

Docket No. UE-161204 - Vol. III

WUTC v. Pacific Power & Light Company

June 14, 2017



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1 BEFORE THE WASHINGTON
2 UTILITIES AND TRANSPORTATION COMMISSION

4 WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,)
5 Complainant,) Docket No. UE-161204
6 v.)
7 PACIFIC POWER & LIGHT COMPANY,)
8 Respondent.)
9

11 EVIDENTIARY HEARING, VOLUME III
12 Pages 169 - 388
13 ADMINISTRATIVE LAW JUDGE RAYNE PEARSON

15 9:01 a.m.
16 June 14, 2017
17 Washington Utilities and Transportation Commission
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CROSS-EXAMINATION BY MR. PEPPE / BOLTON 175

1 OLYMPIA, WASHINGTON; JUNE 14, 2017

2 9:01 A.M.

3 -00-

4

5 JUDGE PEARSON: All right. Good morning.

6 We will be back on the record on Wednesday, June 14th,

7 at approximately 9:00 a.m., and we will continue the

8 evidentiary hearing in this docket. Mr. Bolton is

9 already on the stand, so I will just remind you,

10 Mr. Bolton, that you're still under oath, and turn it

11 over to Columbia REA for cross-examination.

12

13 CROSS-EXAMINATION

14 BY MR. PEPPE:

15 Q. Good morning, Mr. Bolton.

16 **A. Good morning.**

17 Q. I want to start with a couple questions about

18 the stranded cost recovery fee in the tariff revisions.

19 Can you turn to page 14 of your direct testimony,

20 RBD-1T?

21 **A. Yes.**

22 Q. Starting there on line 13, you state,

23 "Significant investments are made to ensure the Company

24 is able to provide the service our customers depend on."

25 Then going down to line 17, you continue, "When

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1 higher ^ - margin customers within a community leave the

2 system, the remaining customers are at risk of being

3 required to pick up a larger portion of the costs as a

4 result."

5 Do you see that?

6 **A. Yes.**

7 Q. Now, does that accurately explain why you think

8 the Company incurs stranded costs from a customer

9 departure?

10 **A. The Company incurs stranded costs whenever any**

11 **customer departs, but certainly those -- the magnitude**

12 **or the impact of cost shifting is much more severe when**

13 **it's a higher-margin customer leaving the system and,**

14 **frankly, lower-margin or low-income customers continue**

15 **to remain.**

16 Q. And I believe you testified in response to

17 Ms. Gafken that the tariff revisions and the stranded

18 cost recovery fee you propose would not apply to a

19 customer who simply shut down operations or moved to,

20 say, another state?

21 **A. That's correct. This is for permanent**

22 **disconnection from the system.**

23 Q. But if a customer did shut down operations or

24 move, couldn't that also result in remaining customers

25 being required to pick up a larger portion of the costs

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CROSS-EXAMINATION BY MR. PEPPE / BOLTON 177

1 of the system?

2 **A. Yes, load declines do result in cost shifting.**

3 **However, I think the distinction is that, even if a**

4 **customer leaves the state or moves or changes**

5 **operations, there's still that opportunity for the next**

6 **customer or the next user or even that customer**

7 **themselves increasing load over time. The distinction**

8 **is that those customers departing under this tariff are**

9 **permanently disconnecting from Pacific Power's system.**

10 Q. So if a customer shut down operations, you

11 wouldn't say that they're permanently disconnecting from

12 Pacific Power's system?

13 **A. No, because, in that circumstance, facilities**

14 **would be left in place, and the system to support**

15 **whoever came in next would still be there.**

16 Q. And if a customer moved into your system, a new

17 customer, and you -- and, you know, installed a line to

18 that new customer, then that customer would then

19 contribute to the cost of the system; is that correct?

20 **A. That is correct.**

21 Q. Can you turn now to your rebuttal testimony,

22 RBD-5T, page 11.

23 COMMISSIONER RENDAHL: I'm sorry. What

24 page?

25 MR. PEPPE: Page 11, and I'm looking at the

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CROSS-EXAMINATION BY MR. PEPPE / BOLTON 178

1 answer that starts on line 9 there.

2 BY MR. PEPPE:

3 Q. You say here that the Company agreed to modify

4 the period over which the stranded costs are calculated

5 from 10 to 6 years, quote, "for purposes of this

6 proceeding."

