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REVISED Exhibit No. RBD-1T
Docket UE-161204
Witness: R. Bryce Dalley

**BEFORE THE WASHINGTON**
**UTILITIES AND TRANSPORTATION COMMISSION**

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

**PACIFIC POWER & LIGHT COMPANY**

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

**June 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 R. Bryce Dalley and my business address is 825 NE Multnomah Street, Suite 2000, Portland, Oregon 97232. I am currently employed as Vice President, Regulation for Pacific Power.

## QUALIFICATIONS

**Q. Please describe your education and professional experience.**

A. I received a Bachelor of Science degree in Business Management with an emphasis in finance from Brigham Young University in 2003. I completed the Utility Management Certificate Program at Willamette University in 2009, and I have also attended various educational, professional, and electric industry-related seminars.

I have been employed by Pacific Power since 2002 in various positions within the regulation and finance organizations. I was appointed Manager of Revenue Requirement in 2008 and was promoted to Director, Regulatory Affairs and Revenue Requirement in 2012. I assumed my current position as Vice President, Regulation, in January 2014. I am responsible for all regulatory activities in Washington, Oregon, and California.

Additionally, I oversee a number of other departments in the Company, including the Customer Advocacy and Tariff Policy Department. The nine members in that department work closely with the Washington Utilities and Transportation Commission Staff in resolving customer complaints and ensure internal processes and systems comply with all tariffs. Additionally, they represent the Company in the process of seeking approval of tariff revisions.

## PURPOSE AND SUMMARY OF TESTIMONY

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

A. My testimony addresses the historical background underlying necessary revisions to the Company's permanent disconnection and removal tariffs. I also address those proposed revisions, including the departing customer's option to either purchase facilities or have them removed, as well as a Stranded Cost Recovery Fee, which are designed to help mitigate the cost shifting caused by customers choosing to permanently disconnect and switch electric service providers.

## WALLA WALLA—HISTORICAL CONTEXT

**Q. Does Pacific Power provide electric utility service to communities in Eastern Washington?**

A. Yes. In 1910, four small electric companies in Astoria and Pendleton, Oregon, and Walla Walla and Yakima, Washington, became Pacific Power. The new company served 7,000 customers. Since that time, Pacific Power has invested to serve growing communities throughout Eastern Washington.

**Q. Is Washington unique among the states served by PacifiCorp?**

A. Yes. Unlike any other state jurisdiction in which PacifiCorp provides electric service, Washington does not have statutory provisions granting exclusive service areas to electric utilities. Most utilities in Washington have service area agreements to protect customers, avoid cost shifting, and prevent disputes over service area. In fact, all neighboring utilities in Washington have successfully negotiated service area agreements—including public utility districts, municipal utility districts, rural electric associations and cooperatives, and other investor-owned utilities.

In just two counties in Washington (Columbia and Walla Walla), the regulated electric utility (Pacific Power) has been unable to negotiate a service area agreement with the rural electric association (Columbia REA), despite engaging in negotiations—including negotiations mediated by a Commission administrative law judge. Pacific Power customers in these counties can therefore choose to permanently discontinue receiving service from the Company and switch electric service providers. The absence of a service area agreement with Columbia REA stands in stark contrast to the "regulatory compact" under which the state "grants the company a protected monopoly, essentially a franchise, for the sale and distribution of electricity or natural gas to customers in its defined service territory. In return, the company commits to supply the full quantities demanded by those customers at a price calculated to cover all operating costs plus a 'reasonable' return on the capital invested in the enterprise."[1]

The Commission has recognized the compact as a utility's "obligation to provide all customers in [its] territory with safe and reliable service in return for the regulator's promise to set rates that will compensate the utility for the costs incurred to meet that obligation."[2] This unique situation mandates adoption of a revised tariff governing the terms of permanent disconnection that allows the

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[1] *Walla Walla Country Club v. Pacific Power & Light Company*, Docket UE-143932, Order No. 05 (Separate Statement of Chairman Danner, ¶2) (May 5, 2016).

[2] *In re Petition of Puget Sound Energy, Inc., for an Accounting Order Approving the Allocation of Proceeds of the Sale of Certain Assets to Public Utility District #1 of Jefferson County*, Docket UE-132027, Order 04 ¶ 15 (September 11, 2014).

