

REVISED Exhibit No. RBD-5T
Docket UE-161204
Witness: R. Bryce Dalley

**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
REVISED REBUTTAL TESTIMONY OF R. BRYCE DALLEY**

May 2017

TABLE OF CONTENTS

PURPOSE AND SUMMARY OF TESTIMONY 1

SUPPORT FOR PROVIDING DEPARTING CUSTOMERS THE OPTION OF
PURCHASING OR HAVING CERTAIN FACILITIES REMOVED 3

AGREED MODIFICATIONS..... 4

 Application of the Company’s Permanent Disconnection and Removal Tariffs.....4

 Fair Market Value - Credit for Facilities Installed by the Customer5

 Timeline to Provide an Estimate of the Cost of Removal7

 Revised Procedure to Determine Fair Market Value.....8

 Recovery for Lost Contributions to Low-Income Rate Assistance and
 Energy-Efficiency Programs.....9

 Application of a Revenue Multiplier to Determine the Stranded Cost Recovery Fee for
 Departing Residential Customers10

 Calculating the Stranded Cost Recovery Fee Over Six Years.....11

THE COMMISSION’S CONSISTENT RECOGNITION OF THE REGULATORY
COMPACT 12

BANDED RATES FOR THE NON-RESIDENTIAL CLASSES WOULD NOT AVOID
COST SHIFTING 14

REDUNDANT SERVICE REMAINS A SIGNIFICANT CONCERN..... 16

FAIR MARKET VALUE IS THE MOST APPROPRIATE MEASURE..... 17

THE LOCATION OF FACILITIES IS IRRELEVANT 17

IMPACT OF INTERJURISDICTIONAL ALLOCATIONS 18

1 **Q. Are you the same R. Bryce Dalley who submitted direct testimony in this**
2 **proceeding on behalf of Pacific Power & Light Company (Pacific Power or**
3 **Company), a division of PacifiCorp?**

4 A. Yes.

5 **PURPOSE AND SUMMARY OF TESTIMONY**

6 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

7 A. My direct testimony addressed the necessary revisions to the Company's permanent
8 disconnection and removal tariffs, as well as the historical background and data
9 supporting those revisions. My rebuttal testimony addresses many of the issues and
10 recommended edits to the Company's proposed revisions of the permanent
11 disconnection and removal tariffs included in the response testimony of witnesses for
12 Staff of the Washington Utilities and Transportation Commission (Commission), the
13 Public Counsel Division of the Attorney General's Office (Public Counsel), Boise
14 White Paper, L.L.C. (Boise), Columbia Rural Electric Association (Columbia REA),
15 and Yakama Power.

16 **Q. Please summarize your rebuttal testimony.**

17 A. The Company appreciates the presentation of issues and recommended edits
18 submitted by the witnesses for Staff and intervenors, and has concluded that a number
19 of those recommendations should be incorporated in the Company's permanent
20 disconnection and removal tariffs, namely:

- 21 • The Company's permanent disconnection and removal tariffs should apply to only
22 customer-dedicated Facilities (excludes Facilities used to serve other customers);
- 23 • The Company's permanent disconnection and removal tariffs should not apply to
24 negotiated sales or transfers of the Company's assets to another service provider;
- 25 • In the event that a departing customer elects to purchase facilities, the net removal

1 tariff should include a credit generally corresponding to the Company's current
2 line extension refund policy for those facilities that the departing customer paid to
3 have installed;

- 4 • The Company should provide a cost of removal estimate to a departing customer
5 within sixty (60) days of receiving the customer's election to have Facilities
6 removed;
- 7 • The permanent disconnection and removal tariff should include a procedure by
8 which a departing customer can challenge the initial determination of Fair Market
9 Value short of initiating an adjudicative proceeding;
- 10 • Schedule 300 should include two additional fees for lost contributions to low-
11 income rate assistance and energy-efficiency programs on Schedule 300;
- 12 • A six-year period should be used for calculating the Stranded Cost Recovery Fee;
13 and
- 14 • For residential customers, the Stranded Cost Recovery Fee should be equal to
15 2.63 times the customer's annual revenue;

16 In support of adoption of the remainder of the Company's proposed revisions
17 to the permanent disconnection and removal tariffs, I address the following:

- 18 • The importance of the Commission's continued recognition and support of the
19 regulatory compact;
- 20 • The insurmountable challenges associated with any effort to apply banded rates to
21 the non-residential classes served by the Company;
- 22 • As recognized by Public Counsel and contrary to the assertions of Boise and
23 Columbia REA, redundant service remains a significant issue that must be
24 addressed in the permanent disconnection and removal tariffs;
- 25 • Recovery of Net Book Value for the Company's Facilities does not fairly
26 compensate the Company's remaining customers, and recovery of Fair Market
27 Value for those Facilities does not subsidize the service of remaining customers;
- 28 • The Company's definition of Facilities necessarily includes all customer-
29 dedicated Facilities regardless of whether located on private property or in a
30 public right of way; and
- 31 • The stranded costs associated with a departing customer cannot appropriately be
32 shifted to retail customers in other jurisdictions.

1 **Q. Does the Company’s rebuttal filing include testimony from a new Company**
2 **witness?**

3 A. Yes. In response to Staff and intervenor testimony, the Company added one new
4 witness: Mr. Robert M. Meredith, Manager, Pricing and Cost of Service, who
5 addresses the majority of the issues relating to the Stranded Cost Recovery Fee
6 presented in the response testimony

7 **SUPPORT FOR PROVIDING DEPARTING CUSTOMERS THE OPTION OF**
8 **PURCHASING OR HAVING CERTAIN FACILITIES REMOVED**

9 **Q. Did you have an opportunity to review the response testimony and exhibits**
10 **submitted by Staff and intervenors?**

11 A. Yes.

12 **Q. Did you note general support of the Company’s proposal to allow departing**
13 **customers to elect to either purchase certain facilities or have them removed?**

14 A. Yes. Mr. David J. Panco submitted testimony on behalf of Staff and found that
15 “providing customers who choose to disconnect from the Company’s system with the
16 option to either: (1) pay the cost of removing or decommissioning the facilities used
17 to serve them, or (2) purchase those facilities at fair market value with the proceeds
18 allocated to remaining customers, to be conceptually, a fair balance between the
19 interests of remaining customers and the interests of departing customers.”¹ Ms.
20 Kathleen A. Kelly submitted testimony on behalf of Public Counsel and found that
21 “Options 1 and 2 provide definition and recovery of stranded infrastructure
22 investment and each option provides a valid approach for establishing the cost of a
23 permanent customer departure rather than recovering that cost from its remaining

¹ Exhibit No. DJP-1T, p. 21, ll. 15-20.

1 customers.”²

2 **AGREED MODIFICATIONS**

3 **Q. Did Ms. Kelly and other response witnesses recommend edits to the Company’s**
4 **proposed revisions of the permanent disconnection and removal tariffs?**

5 A. Yes. Those recommendations prompted further review and consideration by
6 Company personnel, and many were ultimately adopted by the Company.

7 **Application of the Company’s Permanent Disconnection and Removal Tariffs**

8 **Q. Did any of the response witnesses recommend edits to clarify general application**
9 **of the Company’s permanent disconnection and removal tariffs?**

10 A. Yes. Rule 1 includes a definition of Facilities that is then referenced in Rule 6.³ As
11 that term is used in Rule 6, it applies only to customer-dedicated Facilities and is not
12 intended to apply to Facilities used to serve other customers. The Company further
13 revised Rule 6 accordingly.

14 **Q. Mr. Ray Wiseman testified regarding Yakama Power’s concern that the**
15 **Company’s permanent disconnection and removal tariffs could be applied to**
16 **negotiated sales or transfers of the Company’s assets to another service**
17 **provider. Does the Company intend to apply its permanent disconnection and**
18 **removal tariffs to such negotiated sales or transfers?**

19 A. No. Mr. Wiseman testified that Yakama Power has not “taken any PacifiCorp
20 customers outside of a sale or condemnation settlement.”⁴ He identified a negotiated
21 sale of certain Pacific Power assets to Yakama Power, which was approved by the

² Exhibit No. KAK-1T, p.10, l. 19 through p. 11, l. 1.

³ Rule 1, General Rules and Regulations – Definitions, Third Revision of Sheet No. R1.2.

⁴ Exhibit No. RW-1T, p. 5, ll. 22-23.

1 Commission on January 25, 2006 (Order 01, Docket UE-051840).⁵ Rule 6 I.1.
2 describes the following circumstances when the Company’s permanent disconnection
3 and removal tariffs will be applied – the permanent disconnection and removal tariffs
4 apply when a customer: (1) requests to permanently disconnect the Company’s
5 Facilities; (2) chooses to be served by another electric utility provider; or (3) obtains
6 redundant service from another electric utility provider. The Company does not read
7 that provision of the tariffs to include negotiated sales or transfers of its assets to
8 another utility, such as that addressed in Order 01, Docket UE-051840. Rather, if
9 Yakama Power were to, as Mr. Wiseman describes, take a Pacific Power customer
10 “outside of a sale or condemnation settlement” that individual customer would
11 presumably request the Company to permanently disconnect the Company’s
12 Facilities. In that circumstance, the Company’s permanent disconnection and
13 removal tariffs would apply.

14 **Fair Market Value - Credit for Facilities Installed by the Customer**

15 **Q. Are customers responsible to install any facilities?**

16 A. Yes. The Company’s line extension policy provides that customers who elect to
17 receive underground electrical service are responsible for trenching, conduit and
18 equipment foundations.

19 **Q. Does the Company maintain records of the cost of installing conduit and**
20 **equipment foundations incurred by a customer who elects to receive**
21 **underground service?**

22 A. No. The vast majority of customers who elect underground service have the conduit

⁵ *Id.*, p. 5, ll. 14-16.

1 and equipment foundations installed by third-party contractors as opposed to the
2 Company.

3 **Q. Once the line is energized, does the Company assume ownership of the**
4 **customer-installed facilities?**

5 A. Yes. Once the line is energized, the Company is responsible for maintenance, repairs
6 and replacement, at no additional cost to the customer. The associated cost to the
7 Company can be significant.

8 **Q. Did the Company's initially-proposed revisions to the permanent disconnection**
9 **and removal tariffs include a credit for customer-installed facilities?**

10 A. No. As I mentioned, once the line is energized, the Company is entirely responsible
11 for maintaining, repairing and replacing those facilities, at no cost to the customer.
12 While the Company believes that the often significant costs associated with its post-
13 installation responsibilities more than offset the installation costs, the Company
14 agrees to provide departing customers electing to purchase facilities a credit that is
15 similar to the Company's current line extension refund policy.

16 **Q. Please describe how the Company modified its proposed revisions to the**
17 **permanent disconnection and removal tariffs to include a credit to be applied in**
18 **the event of a Fair Market Value purchase.**

19 A. If a departing customer paid to install Facilities and provides adequate documentation
20 of the actual costs incurred, the customer will receive a credit as follows:

- 21 • Purchase within one year of installation – 100% of the actual costs of installation
22 deducted from the Fair Market Value.
- 23 • Purchase one to two years from installation – 80% of the actual costs of
24 installation deducted from the Fair Market Value.
- 25 • Purchase two to three years from installation – 60% of the actual costs of

1 installation deducted from the Fair Market Value.

2 • Purchase three to four years from installation – 40% of the actual costs of
3 installation deducted from the Fair Market Value.

4 • Purchase four to five years from installation – 20% of the actual costs of
5 installation deducted from the Fair Market Value.

6 As previously noted, this credit is generally consistent with the refund
7 provision of the Company’s line extension policy. It also recognizes the benefit to
8 the customer when the Company assumes ownership and is responsible for the
9 maintenance, repairs, and replacements of the installed facilities.

10 **Timeline to Provide an Estimate of the Cost of Removal**

11 **Q. In response to the testimony of Mr. Wiseman, does the Company propose to**
12 **insert a timeline by which the Company will provide an estimate of the cost of**
13 **removing facilities?**

14 A. Yes. Mr. Wiseman proposes that Pacific Power provide an estimate of the cost to
15 remove Facilities within thirty days of receiving a customer’s request to permanently
16 disconnect.⁶ While the Company’s initial proposed revisions to Rule 6 I.1.a. did not
17 include a timeline for providing the estimated cost of removal, the Company agrees
18 that a timeline is appropriate. However, 30 days is not enough time for field
19 personnel to address removal requests, given the complexity of each customer-
20 specific removal circumstance. In addition, the primary duties of the Company’s
21 field personnel are to manage and maintain the Company’s Facilities to provide safe
22 and reliable service. Permanent disconnection requests are outside the scope of the
23 normal responsibilities and create additional workload demands on field personnel.

⁶ Exhibit No. RW-1T, p. 4, ll. 1-2.

1 The Company believes that 60 days from receipt of the departing customer's
2 election and any other necessary information or documentation such as owner
3 approval under Rule 6.I.6. is a reasonable time within which to provide an estimate of
4 the cost to remove those Facilities that the customer does not elect to purchase, and
5 has revised Rule 6 I.1., Sheet No. R6.2 accordingly.

6 **Revised Procedure to Determine Fair Market Value**

7 **Q. Did the Company note any concerns regarding the procedure in place to**
8 **determine Fair Market Value presented in the response testimony?**

9 A. Yes. Ms. Kelly, on behalf of Public Counsel, and Mr. Bradley G. Mullins, on behalf
10 of Boise, objected to having Fair Market Value determined by the Company or a
11 third-party appraiser engaged by the Company. The Company's goal in proposing
12 this process was to employ a streamlined and cost-effective process for determining
13 Fair Market Value. As reflected in the Company's responses to data requests, a
14 departing customer may ultimately contest the determination of Fair Market Value
15 through an adjudicative proceeding under the WUTC rules and regulations, as
16 provided in RCW 80.04.

17 Regardless, the Company's goal is to avoid disputes concerning Fair Market
18 Value determinations whenever possible. Therefore, the Company has further revised
19 Rule 6 I.1.b., Sheet No. R6.3 to include a mechanism for a departing customer to
20 secure a second Fair Market Value determination by an independent appraiser.
21 Specifically, if a departing customer disagrees with the initial determination of Fair
22 Market Value, the customer may secure a second Fair Market Value determination,
23 by an appraiser chosen by the customer from a list of appraisers previously approved

1 by the Commission. The lower of the two Fair Market Value determinations, that
2 which is most favorable to the departing customer, will control. The departing
3 customer will be responsible for the appraisal cost to determine the Fair Market Value
4 of the Facilities the customer elects to purchase.

5 **Recovery for Lost Contributions to Low-Income Rate Assistance and**
6 **Energy-Efficiency Programs**

7 **Q. On behalf of Public Counsel, Ms. Kelly recommended that the Stranded Cost**
8 **Recovery Fee included within the Company's permanent disconnection and**
9 **removal tariffs be further modified to capture the impact of contributions to**
10 **low-income rate assistance programs and energy efficiency programs. From a**
11 **policy perspective, does the Company agree with Ms. Kelly's recommendation?**

12 A. Yes. As noted by Ms. Kelly, Pacific Power distributed over \$2 million of energy bill
13 assistance to its customers between 2014 and 2016 through its Low Income Bill
14 Assistance (LIBA) program.⁷ Ms. Kelly expressed concern that continued migration
15 of customers from Pacific Power to Columbia REA will erode support for Pacific
16 Power's LIBA program, as well as its conservation program. Both programs are
17 funded by Pacific Power customers through separate tariff riders, and the magnitude
18 of the riders will increase as the burden to pay for the programs fall on Pacific
19 Power's remaining customers.⁸

20 As noted in the rebuttal testimony of Mr. Meredith, the Company
21 recommends including two additional fees in Schedule 300 for customers who opt to
22 permanently disconnect. Specifically, the Company proposes a Low Income

⁷ Exhibit No. KAK-1T, p. 54, ll. 9-11.

⁸ *Id.*, p 57, ll. 2-6.

1 Assistance Program Recovery Fee of 0.03 times annual revenue for both residential
2 and non-residential customers as well as a Demand Side Management Recovery Fee
3 of 0.17 times annual revenue for residential customers and 0.18 times annual revenue
4 for non-residential customers. Any collections from those fees will be deposited in
5 the deferral accounts associated with the LIBA program and the conservation
6 program.

7 **Application of a Revenue Multiplier to Determine the Stranded Cost Recovery Fee for**
8 **Departing Residential Customers**

9 **Q. On behalf of Public Counsel, Ms. Kelly proposed a different methodology to**
10 **determine the Stranded Cost Recovery Fee applicable to a departing residential**
11 **customer. The Company initially proposed a flat fee for residential customers**
12 **and a revenue multiplier for non-residential customers. Is the Company**
13 **prepared to use a revenue multiplier to determine the Stranded Cost Recovery**
14 **Fee for departing residential customers?**

15 A. Yes. As more specifically addressed in the rebuttal testimony of Mr. Meredith, the
16 Company has concluded that a Stranded Cost Recovery Fee equal to 2.63 times a
17 departing residential customer's annual revenue is appropriate. As set forth in my
18 direct testimony, the Company initially proposed a flat fee, which the Company
19 assumed would be more easily understood by departing residential customers.
20 Additionally, the size of residential customer loads typically does not vary to the
21 same extent as for non-residential customers. As pointed out by Ms. Kelly, there is
22 some variation and a flat fee could disproportionately impact a departing customer
23 with a small load. Ms. Kelly proposes a Stranded Cost Recovery Fee equal to 3.0
24 times the departing residential customer's annual revenue. The Company now

1 proposes a 2.63 multiplier, which takes into account not only the shorter period for
2 calculating net present value of non-net power costs proposed by Ms. Kelly, but also
3 an alternative means of calculating the value of freed-up energy and other factors
4 thoroughly addressed in the rebuttal testimony of Mr. Meredith.

5 **Calculating the Stranded Cost Recovery Fee Over Six Years**

6 **Q. After reviewing and analyzing the testimony submitted on behalf of Public**
7 **Counsel, did the Company consider calculating the net present value of non-net**
8 **power costs over a period less than ten years?**

9 A. Yes. Ms. Kelly suggests that a six-year timeframe could be used to calculate the
10 Stranded Cost Recovery Fee, which corresponds to three Integrated Resource Plan
11 (IRP) planning cycles.⁹ Although the Company believes its initial proposal of using a
12 10-year period to determine the Stranded Cost Recovery Fee is justified, for purposes
13 of this proceeding, the Company agrees to modify its proposal to reflect a six-year
14 period—a reduction of 33 percent from the initial filing.

15 **Q. Did the response testimony submitted by Staff, Public Counsel, or the**
16 **Intervenors prompt any additional modification of the Company's proposed**
17 **revisions to the permanent disconnection and removal tariffs?**

18 A. Yes. Mr. Meredith addresses a number of additional modifications to the Company's
19 calculations of the Stranded Cost Recovery Fee in his testimony.¹⁰

⁹ Exhibit No. KAK-1T, p. 41, ll. 8-12.

¹⁰ Exhibit No. RMM-1T.

1 **THE COMMISSION’S CONSISTENT RECOGNITION OF**
2 **THE REGULATORY COMPACT**

3 **Q. On behalf of Staff, Mr. Panco referred to the regulatory compact as a metaphor.**
4 **Do you agree with that characterization?**

5 A. No. Mr. Panco testified that the regulatory compact has no legal effect in Washington
6 and is “only a metaphor.”¹¹ Chairman Danner recently addressed the regulatory
7 compact.¹² Open competition with an unregulated utility resulting from the absence
8 of a service area agreement, abrogates the regulatory compact. The regulatory
9 compact is a principle grounded firmly in statutory and Constitutional requirements.
10 The Company, like other electric, gas, and water companies in Washington, is under a
11 mandatory duty to serve.¹³ In return, the Company is statutorily entitled to
12 Commission-established rates, charges, regulations, practices, and contracts that are
13 “[s]ufficient to yield a reasonable compensation for the service rendered.”¹⁴
14 ~~Furthermore, the Takings Clause and the Due Process Clause of the United States~~
15 ~~Constitution require that the Company be allowed just compensation. “Although [a~~
16 ~~utility’s] assets are employed in the public interest to provide consumers of the State~~
17 ~~with electric power, they are owned and operated by private investors. This partly~~
18 ~~public, partly private status of utility property creates its own set of questions under~~
19 ~~the Takings Clause of the Fifth Amendment. . . . If a rate does not afford sufficient~~
20 ~~compensation, the State has taken the use of utility property without paying just~~
21 ~~compensation and so violated the Fifth and Fourteenth Amendments.”¹⁵~~

¹¹ Exhibit No. DJP-1T, p. 5, ll. 15.

¹² Docket UE-143932, Order 05 (Separate Statement of Chairman Danner, § 2 (May 5, 2016)).

¹³ RCW 80.28.110.

¹⁴ RCW 80.28.020.

¹⁵ *Duquesne Light Co. v. Barasch*, 488 U.S. 299, 307-8 (1989).

1 **Q. Has Washington recognized the regulatory compact?**

2 A. Yes. The Commission as well as Staff and other parties to this docket have

3 recognized the application of the regulatory compact in numerous proceedings:

- 4 • *In re Petition of Puget Sound Energy, Inc.*, Docket UG-151633, Order No. 10 p.
5 104(Oct. 13, 2016) (“~~PSE would still maintain its ultimate responsibility under
6 the regulatory compact to provide safe, reliable natural gas service at reasonable
7 rates~~”);
- 8 • *Walla Walla Country Club v. Pacific Power & Light Company*, Docket UE-
9 143932, Order No. 05 p. 11 (Separate Statement of Chairman Danner (May 5,
10 2016) (“~~Regulation of investor-owned electric utilities in the United States is
11 largely based upon the notion of a ‘regulatory compact,’ under which the state
12 ‘grants the company a protected monopoly, essentially a franchise, for the sale
13 and distribution of electricity or natural gas to customers in its defined service
14 territory. In return, the company commits to supply the full quantities demanded
15 by those customers at a price calculated to cover all operating costs plus a
16 ‘reasonable’ return on the capital invested in the enterprise.~~”);
- 17 • *WTUC v. Pacific Power & Light Company*, Docket UE-140762, Final Order p.
18 219 (March 25, 2015) (Mr. Mullins for Boise White Paper testified “~~customers
19 rely on the regulatory compact and the oversight of the Commission’s rate case
20 process to capture and balance both the costs and the benefits the Company
21 realizes between rate cases.~~”);
- 22 • *In re Petition of Puget Sound Energy, Inc., for an Accounting Order Approving
23 the Allocation of Proceeds of the Sale of Certain Assets to Public Utility District
24 #1 of Jefferson County*, Docket UE-132027, Order 04 p. 16-17 (“~~The arguments
25 of Staff, Public Counsel and ICNU are grounded in the most basic underpinnings
26 of utility regulation, sometimes referred to as the ‘regulatory compact’ . . . [I]n its
27 most basic form, the regulatory compact is that utilities have an obligation to
28 provide all customers in their territory with safe and reliable service in return for
29 the regulator’s promise to set rates that will compensate the utility for the costs
30 incurred to meet that obligation.~~”);
- 31 • *WUTC v. Rainier View Water Company, Inc.*, Docket UW-110054, Order 05 p. 48
32 (Oct. 17, 2012) (Concurring Opinion of Commissioner Oshie) (“~~Without the
33 assurance that such economic discipline is expressed in a company’s investment
34 decisions, we lose a fundamental component of the regulatory compact—the
35 belief that owners are expected to be careful and prudent with their capital.~~”);
- 36 • *WUTC v. Puget Sound Power & Light Company*, Cause No. U-83-84, Order p.
37 57-58 (Sept. 28, 1984) (“~~A note on the concept and existence of the social and
38 economic compact of utility regulation is necessary to in part help communicate
39 the reasons for the decisions made by the Commission in this order. The social~~

1 and economic compact of utility regulation begins with the premise that a
2 regulated utility has an obligation to serve the public. In a decision by an earlier
3 Commission an effort was made to put a limit on that obligation by enacting a
4 moratorium on new electrical hookups to Puget's system. That effort was
5 rejected in a King County Superior Court decision, *Seattle Master Builders v.*
6 *Commission*, No. 80-2-11632-1. This leaves the state of the law as a utility
7 possesses an unending obligation to provide service to anyone within the service
8 territory of that utility who demands service in accordance with approved tariffs.
9 However, in order for the social duty to serve to be viable, the compact must also
10 provide for a utility to recover expenses it prudently undertakes to meet that
11 obligation.”)

12 **Q. Are the Company's proposed tariffs consistent with the regulatory compact as**
13 **recognized in Washington?**

14 A. The compact, grounded in statutory and Constitutional obligations, is at the heart of
15 the Company's proposed tariffs. As a result of the Company's duty to serve, it has
16 built distribution and transmission facilities and acquired sufficient long term power
17 supplies to meet the needs of its customers. When a customer decides to permanently
18 disconnect and obtain service elsewhere, which it can because Washington does not
19 provide for exclusive service territories, the cost of those facilities and the stranded
20 costs for power must be borne by either the remaining customers or the departing
21 customer. The proposed tariff is designed to protect against cost shifting to the
22 remaining customers.

23 **BANDED RATES FOR THE NON-RESIDENTIAL CLASSES**
24 **WOULD NOT AVOID COST SHIFTING**

25 **Q. Staff recommends that the Company utilize banded rates to more effectively**
26 **compete with Columbia REA instead of pursuing a Stranded Cost Recovery Fee.**
27 **What are your thoughts on the recommendation?**

28 A. Banded rates are not an appropriate solution for the issue of cost shifting that occurs
29 when customers opt to permanently disconnect from the Company's system. Having

1 different ranges of rates that the Company could offer similarly-situated customers
2 would only create more cost shifting in the long run. Since some customers within a
3 class would have more favorable rates than others, that revenue shortfall would by
4 necessity over time be borne by other customers who would have higher rates than
5 they would have otherwise. While I appreciate Staff's creative, outside-the-box
6 attempt to help the Company, banded rates would only exacerbate cost shifting.
7 Along with the potential for greater cost shifting, having banded rates would likely
8 increase the Company's administrative and customer service costs. If a range of rates
9 were potentially available to customers, then every economically-rational customer
10 who knew about them would avail themselves of this option through the threat to
11 leave the Company's service to get the lowest rates, therefore dismantling the very
12 foundation of cost-based rates in Washington.

13 **Q. Did Mr. Panco's banded rate suggestion take into account the Company's**
14 **current rates?**

15 A. No. There was no discussion regarding cost recovery under banded rates. There is
16 no indication of whether the Company's current rates would be the floor or ceiling for
17 the bands. Furthermore, Staff provided no guidance as to what the Company would
18 do with recovery above or below the current rates for the non-residential classes.

19 **Q. Did Mr. Panco address whether the banded rates would be confidential?**

20 A. No. The stated objective was to aid the Company in competing with an unregulated
21 utility such as Columbia REA. As I previously mentioned, customers aware of the
22 high and low boundaries of a band would rationally seek rates at the low end of the
23 applicable band. If unregulated utilities such as Columbia REA knew the lowest rate

1 of a particular band, they could simply price lower as is currently the case today.

2 **REDUNDANT SERVICE REMAINS A SIGNIFICANT CONCERN**

3 **Q. Boise and Columbia REA contend that redundant service and redundant**
4 **facilities do not present potential safety issues and, therefore, should be**
5 **permitted. Do you agree?**

6 A. No. As addressed in my direct testimony and later recognized by Ms. Kelly on behalf
7 of Public Counsel, redundant service that necessitates redundant facilities presents
8 safety concerns.¹⁶ As further noted by Ms. Kelly, redundant facilities are a waste of
9 resources and an eyesore.¹⁷

10 **Q. Did you review Mr. Mullins’s testimony regarding redundant service?**

11 A. Yes. He argued that redundant service is not an issue because the Company only
12 identified two instances where it discovered redundant facilities.¹⁸ From the
13 Company’s perspective, one instance of redundant service and the safety concerns
14 associated with it is one too many.