7 Do you see that?

8 **A. Yes.**

9 Q. What do you mean by that phrase?

10 **A. That while the Company believes that its initial**

11 **ten-year fixed cost recovery period is reasonable and**

12 **justified, that based on comments and testimony within**

13 **this proceeding, we agree with Public Counsel that a**

14 **six-year recovery period can also work.**

15 Q. Do you think that a six-year period is a less

16 accurate reflection of the stranded costs that you would

17 incur?

18 **A. Yes.**

19 Q. How do you know?

20 **A. Well, generally, we look at, you know, other**

21 **policies. FERC certainly can envision up to 20 years of**

22 **fixed cost recovery. Twenty years is the time period of**

23 **an integrated resource plan, so that's really the**

24 **forecast and investment period for many of the assets**

25 **that we invest and serve customers through our system.**

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CROSS-EXAMINATION BY MR. PEPPE / BOLTON 179

1 We modified even that down to ten years for

2 consistency purposes with our Oregon program, where we

3 have -- you know, would have similar planning challenges

4 around customers who permanently leave the system.

5 Q. Mr. Bolton, I'd like to ask you a couple

6 questions about that Oregon program, if you don't mind.

7 Are you familiar with that program?

8 **A. Yes, I am.**

9 Q. Were you -- when PacifiCorp proposed that

10 program, did you do it voluntarily or pursuant to an

11 Oregon Commission order?

12 **A. We did it pursuant to an order. It is worth**

13 **noting that the underlying statute that gives rise to**

14 **Oregon's Direct Access program, Senate Bill 1149, does**

15 **not require a permanent opt-out option for direct**

16 **access. So over time of the implementation of that law,**

17 **the idea of permanent departure from a system has come**

18 **into play.**

19 Q. And you were required to implement that program

20 at least in part because Portland General Electric had a

21 long-term Direct Access program; is that correct?

22 **A. I'm not sure I agree with the rationale that,**

23 **simply because another utility had that program,**

24 **Pacific Power was required to have that program.**

25 Q. Okay. That's fine.

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CROSS-EXAMINATION BY MR. PEPPE / BOLTON 180

1 And when you proposed the customer opt-out

2 charge in the Oregon program, how many years did you

3 propose to calculate it over initially?

4 **A. Initially 20 years.**

5 Q. Twenty years.

6 And they -- and the Oregon Commission allowed

7 you to impose a customer opt-out charge over ten years;

8 is that correct?

9 **A. That is correct.**

10 Q. And are you aware of whether Portland General

11 Electric has a ten-year customer opt-out charge?

12 **A. I'm not as familiar with Portland General**

13 **Electric's program.**

14 Q. And how many customers have signed up for your

15 long-term Direct Access program?

16 **A. Currently we have one customer on the permanent**

17 **opt-out program.**

18 Q. Okay.

19 So a couple questions for you about the fair

20 market value revisions in your tariff. So as I

21 understand it, on the Company's tariff revisions, if a

22 departing customer chose to purchase facilities rather

23 than having them removed, the customer would need to

24 purchase them at their fair market value. Is that

25 accurate?

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CROSS-EXAMINATION BY MR. PEPPE / BOLTON 181

1 **A. Yes.**

2 Q. Okay.

3 So can you turn to page 17 of your rebuttal

4 testimony? On line 2, there's a heading, it reads,

5 "Fair Market Value is the Most Appropriate Measure." Do

6 you see that?

7 **A. Yes.**

8 Q. Is the most appropriate measure of what?

9 **A. It's the most appropriate measure of the value**

10 **of the asset being assigned to the gaining utility for**

11 **servicing that customer who is departing.**

12 Q. So let's assume that the fair market value of

13 assets you sell allows the Company to recover more than

14 its net book value and any transaction costs. Is it

15 your position that this excess amount does not represent

16 a gain on the sale of those assets?

17 **A. The excess amount would be a benefit to offset**

18 **the cost shifting that occurs from the departure of that**

19 **customer.**

20 Q. But would it represent a gain?

21 **A. A gain over what otherwise would have been**

22 **achieved through net book value?**

23 Q. Correct.

24 **A. So yes, it's very likely that fair market value**

25 **would be a higher price than net book value.**

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CROSS-EXAMINATION BY MR. PEPPE / BOLTON 182

1 Q. Okay.

2 Then staying on this page, lines 9 through 11,

3 you say that, "Similar to other utility asset or

4 property sales, selling at fair market value does not

5 subsidize the Company's remaining customers any more

6 than a prospective home buyer is subsidizing the seller

7 of that property. Do you see that?