Company to charge departing customers for the total actual costs of disconnection. Such a tariff is necessary to protect the Company's remaining customers from cost shifting.

**Q. Is Pacific Power party to any service area agreements with a rural electric association in Eastern Washington?**

A. Yes. For twenty years, Pacific Power and the Benton Rural Electric Association (Benton REA) have enjoyed a mutually beneficial working relationship under a service area agreement. In fact, the Company and Benton REA renewed the agreement in 2015 for another twenty years.

**Q. When did Pacific Power start receiving customer requests to permanently disconnect from the Company's system?**

A. Customers began requesting to permanently disconnect from the Company's system and switch electric service providers in 1999, and this necessitated the filing of the Company's original net removal tariff. Before that time, Pacific Power and Columbia REA had an informal agreement that whichever utility's facilities were closer to a customer would serve that customer. This informal arrangement prevented duplication of facilities and safety and operational concerns. Columbia REA respected that agreement until a management change in 1999.

**Q. Please describe some of the customer-acquisition practices employed by Columbia REA in Walla Walla and Columbia counties since 1999.**

A. The Company is aware of direct solicitations that Columbia REA has made to existing Pacific Power customers by in-person visits to businesses, media ads, and direct electronic mail. These solicitations have included offers of rates that are lower than Pacific Power's authorized rates, offers to cover the line extension expenses, offers to pay the cost of removing Pacific Power's facilities, as well as offers to lock rates for five years. The Company is even aware of instances where Columbia REA went as far as to coach customers on ways to avoid paying proper disconnection costs.

The customer-acquisition practices employed by Columbia REA have drastically changed the landscape in Walla Walla. To illustrate this impact, I have provided maps of Pacific Power's Walla Walla service area as it existed in 1997, 2007, 2010, 2013, and 2016, as Exhibit No. RBD-2. These maps show Columbia REA's encroachment into the City of Walla Walla that has traditionally been served by Pacific Power.

**Q. Has the Company sustained significant revenue loss, since 1999, due to customers choosing to permanently disconnect and switch electric service providers?**

A. Yes. As reflected in Exhibit No. RBD-3, between 1999 and 2009, the Company sustained gradual revenue loss. Between 2010 and 2016, the Company's per year revenue loss skyrocketed from $411,026 to $1,872,445.

**Q. How is a permanent disconnection and removal different from municipalization or other asset sale scenarios?**

A. Unlike other negotiated asset sales or transfers, the current permanent disconnection framework does not include necessary customer safeguards, and essentially allows a non-regulated, neighboring utility to cherry-pick customers that are in some way beneficial to its business goals. When there are no traditional service territories or service area agreements in place, and insufficient measures to protect against cost shifting, a non-regulated, neighboring utility is able to strategically focus on high-margin customers within a service area at minimal cost. Under the current tariffs, which do not contemplate a sale of facilities or recovery of stranded costs, the Company is only able to recover the net book value of those facilities less salvage in cases where facilities are removed.

In some cases, the new electric service provider is ultimately allowed to use the Company's facilities, including conduit and vaults, at minimal or no cost after the permanent disconnection. A good example occurred when the Walla Walla Country Club chose to permanently disconnect and receive electric service from Columbia REA. In applying Pacific Power's current tariff as written, the Commission ordered that the Company must choose between removing the facilities at its expense or leaving the facilities in the ground.[3] Commission Chairman Danner issued a Separate Statement at the conclusion of the Final Order, expressing concerns about policy issues underlying the facts that gave rise to the case—the same general facts necessitating revision of the Company's tariffs governing the terms of permanent disconnection—the undermining of the regulatory compact "when a utility established in one community builds

[3] *Walla Walla Country Club v. Pacific Power & Light Company*, Docket UE-143932, Order 05 (May 5, 2016). Following issuance of this Order, the Company elected to remove the facilities at the Country Club at its own expense. The Country Club and Columbia REA preferred to avoid the business disruption associated with the excavation and removal of extensive underground facilities. Consequently, the parties reached a negotiated settlement under which Columbia REA purchased certain facilities for a negotiated price, and the remaining facilities were decommissioned in place (with ownership and liability for all remaining facilities transferring to Columbia REA).

duplicative infrastructure and cherry-picks large commercial or high-density customers in another."[4]

Chairman Danner noted that if Columbia REA "can continue to 'cherry-pick' the existing large commercial or high-density customers inside what traditionally has been Pacific Power's service territory, then over time we can expect cost shifts and higher prices for Pacific Power's remaining customers, who must continue to cover the fixed costs of infrastructure that Pacific Power must maintain to ensure vital electric services to their communities."[5]

In circumstances when a municipality, public utility district, or other public entity exercises its power of eminent domain, or in a traditional asset sale scenario, facilities are typically purchased at the end of negotiations between the buying and selling parties. In addition, as a regulated utility, any proceeds from the sale are allocated back to the utility's customers. This was the case in Puget Sound Energy's (PSE) sale of assets to Jefferson County Public Utility District No. 1, and the Commission determined that "the purchase price was appropriate and sufficient to fully compensate PSE…"[6]

The current one-off permanent disconnections occurring in the Company's Washington service area provide little in terms of relief to the Company's remaining customers. In fact, these permanent disconnections, accumulated over time, will only increase the burden on the Company's remaining customers, including low- and fixed-income customers.

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[4] *Id.* (Separate Statement of Chairman Danner, ¶7).
[5] *Id.* (Separate Statement of Chairman Danner, ¶4).
[6] *In re Petition of Puget Sound Energy, Inc., for a Declaratory Order Regarding the Transfer of Assets to Jefferson County Public Utility District,* Docket U-101217, Order 03 ¶ 26 (February 1, 2011).

**Q. Is Pacific Power able to compete with neighboring non-regulated utilities?**

A. Pacific Power is required to charge customers based on Commission-approved tariffs—no more, no less. However, non-regulated utilities are able to entice customers with special rates or line extension packages. They are not subject to Commission rate regulation and are also eligible to purchase power from BPA on a preference and priority basis. One of the Company's concerns is that the customers who are offered special, competitive programs are typically customers with high enough margins to recover the costs of those special programs. These special programs are not offered to the low- or fixed-income population; but they, along with the rest of the Company's remaining customers, will be burdened to cover the fixed costs of infrastructure that the Company is required to maintain. Based on 2014 data from the United States Department of Agriculture, those living in poverty in the counties served by Pacific Power range from 14.2 percent to 20.5 percent.[7]

## PACIFIC POWER'S PERMANENT DISCONNECTION AND REMOVAL TARIFFS

**Q. What do the current tariffs provide regarding the allocation of costs in the event a customer requests permanent disconnection?**

A. Pacific Power's tariffs governing permanent disconnections are contained in Rule 1, Rule 6, and Schedule 300. Permanent Disconnection is defined as follows: "Disconnection of service where the customer has either requested the Company permanently disconnect the Company's facilities or chosen to be served by

[7] U.S. Department of Agriculture, *2014 Poverty Data by County* (USDA April 4, 2016) - http://data.ers.usda.gov/reports.aspx?ID=14843.

another electric utility provider."[8] Rule 6 provides: "When Customer requests Permanent Disconnection of Company's facilities, Customer shall pay to Company the actual cost for removal less salvage of those facilities that need to be removed for safety or operational reasons …."[9] Pacific Power is required to provide an estimate of the cost of removing facilities, before initiating the work.[10] The customer is required to pay the estimated amount, before disconnection and removal of the facilities[11] No later than 60 days after disconnection and removal, Pacific Power determines the actual cost for removal less salvage, and issues either an invoice for additional costs or refund of any overpayment.[12]

Schedule 300 also provides that the rate charged for removal of facilities for "non-residential service removals" is the "actual cost less salvage."[13]

**Q. Why is Pacific Power seeking to revise its permanent disconnection and removal tariffs?**

A. The primary reason Pacific Power is seeking to revise its tariffs governing permanent disconnection and removal is to eliminate confusion and avoid cost shifting to remaining customers when departing customers opt to permanently disconnect from the Company's system and receive service from another electric service provider.

Additional modifications are necessary to govern the sale of underground conduit and vaults upon permanent disconnection. The Company's current tariffs

[8] Rule 1.
[9] Rule 6.
[10] *Id.*
[11] *Id.*
[12] *Id.*
[13] Schedule 300.

do not contemplate the sale of facilities and the associated necessary transfer of liability. As I mentioned previously, the facts and circumstances presented in the Walla Walla Country Club's formal complaint proceeding (Docket UE-143932) clearly illuminated the need to revise the tariffs.

## PROPOSED REVISIONS TO THE TARIFFS

**Q. Please describe the Company's proposed revisions to the permanent disconnection and removal tariffs.**

A. The Company is proposing to revise Rule 6 to provide two options for customers who opt to obtain service from another provider and permanently disconnect from the Company's system.

Option One – Payment of the Actual Cost of Removal

The departing customer may elect to pay the actual cost of removing the facilities used to provide service to that customer.[14] The facilities subject to removal may be located in right of ways, private property, or any other property used to provide the departing customer electric service.

Under Rule 6, the departing customer will receive an estimate of the cost of removal and any applicable fee, which must be paid by the departing customer prior to permanent disconnection and removal. Following removal of the facilities, the Company will prepare an invoice for the Actual Cost of Removal and either collect or refund the balance due.

Option Two – Fair Market Value Purchase

As an alternative, the departing customer may elect to purchase certain facilities (e.g., underground conduit and vaults) from the Company at fair market

[14] "Actual Cost of Removal" as defined in Rule 1 (Revision of Sheet No. R1.1).

value.[15] In the event of a fair market value purchase, the departing customer will assume ownership and liability in any way arising from the facilities following the purchase.

**Q. How does Pacific Power plan to address permanent disconnections where removal may negatively impact service or create safety concerns?**

A. In certain circumstances, removing or selling facilities may present service reliability and/or safety concerns. Consequently, the Company seeks the flexibility to abandon and decommission facilities when, in the Company's sole discretion, service may be negatively impacted or safety issues may arise as a result of removal or purchase by the departing customer. In the event the Company elects to abandon and decommission facilities, the departing customer will assume ownership and liability in any way arising from the facilities following decommission completed in a safe manner consistent with best industry practices.

**Q. Does Pacific Power propose any other revisions to the tariffs?**

A. The proposed revisions also clarify the responsibility of customers who receive redundant electric service from another provider without first notifying the Company and permanently disconnecting from the Company's system. The resulting redundant facilities present a major safety concern for the Company. The revised language provides that customers who choose to procure electric service from another provider without notifying the Company in an attempt to avoid paying permanent disconnection costs will be responsible to pay all permanent disconnection costs and the appropriate Stranded Cost Recovery Fee.

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[15] "Fair Market Value" as defined in Rule 1 (Third Revision of Sheet No. R1.2).

To support the revisions outlined above, the Company added definitions for the terms:

- Facilities;
- Fair Market Value;
- Actual Cost of Removal;
- Net Book Value;
- Salvage; and
- Stranded Cost Recovery Fee.

The Company is also proposing to replace the defined term "Permanent Disconnection," with "Permanent Disconnection and Removal," to associate permanent disconnection with the removal of the Company's equipment.

**Q. Why is the Company proposing to charge Fair Market Value rather than Net Book Value when a customer opts to purchase facilities in lieu of removal?**

A. Pacific Power believes that Fair Market Value is the more appropriate calculation that fairly balances appropriate compensation to the Company's remaining customers and payment for facilities benefiting the departing customer in its relationship with the new electric service provider. Physically durable facilities in place for a significant amount of time may have nominal or no Net Book Value but represent significant value to the departing customer and the new electric service provider in light of the cost of installing replacement facilities. As the Commission noted during the allocation proceeding arising from Puget Sound Energy's sale to Jefferson PUD "ratepayers of utilities subject to the Commission's jurisdiction bear most, if not all, of the risk of ownership."[16] Having the sale of the assets valued at Fair Market Value and credited back to the remaining customers properly compensates those customers.

## STRANDED COST RECOVERY FEE

**Q. Is Pacific Power proposing any other revisions to its tariffs?**

A. Yes. Pacific Power is proposing to establish a Stranded Cost Recovery Fee in Schedule 300. Under this tariff, the departing customer will be required to pay a Stranded Cost Recovery Fee before permanent disconnection.

**Q. Why is Pacific Power proposing to add a Stranded Cost Recovery Fee?**

The purpose of the proposed Stranded Cost Recovery Fee is to mitigate the financial impact to remaining customers when a customer opts to permanently disconnect and receive service from another service provider.

The unique circumstance presented in Columbia and Walla Walla counties, with the Company, a regulated utility, in competition with a non-regulated entity that is building duplicative infrastructure and cherry-picking large commercial or high-density customers is just the type of circumstance in which assignment of stranded costs to departing customers is the appropriate method of recovery. Stranded costs "affect different segments of the public utility industry to varying degrees as they move toward competition and deregulation."[17]

Stranded costs must necessarily be borne by the departing customers, remaining customers, shareholders or some combination of the three. FERC has

[16] *In re Petition of Puget Sound Energy, Inc., for an Accounting Order Approving the Allocation of Proceeds of the Sale of Certain Assets to Public Utility District #1 of Jefferson County*, Docket UE-132027, Order 04 ¶ 59 (September 11, 2014).
[17] 1 Robert L. Hahne et. al., *Accounting For Public Utilities*, 20-19 (2006).

concluded that "recovery of legitimate and verifiable stranded costs should be allowed and that direct assignment of stranded costs to departing customers is the appropriate method for recovery."[18] In support of that conclusion, FERC noted that "public utilities have invested billions of dollars in facilities built under a regulatory regime in which they have been permitted to recover all prudently incurred costs and further that utilities should be allowed to recover the costs incurred under the old regulatory regime according to the expectations of cost recovery established under that regime."[19] Additionally, FERC argued that "alternatives to the direct assignment method for allocating stranded costs (i.e. to do nothing or broadly allocate costs among all customers) were in violation of its long standing cost causation principle."[20]

The Company, as a regulated entity, is required to plan and maintain resources to provide safe and reliable service to its customers. Significant investments are made to ensure the Company is able to provide the service our customers depend on. While the Company continually evaluates and reviews its load and the resources needed to serve that load, it is unable to unravel the investments that are made to serve a community. When higher margin customers within a community leave the system, the remaining customers are at risk of being required to pick up a larger portion of the costs as a result. To prevent shifting the costs to other customers, departing customers would pay the fee before permanently leaving the network.

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[18] *Id*. at 20-20.
[19] *Id*.
[20] *Id*.

~~**Q. How is the Stranded Cost Recovery Fee calculated?**~~

~~A. To calculate the Stranded Cost Recovery Fee for residential customers the Company first subtracts net power cost revenues from total revenues. The Company then divides this revenue by average annual customers to develop non-net power cost revenue per customer. Finally, a discount rate of 6.38 percent[21] is applied to calculate the net present value of the non-net power cost revenue paid by Washington customers over a ten-year period.~~

~~The Stranded Cost Recovery Fee for non-residential customers (Schedules 24, 36, 40, and 48) is calculated the same way as for residential customers, except the resulting non-net power cost revenue paid by non-residential customers over the ten-year period is divided by the average annual revenue instead of the number of customers to calculate a cost-to-revenue ratio. Please refer to Exhibit No. RBD-4 for the calculation of Stranded Cost Recovery Fees for residential and non-residential customers. Using a ten-year period is consistent with the time period utilized in Pacific Power's calculation of the Consumer Opt-Out Charge on Schedule 296 in Oregon for customers voluntarily opting out of the system.~~

**Q. What is the proposed Stranded Cost Recovery Fee for residential customers?**

A. The Company is proposing a single fee of $6,153 for all residential customers. The costs incurred to serve residential customers as well as the size of their loads typically do not vary to the same extent as for non-residential customers. Using a single value for residential customers will help them to more easily understand the financial impact of leaving the Company's system.

~~[21] The after-tax return on rate base set in Docket UE-140762.~~

**Q. What is the proposed Stranded Cost Recovery Fee for non-residential customers?**

A. For non-residential customers, the Company is proposing a Stranded Cost Recovery Fee equal to 4.5 times the customer's annual revenue. Non-residential customers may not have similar electrical load requirements and may vary considerably in their size and requirements. The use of a revenue multiplier captures the variances in size and impact of the departing non-residential load to the existing infrastructure and the forecasts used to provide electric service to all of the Company's customers.

**Q. What does Pacific Power propose for the treatment of Stranded Cost Recovery Fees in rates?**

A. To ensure the revenue is benefitting the Company's remaining customers, collected fees would be tracked by rate schedule and deposited in the deferral account set up by the decoupling mechanism.

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

A. Yes.