Exhibit No. RMM-1T
Docket UE-161204
Witness: Robert M. Meredith

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of PACIFIC POWER & LIGHT COMPANY, Modification of Tariffs Governing Permanent Disconnection and Removal Procedures	Docket UE-161204

PACIFIC POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF ROBERT M. MEREDITH

May 2017

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ATTACHED EXHIBITS

Q. Please state your name, business address, and present position with Pacific Power & Light Company (Pacific Power or Company), a division of PacifiCorp.

A. My name is Robert M. Meredith. My business address is 825 NE Multnomah St, Suite 2000, Portland, Oregon, 97232. My present position is Manager, Pricing and Cost of Service.

QUALIFICATIONS

Q. Please describe your education and professional background.

A. I graduated magna cum laude from Oregon State University in 2004 with a Bachelor of Science degree in Business Administration and a minor in Economics. In addition to my formal education, I have attended various industry-related seminars. I have worked for the Company for 12 years in various roles of increasing responsibility in the Customer Service, Regulation, and Integrated Resource Planning departments. I have over six years of experience preparing cost of service and pricing related analyses for all of the six states that PacifiCorp serves. I assumed my present position in March 2016.

Q. Have you testified in previous regulatory proceedings?

A. Yes. I have previously filed testimony on behalf of the Company in regulatory proceedings in Washington, Oregon, California, Utah, Wyoming, and Idaho.

PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to rebut the testimony from other parties related to the Company's proposed Stranded Cost Recovery Fee as presented in the direct testimony of Company witness Mr. R. Bryce Dalley. I also present five limited but fiscally-impactful modifications to the Company's calculations of the Stranded Cost Recovery Fee that are responsive to their testimonies.

STRANDED COST RECOVERY FEE

Q. Were you involved with the development of the Company's proposed Stranded Cost Recovery Fee?

A. Yes. I provided input into the development of the Company's proposed Stranded Cost Recovery Fee and supervised its preparation.

Q. What were some of the key considerations for the Stranded Cost Recovery Fee?

A. While considering what would be the appropriate design for the Stranded Cost Recovery Fee, it became apparent that it would be necessary to balance the accuracy of the fee's calculation and application to customers with having a methodology that would be easy for others to understand and interpret. On the one hand, the Company could have designed a more detailed study examining the minutia of different Company costs that could possibly be incurred or avoided due to the permanent disconnection of customers. The Company could have also proposed a methodology wherein separate detailed calculations would be performed for each individual customer requesting disconnection. The Company instead elected to propose a simpler approach to estimating stranded costs which, while maintaining accuracy, involved fewer assumptions and computations and would be easier for others to understand and verify. The Company also proposed fees to recover stranded costs which were simple to determine and unambiguous, to both reduce the administrative burden of applying the fee and to make the fee easier for customers to understand. Based upon some of the feedback received in the response testimonies of other parties, the Company proposes five limited modifications to the calculation of its proposed Stranded Cost Recovery Fee. These proposed modifications generally add more detail to the Company's calculations and result in significantly lower fees charged to any departing customers in the residential or non-residential classes.

Q. Other parties who filed response testimony in this proceeding recommended rejection or modification of the Company's proposed Stranded Cost Recovery Fee. What are some of the specific issues that other parties raised?

A. Columbia Rural Electric Association, Inc. (Columbia REA) suggests that the Company's Stranded Cost Recovery Fee was proposed simply for the purpose of impeding retail competition.[1] Columbia REA, Boise White Paper, L.L.C. (Boise), Staff of the Washington Utilities and Transportation Commission (Staff), and the Public Counsel Division of the Attorney General's Office (Public Counsel) argue that there is not an adequate basis for using a 10-year period to calculate a Stranded Cost Recovery Fee.[2,3,4,5] Columbia REA, Boise, and Public Counsel express concerns that the Company's calculations did not consider a more recent analysis associated with the incremental power cost benefit of reduced load or freed-up energy, but simply used net power costs (NPC) which are included in rates.[6,7,8] Columbia REA, Staff, and Public Counsel also contend that there is a double counting of costs for customers opting to permanently disconnect from the Company given the Company proposes

[1] Exhibit No. MPG-1T, p.13, l. 22-24 and p. 18, l. 15-17.
[2] Exhibit No. MPG-1T, p.18, l. 23 through p.19, l. 3.
[3] Exhibit No. BGM-1T, p.31, l. 8-13.
[4] Exhibit No. DJP-1T, p.23, l. 7-10.
[5] Exhibit No. KAK-1T, p.41, l. 13 through p.42, l. 2.
[6] Exhibit No. MPG-1T, p.17, l. 28 through p.18, l. 2.
[7] Exhibit No. BGM-1T, p.31, l. 3-6.
[8] Exhibit No. KAK-1T, p.32, l. 18 through p.36, l. 13.

charging a Stranded Cost Recovery Fee and also proposes charging for the Net Book Value or requiring a purchase of Facilities that are dedicated to serving that customer.[9,10,11] Both Boise and Public Counsel raise the issue that there may be other costs which could be avoided when customers permanently disconnect besides NPC such as customer service and meter reading.[12,13]

Q. What is the purpose of the Company's Stranded Cost Recovery Fee?

A. The purpose of the Stranded Cost Recovery Fee is to protect the Company's remaining customers from the adverse financial consequences of customers who voluntarily choose to leave the Company's system and no longer pay for the recovery of costs that were intended to serve those departing customers.

Q. Is it the Company's intention for the Stranded Asset Cost Recovery Fee to eliminate competition?

A. No. The Company's intention is not for the Stranded Cost Recovery Fee to eliminate competition or otherwise impede the choice of its customers to receive service from another provider. The purpose of the Stranded Cost Recovery Fee is to ensure that departing customers pay their fair share of costs that were incurred to serve them, so that remaining customers are not forced to inequitably bear those costs.

[9] Exhibit No. MPG-1T, p.17, l. 14-20.
[10] Exhibit No. DJP-1T, p.23, l. 4-7.
[11] Exhibit No. KAK-1T, p.44, l. 13-17.
[12] Exhibit No. BGM-1T, p.29, l. 5-8.
[13] Exhibit No. KAK-1T, p.28, l. 13-16.

TIME PERIOD USED TO CALCULATE STRANDED COST RECOVERY FEE

Q. What positions do other parties take related to the time period that the Company used to calculate its proposed Stranded Cost Recovery Fee?

A. Columbia REA contends that there is no basis for calculating a Stranded Cost Recovery Fee over a 10-year period.[2] Public Counsel argues that a shorter six-year timeframe should be used to calculate the fee, corresponding to three Integrated Resource Plan (IRP) planning cycles.[5]

Q. In response to the testimony of other parties, does the Company propose to modify the time period used in its calculation?

A. While I believe that the 10-year period that the Company originally proposed is a reasonable timeframe over which to calculate the fee, the Company agrees to modify its calculation to be based on the present value of only six years of stranded costs. This modification is in line with Public Counsel's recommendation and is also reasonable since it represents three IRP cycles.

Q. What is the impact of making this modification?

A. Changing the Company's calculation so that it includes just six years of stranded costs instead of 10 years reduces the Stranded Cost Recovery Fee by 33 percent from what the Company had originally filed.

VALUE OF FREED UP ENERGY

Q. What concerns do other parties express regarding the value of freed-up energy from loads that permanently disconnect?

A. In its initial filing, the Company removed the NPC in base rates from the revenue requirement to determine stranded costs. Columbia REA claims that the Company's methodology fails to recognize the freed-up capacity at production facilities which could be used to make additional wholesale sales transactions when the Company has less load to serve.[6] Boise argues that the NPC which the Company removed to develop stranded costs are “stale and outdated.”[7] Public Counsel asserts that the Company’s analysis does not explicitly consider the additional margin that the Company could make from greater wholesale market sales as part of its stranded cost analysis. Public Counsel states that this type of analysis could be quite challenging considering the size of loads which may disconnect from the Company’s system.[8]

Q. Are these concerns valid?

A. I think that some of these concerns are valid. The Company’s proposed calculation of stranded costs was based upon the total revenue requirement in customers’ rates less NPC. In other words, the Company’s calculation did incorporate the value of freed-up energy at the same level as NPC in base rates. I agree that using the NPC in base rates may not appropriately capture the most recent incremental impact of a reduction in load.

Q. Do you recommend modifying the value of freed-up energy?

A. Yes. The Company recommends an alternative calculation to value freed-up energy that uses more recent information and better estimates the incremental impact from a permanent disconnection of load. The Company determined the value of freed-up energy using the Generation and Regulation Initiative Decision Tool (GRID) production cost model. The Company used the GRID study from its December 30, 2016 filing, with the Commission in Docket No. UE-161312, for determining prices for qualifying facilities, and decremented loads in the Walla Walla location by five average megawatts that was shaped the same as the load profile for the customers in the Company's Washington service territory during 2016. The GRID study uses the October 2016 Official Forward Price Curve. The Company used this load decrement analysis to estimate the incremental value of freed-up energy in dollars per megawatt hour based on market prices and the avoided cost of thermal generation. The Company then expanded these values by losses using the Washington jurisdictional average loss rate of 11.18 percent. The Company proposes to reduce the revenue requirement for each class by the estimated freed-up energy value multiplied by the Company's test period loads and by the factor 10 (F10) allocator for each class used in the cost of service study in the Company's last general rate case in Docket UE-140762 (2014 Rate Case) to allocate NPC for each year that was discounted.

Q. What is the impact of making this modification?

A. Changing the Company's calculation to use a specific freed-up energy value based upon the estimated impact of an incremental reduction in load as I described, instead of NPC in base rates, increases the Stranded Cost Recovery Fee by about four percent from what the Company had originally filed.

DOUBLE COUNTING OF REMOVAL COSTS AND/OR FACILITIES PURCHASE

Q. Please describe the issue that other parties raise concerning a double counting for the removal costs and/or facilities purchase with the Stranded Cost Recovery Fee.

A. Columbia REA, Public Counsel, and Staff state that the Company's calculation of stranded costs includes facilities that the Company would already receive recovery for with its proposed changes to Rule 6, which would require customers opting to permanently disconnect to pay for removal costs or purchase facilities used to directly serve them.[9,10,11]

Q. Does the Company agree to address this issue?

A. Yes. The Company agrees that it proposed in its filing to collect the removal costs including the Net Book Value of those facilities or to require a Fair Market Value purchase which along with its proposed Stranded Cost Recovery Fee could result in a double recovery. The Company proposes to remove costs in its stranded cost calculation that it estimates are related to meters, services, and line transformers. Meters, services, and line transformers are localized facilities that generally serve one or a small number of customers. The costs related to these facilities by customer class are determined in the Company's cost of service studies. To make this change, the Company determined the proportion of costs for each class related to these facilities from its unit costs in the cost of service study that it filed in the 2014 Rate Case and then reduced the costs included in its stranded cost calculation by those same proportions by customer class.

Q. What is the impact of making this modification?

A. Changing the Company's calculation to remove costs related to meters, services, and line transformers reduces the Stranded Cost Recovery Fee by about 12 percent for residential customers and about six percent for non-residential customers as compared to what the Company originally filed.

OTHER COSTS AVOIDED FROM PERMANENT DISCONNECTION

Q. What are some of the costs other than power costs that other parties argue should be removed from the Stranded Cost Recovery Fee?

A. Both Boise and Public Counsel argue that there are other costs such as customer service and meter reading costs which may be avoidable when a customer permanently disconnects from the Company's system.[12,13]

Q. Are these costs avoidable when customers permanently disconnect?

A. The Company agrees that some customer service operations and maintenance (O&M) costs could potentially be avoided when a customer permanently disconnects. If the Company serves fewer customers, it will likely answer less phone calls and spend less to send out physical paper bills. The Company does not think that meter reading expense is avoidable when customers permanently disconnect, since the Company has fully deployed Automated Meter Reading in its Washington service territory.

Q. What modifications does the Company propose to make to its Stranded Cost Recovery Fee calculation to address these concerns?

A. The Company proposes to remove all customer accounts expense and customer service expense except for Federal Energy Regulatory Commission (FERC) Account 902 (Meter Reading Expense) from its stranded cost calculation. This includes FERC Accounts 901, 903, 904, 905, 907, 908, and 910. To make this change, the Company determined the proportion of costs allocated to each class that were in these FERC Accounts in its cost of service study that it filed in the 2014 Rate Case and then reduced the costs included in its stranded cost calculation by those same proportions by customer class.

Q. What is the impact of making this modification?

A. Altering the Company's calculation to exclude all customer accounts expense and customer service expense, except FERC Account 902, reduces the Stranded Cost

Recovery Fee by about six percent for residential customers and by about one percent for the non-residential customers relative to what the Company originally filed.

Q. Columbia REA argues that there should be some consideration that a customer who switches retail service providers in the Walla Walla area would likely use and pay for the same transmission system that the Company currently provides.[14] **Do you agree?**

A. No. Depending upon the utility that a customer switches to as well as that customer's geographic location, a customer who switches providers could be served from transmission from either that customer's new utility, the Company, or another transmission owner altogether such as the Bonneville Power Administration. Columbia REA provides no evidence that loads that switch from receiving service from the Company's facilities to the facilities of another provider would result in additional wheeling revenues for the Company.

2017 IRP IMPLICATIONS

Q. The Company's 2017 IRP preferred portfolio includes new wind resources and repowered wind resources.[15] Columbia REA argues that the selection of these resources somehow refutes the Company's determination that a loss of customers would shift costs to other customers. [16] **What did you conclude from your review of that argument?**

A. Columbia REA's argument regarding the selection of new wind resources and repowered wind resources in the preferred portfolio for the Company's 2017 IRP is a

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[14] Exhibit No. MPG11T, p.17, l. 21-27.
[15] See page 2 on Volume I of the PacifiCorp 2017 Integrated Resource Plan.
[16] Exhibit No. MPG-1T, p.15, l. 20 through p.16, l. 8.

little unclear to me. Columbia REA reasons that these resources are being selected at times when the Company anticipates having planning reserve margins in excess of its 13 percent target. Columbia REA then concludes that "it is not evident that PacifiCorp's cost of production capacity is being determined by only customers' load impact on resource planning reserves".

Q. Boise also references the inclusion of repowered wind resources in the Company's 2017 IRP preferred portfolio.[17] **What does Boise contend regarding inclusion of these resources in the Company's calculation of stranded costs?**

A. Boise argues that since the Company has identified "a new economic opportunity related to repowering wind facilities in its 2017 IRP" that the economic benefits associated with repowering would increase for remaining customers when a customer opts to permanently disconnect from the Company's system.

Q. Should the inclusion of new wind and repowered wind resources in the Company's 2017 IRP preferred portfolio have implications for the Company's calculation of stranded costs?

A. No. The selection of new wind and repowered wind in the Company's 2017 IRP preferred portfolio is largely based upon the favorable economics which production tax credits provide. These selections are not driven by the Company's loads. As Columbia REA indicated, the Company's planning reserve margins are well in excess of its 13 percent target during this timeframe accounting for available market purchases. Reduced loads from customers who opt to permanently disconnect from the Company's system would not impact the Company's decision to pursue these

[17] Exhibit No. BGM-1T, p.30, l. 1-6.

economic opportunities.

These potential investments are not being driven by load and are also not a part of the costs that customers currently pay in their rates. It would be inappropriate to include costs and resultant benefits from resources that are not already in rates and are not being driven by a need to serve loads in the Company's stranded cost calculation.

Q. Boise claims that the 2017 IRP shows a need to serve "load and demand as early as 2021."[18] **Do you agree with this statement?**

A. No. The Company's 2017 IRP preferred portfolio shows new wind selected in 2021. As I indicated earlier, the inclusion of this resource is driven by economics and not by the Company's capacity position.

COST OF SERVICE CLASSIFICATION

Q. Boise makes an argument that since cost of service classification considers fixed generation costs as both energy- and demand-related that it would be inappropriate for the Company to treat all fixed costs as stranded.[19] **Please respond.**

A. Boise is conflating cost of service classification procedures with stranded cost determination. Boise contends that the determination of a cost as demand- or energy-related for cost of service purposes "is a recognition of the fact that, *over time*[20], a portion of fixed production costs are variable."[19] It is important to understand, however, that cost of service procedures are developed for the purpose of allocating costs to different classes, whereas a stranded cost determination is made for the

[18] Exhibit No. BGM – 1T, p.29, l. 12-14.
[19] Exhibit No. BGM-1T, p.30, l. 13 through p.31, l. 2.
[20] Italics added for emphasis.

purpose of calculating what costs would be shifted to remaining customers when a customer opts to permanently disconnect. Over a sufficient time horizon, virtually all costs could be considered variable as Boise notes. Cost of service principles recognize this and take a long run perspective by assigning fixed costs to different customer classes based upon each class's relative share of various demand and energy measurements. On the other hand, the Company's stranded cost calculations take a more limited term perspective and consider all costs which are fixed and non-deferrable with a customer's departure as stranded. The Company's proposed stranded cost calculations, as modified in my rebuttal testimony, utilize an intermediate period of time over which to include all fixed costs of six years.

Furthermore, it should be noted that classifying a cost or a portion of a cost as demand-related for cost of service purposes does not mean that cost is fixed. Classifying a cost or a portion of a cost as energy-related for cost of service purposes also does not mean that cost is variable. Both customer demands and energy may vary with time. Cost of service classification is the process of determining which portion of costs are demand-related, energy-related, and customer-related. Cost of service classification does not necessarily delineate costs in terms of fixed versus variable. For the purposes of determining stranded costs, a cost is fixed when it does not change as the result of a customer opting to permanently leave the Company's system. The Company's stranded cost calculations provide a reasonable estimate of costs which are fixed over an intermediate timeframe.

FEE STRUCTURE

Q. Public Counsel recommends changing the Company's proposed Stranded Cost Recovery Fee for residential customers to a revenue multiplier rather than a flat fee.[21] Does the Company agree with this recommendation?

A. Yes. The Company agrees to revise its proposed Stranded Cost Recovery Fee to a revenue multiplier for residential customers, to capture some of the differences in load that may exist among different residential customers.

Q. Columbia REA argues that applying a revenue multiplier for non-residential customers to each individual customer's revenue would not capture variations in stranded costs and implies that an average for the non-residential class might be more appropriate.[22] Please respond.

A. I find it strange that Columbia REA would claim that the Company's proposed revenue multiplier approach for calculating the Stranded Cost Recovery Fee does not capture variations in stranded costs, but implies a class average might. Customers with larger loads generally have more revenue and have a greater share of the Company's facilities committed to serve them. Conversely smaller customers with smaller loads generally have less revenue and a smaller share of the Company's facilities committed to serving them. Charging customers a Stranded Cost Recovery Fee that varies with their revenue is fair and reasonable. If a flat fee were used for non-residential customers, then a small mom and pop store would pay the same fee as a large industrial customer despite having very different levels of stranded costs associated with their load.

[21] Exhibit No. KAK-1T. p.47, l. 17-19.
[22] Exhibit No. MPG-1T, p.18, l. 18-22.

RECOVERY OF LOW INCOME BILL ASSISTANCE PROGRAM AND CONSERVATION PROGRAM COSTS

Q. Public Counsel suggests that the Company's proposal is too narrow, since it does not include recovery of costs related to the Company's low income bill assistance program and its energy efficiency programs.[23] How does the Company recommend addressing Public Counsel's concerns relating to these programs?

A. To ensure permanently disconnecting customers do not adversely impact the low income assistance and demand side management programs or shift those costs to remaining customers, the Company recommends including two additional fees on Schedule 300 for customers who opt to permanently disconnect. The Company calculated both of these fees using the same approach that it took for determining the Stranded Cost Recovery Fee. By calculating the net present value of six years of Schedule 91—Surcharge to Fund Low Income Bill Assistance Program—annual collections and dividing by annual revenue, the Company proposes a Low Income Assistance Program Recovery Fee of 0.03 times annual revenue for both residential and non-residential customers. By calculating the net present value of six years of Schedule 191—System Benefits Charge Adjustment—annual collections and dividing by annual revenue, the Company proposes a Demand Side Management Recovery Fee of 0.17 times annual revenue for residential customers and 0.18 times annual revenue for non-residential customers. Any collections from these fees would be deposited in the deferral accounts associated with the low income bill assistance program and conservation programs.

[23] Exhibit No. KAK-1T, p. 44, l. 18 through p.45, l. 7.

PROPOSED STRANDED COST RECOVERY FEE

Q. Please summarize the modifications which the Company has agreed to make to its proposed Stranded Cost Recovery Fee in response to other parties' testimony.

A. The Company proposes to make the following modifications to its Stranded Cost Recovery Fee:

- Use a six year Net Present Value period consistent with Public Counsel's recommendation;
- Include an explicit credit for incremental freed-up energy that is based upon more recent costs instead of removing NPC in base rates;
- Remove the estimated costs of meters, services, line transformers, and customer accounts expense and customer service expense, excluding FERC Account 902;
- Charge residential customers who permanently disconnect a revenue multiplier instead of a flat fee; and
- Include separate fees for recovery of the low income assistance program and energy efficiency programs.

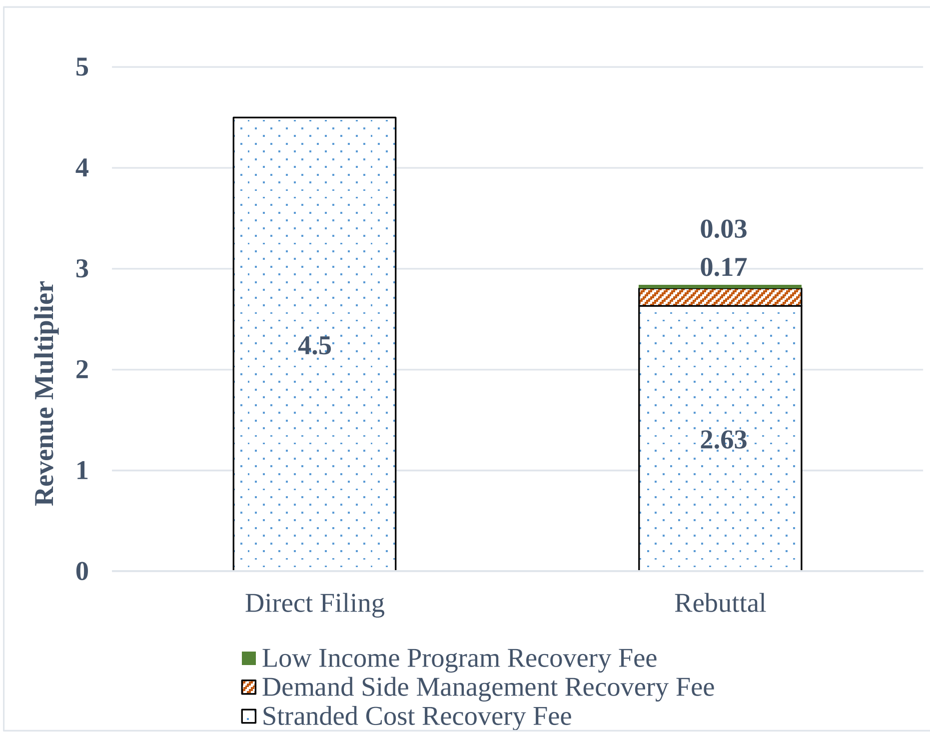
Exhibit No. RMM-2 shows the revised calculation of the Company's proposed Stranded Cost Recovery Fee along with the calculation of the Low Income Assistance Program Recovery Fee and Demand Side Management Recovery Fee in a format similar to what Company witness Mr. Dalley presented in Exhibit No. RBD-4.

Q. What is the comprehensive impact of these modifications to the Company's proposed Stranded Cost Recovery Fee in relation to what the Company originally filed?

A. The Company's proposed modifications for the Stranded Cost Recovery Fee along with its proposed addition of a Low Income Assistance Program Recovery Fee and Demand Side Management Recovery Fee are about 36 percent less than what the