8 **A. Yes.**

9 Q. Mr. Bolton, do you own a house?

10 **A. Yes, I do.**

11 Q. Would you consider your house to be a

12 depreciable asset?

13 **A. No.**

14 Q. Do you have a mortgage?

15 **A. Yes, I do have a mortgage.**

16 Q. Me, too.

17 **A. I do that so I can pay for it.**

18 Q. Me, too.

19 Mr. Bolton, if you sell your house, is the

20 mortgage company entitled to more than the principal

21 that you owe on the mortgage?

22 **A. They would get the principal and interest on the**

23 **borrowing.**

24 Q. But once you sold the house, you would simply

25 need to repay the principal; isn't that right?

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CROSS-EXAMINATION BY MR. PEPPE / BOLTON 183

1 **A. That's correct.**

2 Q. All right.

3 Can you turn to page 8 of your rebuttal

4 testimony? Now, at the bottom of this page, going onto

5 the top of page 9, you identify a process where a

6 departing customer could get a second fair market

7 valuation from a list of Commission-approved appraisers.

8 Do you see that?

9 **A. Yes.**

10 Q. So how would you envision the process for the

11 Commission to select a list of appraisers?

12 **A. The Commission -- the Company would do a survey**

13 **of certified appraisers in the area, southeast**

14 **Washington where we serve, and would submit those to the**

15 **Commission to be adopted as approved independent**

16 **third-party appraisers.**

17 Q. And would other parties have the ability to

18 propose their own?

19 **A. Yes, subject to being a Commission-approved**

20 **appraiser.**

21 Q. I mean, the initial list that the Commission

22 would select, would parties be able to add to the list

23 that you are proposing?

24 **A. I would imagine they would.**

25 Q. And if there's disagreement, would there be a

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CROSS-EXAMINATION BY MR. PEPPE / BOLTON 184

1 contested case over that issue or --

2 **A. I'm not familiar on how we would**

3 **administratively work through that.**

4 Q. And how often would the list be updated?

5 **A. Again, that might be something that we could**

6 **address through compliance filing with the tariff.**

7 Q. And would the Commission be responsible for

8 making sure the list is accurate and up to date?

9 **A. Presumably.**

10 Q. And if an appraiser from the Commission-approved

11 list engaged in fraud or other criminal conduct, do you

12 think the Commission could potentially be liable for

13 that?

14 **A. I don't.**

15 Q. Do you have a reason?

16 **A. I think that would be certainly something that**

17 **would be part of the criteria to be Commission approved**

18 **in the first instance, that that appraiser be properly**

19 **credentialed and have the wherewithal to be able to**

20 **perform in an accurate way and --**

21 Q. Well --

22 **A. -- have a good track record of business before**

23 **becoming Commission approved.**

24 Q. Fair enough.

25 But the question isn't whether the appraiser was

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CROSS-EXAMINATION BY MR. PEPPLÉ / BOLTON 185

1 doing a good job before. The question is whether the
 2 appraiser went rogue, for lack of a better term, and
 3 potentially committed criminal conduct. If they are on
 4 a list of Commission-approved appraisers, do you
 5 consider that to potentially be problematic for the
 6 Commission?
 7 **A. I'm not sure I have an opinion on that.**
 8 Q. Okay.
 9 **A. I don't know how that would work.**
 10 Q. So in your rebuttal testimony, you've proposed
 11 to increase the stranded cost recovery fee to include
 12 costs associated with the company's energy efficiency
 13 and low-income programs; is that correct?
 14 **A. That is correct.**
 15 Q. So on page 9 of your rebuttal testimony, lines
 16 16 through 19, you say, "...the magnitude of the
 17 riders" -- meaning low-income and energy-efficiency
 18 riders -- "will increase as the burden to pay for the
 19 programs fall on Pacific Power's remaining customers."
 20 Do you see that?
 21 **A. Yes.**
 22 Q. Now, with regard to conservation in particular,
 23 is the Company currently acquiring all cost-effective
 24 energy efficiency in its Washington service territory?
 25 **A. Yes, it is.**

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CROSS-EXAMINATION BY MR. PEPPLÉ / BOLTON 186

1 Q. And do you agree that, if a customer disconnects
 2 from Pacific Power's service in Washington, that the
 3 customer also loses this customer -- the Company also
 4 loses this customer's energy efficiency potential?
 5 **A. Yes.**
 6 Q. Okay.
 7 And if a customer leaves the system, do
 8 remaining customer rates automatically increase to make
 9 up for any lost contributions to the Company's
 10 energy-efficiency or low-income programs?
 11 **A. No, I imagine there would be a lag before that
 12 effect would be felt.**
 13 Q. Okay.
 14 I just have a few remaining questions,
 15 Mr. Bolton. Can you turn to your direct testimony on
 16 page 8?
 17 **A. Okay.**
 18 Q. At the top of the page, the question says, "Is
 19 Pacific Power able to compete with neighboring
 20 non-regulated utilities?"
 21 And the first sentence of that response says,
 22 "Pacific Power is required to charge customers based on
 23 Commission-approved tariffs-no more, no less."
 24 Do you see that?
 25 **A. Yes.**

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CROSS-EXAMINATION BY MR. PEPPLÉ / BOLTON 187

1 Q. Now, since you have been with the Company, when
 2 Pacific Power has filed a general rate case, are you
 3 aware of any instance in which the Commission has set
 4 the Company's rates at or above the level requested in
 5 the Company's filing?
 6 **A. No.**
 7 Q. So it would be fair to say, then, wouldn't it,
 8 that if your rates reflected what you asked for rather
 9 than what the Commission authorized, the Company would
 10 be far less competitive with non-regulated utilities
 11 than it is today?
 12 **A. That is a possibility.**
 13 Q. Okay.
 14 **A. Our costs would be higher.**
 15 Q. And as far as you're aware, has the Company ever
 16 cited loss of customers to non-regulated utilities as a
 17 driving factor for a rate increase in a general rate
 18 case?
 19 **A. No.**
 20 Q. Now, Mr. Bolton, I got the impression from
 21 reading your testimony that you felt that Columbia REA
 22 could charge essentially whatever it wanted to its
 23 customers; is that accurate?
 24 **A. Yes.**
 25 Q. In your experience, do utilities, whether

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CROSS-EXAMINATION BY MR. PEPPLÉ / BOLTON 188

1 regulated or non-regulated, typically have a significant
 2 amount of debt?
 3 **A. In my experience, it's usually about 50/50, that
 4 the preferred capital structure of a utility, both
 5 regulated or unregulated, is usually somewhere in
 6 balance with each other to equity.**
 7 Q. Okay.
 8 **A. My understanding with Columbia REA is that they
 9 have significantly more debt and are much more leveraged
 10 than most other utilities we see in the utility space.**
 11 Q. Okay.
 12 Now, if Columbia REA charged rates that did not
 13 allow it to repay its debt, do you think that would
 14 potentially be problematic for Columbia REA?
 15 **A. I do. And I do think that's one of the drivers
 16 for aggressive customer acquisition and growth.**
 17 Q. Do you have any evidence to support that
 18 statement?
 19 **A. I think it's the evidence of the aggressive
 20 customer solicitation and acquisition that we do see
 21 happening, as well as the highly leveraged nature of
 22 Columbia REA's balance sheet.**
 23 Q. Do you have any specific evidence that Columbia
 24 REA is acquiring new customers in order to pay its debt?
 25 **A. Again, we've asked about, you know, can we get**

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CROSS-EXAMINATION BY MR. PEPPLÉ / BOLTON 189

1 more information on their base plan? What I would say
 2 is this is, you know, looking just from a general
 3 business practice standpoint, a pretty good explanation
 4 for why we're seeing the activity that we see.
 5 Q. I think my question is a yes or no.
 6 **A. No.**
 7 Q. Okay. Thank you.
 8 Mr. Bolton, do you have any evidence that
 9 Columbia REA has ever charged any of its customers rates
 10 other than those that are in its tariffs?
 11 **A. No.**
 12 Q. Okay.
 13 **A. It's difficult to know what the rates are that**
 14 **are in their tariff.**
 15 Q. Do you agree that those rates were provided in
 16 discovery in this case?
 17 **A. Yes.**
 18 Q. Okay.
 19 MR. PEPPLