testimony at 12, charging departing
8 customers the book value costs of dedicated facilities in this manner will result in no
9 financial impact on the Company's net income. This is clear evidence that this
10 method accomplishes the objective of ensuring that PP will fully recover exiting
11 customers' dedicated costs and will not need to seek recovery of dedicated costs
12 associated with an exiting customer, from customers that remain on the system.

13 **Q. DO YOU BELIEVE MS. KELLY'S PROPOSAL FOR AN INDEPENDENT**
14 **APPRAISER IN ESTABLISHING FAIR MARKET VALUE WITH**
15 **CUSTOMER RIGHTS TO COMMENT IS REASONABLE?**

16 A. No. She has provided no rationale for anything other than Rule 6 as it is currently
17 written, which has effectively met her goal that remaining customers are not harmed
18 by exiting customers. As Commission Staff points out in its testimony, the impact to
19 PP has been negligible under the current Rule 6. (Exhibit No. DJP-1T at 16-17).

20 Allowing the Company to use a fair market value determination, Option 2,
21 exposes exiting customers to subjective valuation based on estimated costs and, thus,
22 grants PP the right to charge exiting customers Exit Fees in excess of PP's actual costs
23 of the facilities dedicated to serving the exiting customer. This excess Exit Fee will
24 result in subsidies to remaining customers from exiting customers, and should be
25 denied.

1 **Q. CAN YOU PROVIDE AN EXAMPLE OF WHY YOU BELIEVE A FAIR**
2 **MARKET VALUE METHODOLOGY IS NOT A BALANCED METHOD FOR**
3 **PROTECTING REMAINING CUSTOMERS?**

4 A. Yes. Fair market value estimates of distribution facilities specifically, in my
5 experience have generally been based on one of two methodologies. For example, a
6 common methodology is to measure fair market value using a replacement cost less
7 depreciation study, with obsolescence adjustments. This effectively is based on
8 estimating the cost of new facilities, adjusted for the remaining life of the existing
9 facilities, and an adjustment to value that considers technological obsolescence. This
10 appears to be the methodology PP would use under the tariffs at issue in this
11 proceeding. (Exhibit MPG-9, PP Response to CREA DR 008).

12 In effect, this simply adjusts PP's cost of the existing facilities largely for the
13 inflation escalation of new facilities from the original installation date to the date of
14 exit from PP. Because new facilities cost more today due to inflation than they did in
15 the past, a fair market value methodology sets an Exit Fee in excess of PP's net
16 original cost, or book value, of the facility costs and salvage costs.

17 If the exiting customer has to pay an exit price that exceeds the utility's net
18 book value, then PP will collect a profit which will be used as a credit to remaining
19 customers' cost of service. Requiring exiting customers to pay a price that results in a
20 subsidy to remaining customers does not meet Ms. Kelly's objective of ensuring that
21 customers are not harmed by changes to the Rule 6 Exit Fee.

1 **Q. PLEASE DESCRIBE YOUR SECOND EXPERIENCE IN FAIR MARKET**
2 **VALUATION OF UTILITY DELIVERY ASSETS.**

3 A. The second methodology of a fair market valuation of a delivery wires system is
4 similar to the first, however this requires use of a generally accepted engineering
5 escalation factor such as those published in the Handy-Whitman Index. This
6 escalation factor then is used to adjust the original cost of the utility facilities to restate
7 cost from original installation costs to a current installation value, which would be the
8 fair value estimated cost.

9 Again, this methodology will require exiting customers to pay an Exit Fee that
10 is in excess of PP's actual net original book value cost and will result in exiting
11 customers paying charges that produce profits to PP and subsidies to remaining
12 customers.

13 Both of these methodologies simply are not adequate to achieve the objective
14 to protect remaining customers from paying costs associated with exiting customers.
15 Importantly, this objective is already accomplished through the Option 1 Exit Fee
16 structure, where exiting customers pay an Exit Fee based on the net original cost book
17 value less a salvage cost to PP when choosing an alternative supplier.

18 **Q. DID MS. KELLY ALSO COMMENT ON THE PROPOSED STRANDED COST**
19 **FEE IN SCHEDULE 300?**

20 A. Yes. She believes that PP should expect to be able to recover stranded costs created
21 by departing customers' requests to permanently disconnect from the system. She
22 states that is consistent with the costs that give rise to stranded costs. Surprisingly, she
23 states that the controlling factor that creates the situation for potentially stranded costs
24 is the absence of a prevailing service territory agreement that would grant PP
25 exclusive rights to serve customers within a defined service territory. Ultimately, she

concludes that the question is not whether PP should be allowed to recover stranded costs, but rather what time period is appropriate to use to measure stranded cost. (Exhibit No. KAK-1T at 42-43).

Ms. Kelly criticizes the Company's stranded cost methodology in certain respects, stating the following issues:

1. PP's proposed methodology is inconsistent with the following:

   a. The resulting rates and fees would not be consistent with cost causation.

   b. The Company's presumption to have sole discretion to determine which facilities to be included in the stranded cost fee creates a risk of double collection of the same costs.

   c. The Company's presumption that it has sole discretion to determine which facilities, if abandoned, would create a safety risk is without deference to standing procedures for determining the presence of such risk with neighboring utilities and first responder authorities. Ultimately, she believes the Company's methodology does not accurately measure stranded costs because it does not consider other revenue sources that can support investments after a customer chooses to leave the system. And she believes the Company's proposed 10-year study period is flawed.

Q. DO YOU BELIEVE MS. KELLY HAS SUPPORTED A STRANDED COST FEE ADDITION TO SCHEDULE 300?

A. No. I broadly agree with Ms. Kelly's criticisms of PP's stranded cost recovery fee, but do not agree that this fee would be acceptable if PP's proposed method is adjusted in the ways she proposes. Ms. Kelly acknowledges that PP does not have a service territory agreement, and lawfully operates in competition with other suppliers in the area. She provides extensive background on stranded costs and identifies four primary areas where she believes stranded costs can exist, but does not appear to identify any instance in which a utility commission or court awarded stranded costs in the type of competitive situation in which PP operates under in Washington. (Exhibit KAK-1T at 13-15). Indeed, the opposite has been the case. The Federal Energy Regulatory

1 Commission, for instance, has found that an award of stranded costs depends on a
2 utility showing that it has a reasonable expectation of continued service to a customer,
3 for instance through a certificated service territory or a contract.[1/]

4 **Q. IF THE PROPOSED CHANGE IN SCHEDULE 300 IS ADJUSTED TO**
5 **INCLUDE AN EXIT FEE, WOULD THAT CHANGE THE RELATIONSHIP**
6 **BETWEEN PP AND ITS CUSTOMERS?**

7 A. Yes. This would create a one-sided regulatory barrier to the advantage of PP. The
8 Company's proposal for a stranded cost fee would create a new economic restriction
9 that would make it more difficult or costly for customers to leave the PP system. This
10 in effect imposes economic restrictions beyond those that were known and agreed to at
11 the time customers obtained service from PP, and would establish a virtual franchise
12 restriction that can be used by PP to create an economic barrier to prevent existing
13 customers from choosing an alternative supplier in the Walla Walla service area.

14 Ms. Kelly's testimony simply has not justified that a stranded cost fee is
15 appropriate for PP given the lack of a service area agreement, and provides no
16 evidence that remaining customers are harmed if other customers choose to leave the
17 system.

18 Ms. Kelly's proposed stranded cost fee should be denied.

[1/] 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 21,653 (May 10, 1996) ("Order No. 888").

1 **Q. SHOULD MS. KELLY'S PROPOSAL TO INCLUDE AS AN EXIT FEE COSTS**
2 **ASSOCIATED WITH PROVIDING LOW INCOME ASSISTANCE AND**
3 **ENERGY EFFICIENCY BE ADOPTED?**

4 A. No. As demonstrated by the exhibits included in Ms. Kelly's testimony, CREA has its
5 own energy efficiency programs. (Exhibits KAK-15, KAK-18). Consequently,
6 customers who transfer service from PP to CREA will also transfer their energy
7 efficiency potential – and overall energy efficiency in Washington will not be lost or
8 reduced. Notwithstanding, in response to a data request, Ms. Kelly expressed concern
9 that remaining customers would be required to shoulder higher costs for energy
10 efficiency in the interim period before PP revises its energy efficiency potential
11 downward to account for departing customer load. (Exhibit MPG-9, Public Counsel
12 Response to CREA DR 001). That, however, is not my understanding of how the
13 ratemaking process works.

14 **Q. PLEASE EXPLAIN.**

15 A. Remaining customers would not automatically pay a higher energy efficiency charge
16 to make up for costs that are no longer paid by a departing customer. Rather, PP
17 would need to request authority to change rates in a ratemaking proceeding, if a
18 change in the rate is needed. This would protect remaining customers from costs that
19 do not relate to their loads and energy efficiency goals. In setting energy efficiency
20 goals and charges, PP would need to update its energy efficiency forecasts, projected
21 costs and billing units based on remaining customers' normalized loads. This would
22 allow for updates and coordination between energy efficiency targets, related costs
23 and number of customers in a PP program. The same would be true with respect to
24 PP's low-income assistance programs.

1 In any event, Ms. Kelly's testimony regarding lost revenue to these programs
2 appears to make a mountain out of a molehill. Ms. Kelly does not identify what
3 impact, if any, is created by exiting customers to PP's energy efficiency and
4 low-income programs. However, Commission Staff shows in its testimony that the
5 overall impact to PP from departing customers has been negligible. (DJP-1T at
6 14-16).
7 Ms. Kelly's concerns regarding the level of transparency and oversight over
8 CREA's energy efficiency programs also does not appear to be based on any particular
9 knowledge or expertise she has regarding these programs or whether these programs
10 in fact receive oversight, for instance from the Bonneville Power Administration.
11 (Exhibit MPG-9, Public Counsel Response to CREA DR 004).
12 Rather, Ms. Kelly seems to be concerned with the notion that these programs
13 simply are not overseen by the Commission. I would note, however, the that
14 Northwest Power and Conservation Council is not overseen or regulated by the
15 Commission, but its Seventh Power Plan calls for the acquisition of over 4,000
16 average megawatts of energy efficiency by 2035, enough to meet all load growth in
17 the region in over 90% of future scenarios.[2/] Commission oversight is not, it appears,
18 a prerequisite to a robust energy efficiency program.
19 **Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?**
20 A. Yes, it does.

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[2/] Seventh Power Plan at 1-2, available at: https://www.nwcouncil.org/energy/powerplan/7/plan/.