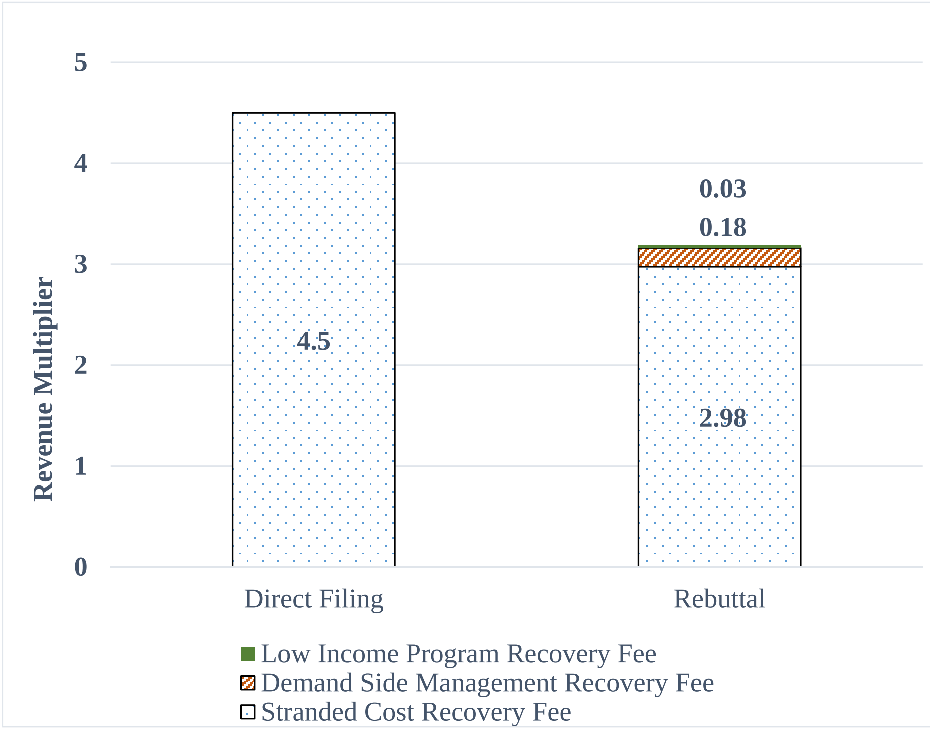
Company originally presented in direct testimony for residential customers and about 29 percent less for non-residential customers. Please refer to Table 1 and Table 2 below for a comparison of the fees that the Company proposes in my rebuttal testimony with the Stranded Cost Recovery Fee that it proposed in Mr. Dalley's direct testimony.

Table 1. Residential Schedule 300 Proposed Fees Presented in Rebuttal Testimony Compared to Stranded Cost Recovery Fee Presented in Direct Testimony[24]



[24] In the Company's direct filing, it proposed a $6,153 flat Stranded Cost Recovery Fee for residential. For comparability with the Company's modified fee, Table 1 shows what this level of cost is in terms of a revenue multiplier.

Table 2. Non-Residential Schedule 300 Proposed Fees Presented in Rebuttal Testimony Compared to Stranded Cost Recovery Fee Presented in Direct Testimony



Q. Please describe the Company's proposed changes to Schedule 300.

A. Exhibit No. RMM-3 reflects the Company's proposed revisions to Schedule 300 which include a modified Stranded Cost Recovery Fee for residential and non-residential customers along with the Company's proposed Low Income Assistance Program Recovery Fee and the Demand Side Management Recovery Fee. Exhibit No. RMM-3 also reflects revisions to Rule 6 that are proposed by Mr. Dalley in his rebuttal testimony.

CONCLUSION

Q. Please summarize your rebuttal testimony.

A. The Company's proposed Stranded Cost Recovery Fee is reasonable and includes specific modifications that are responsive to many of the concerns raised by other parties. While the computation of the Stranded Cost Recovery Fee that I proposed in this testimony is more detailed than what the Company originally filed, I believe that it is not overly complicated and is based upon information that is easily verifiable. The Stranded Cost Recovery Fee as proposed by the Company fairly balances the interests of customers who choose another service provider with customers who remain connected to the Company's system. The proposed Low Income Assistance Program Recovery Fee and Demand Side Management Recovery Fee also help to ensure that remaining customers do not face a greater burden to fund these programs, when customers choose to permanently disconnect.

Q. What is your recommendation for the Commission?

A. I recommend that the Commission approve the Company's calculation of the Stranded Cost Recovery Fee, Low Income Assistance Program Recovery Fee, and Demand Side Management Recovery Fee along with the changes to tariff sheets I presented as Exhibit No. RMM-3.

Q. Does this conclude your rebuttal testimony?

A. Yes.