15 **Q. Is the definition of redundant service proposed by Mr. Mullins - simultaneously**
16 **receiving “full requirements electric services” from more than one provider at a**
17 **single structure which is “electrically connected and configured for a single point**
18 **of delivery” -problematic for the Company?**

19 A. Yes. This definition would create a loophole for customers to avoid paying proper
20 permanent disconnection costs. The customer could simply install a meter and
21 receive service at a second point of delivery on the same premises and shift load to

¹⁶ Exhibit No. KAK-1T, p. 58, ll. 9-11.

¹⁷ *Id.*

¹⁸ Exhibit No. BGM-1T, p. 9, ll. 18-19.

1 that meter.

2 **FAIR MARKET VALUE IS THE MOST APPROPRIATE MEASURE**

3 **Q. Columbia REA witness Mr. Michael P. Gorman argues that the Company**
4 **should continue to sell Facilities at Net Book Value. Do you agree?**

5 A. No. As discussed in my direct testimony, Net Book Value does not fairly and
6 equitably compensate the Company's remaining customers, and creates unintended
7 benefits to the new electric service provider. Net Book Value is based on a regulatory
8 accounting construct, and does not reflect the true value of the assets being sold.
9 Similar to other utility asset or property sales, selling assets at Fair Market Value does
10 not subsidize the Company's remaining customers any more than a prospective home
11 buyer is subsidizing the seller of that property. Fair Market Value merely
12 compensates customers for the investment that was made to provide and maintain
13 service.

14 **THE LOCATION OF FACILITIES IS IRRELEVANT**

15 **Q. Why did the Company clarify that Facilities subject to the permanent**
16 **disconnection and removal tariffs include not only those on private property but**
17 **also any in a public right of way?**

18 A. As I mentioned earlier, Facilities subject to the permanent disconnection and removal
19 tariffs are only those that are specifically dedicated to a customer. In other words, a
20 departing customer will not be responsible for the removal or purchase of Facilities
21 that serve other customers. Customer-dedicated Facilities may be located off the
22 departing customer's premises. For example, there are instances when a pole or
23 transformer specifically dedicated to one customer is located across the street from

1 that customer's premises. If that customer chooses to permanently disconnect from
2 the Company's system, the proposed tariffs address the responsibility of customers
3 for all Facilities that solely serve that customer. With the clarification that the
4 Company's permanent disconnection and removal tariffs only apply to customer-
5 dedicated Facilities, the ultimate location of those Facilities is irrelevant.

6 IMPACT OF INTERJURISDICTIONAL ALLOCATIONS

7 **Q. Both Columbia REA and Boise argue that the Company should have considered**
8 **the lower allocation of costs to the Company's customers in Washington that**
9 **would be experienced with permanently disconnecting load in its calculation of**
10 **stranded costs. How do you respond?**

11 A. When a customer permanently disconnects from the Company's system, less costs are
12 allocated to that jurisdiction. It is important to note, however, that these costs are not
13 eliminated but rather shifted to the customers that the Company serves in other
14 jurisdictions. For this reason, it is inappropriate for the calculation of stranded costs
15 to consider reductions in interjurisdictional allocations. Considering reductions in
16 interjurisdictional allocations related to customer departures from the Company's
17 system as a benefit would be a very problematic position for the Commission to take.
18 Commissions in other states that the Company serves could adopt similar policies that
19 could encourage cost shifting back to the Company's Washington customers.
20 Furthermore, if the Company were not a multi-jurisdictional utility, interjurisdictional
21 allocations would not be an issue. It would be unfair to discount the Company's
22 calculation of stranded costs because the Company serves customers in other
23 jurisdictions.

1 **Q. Does this conclude your direct testimony?**

2 A. Yes.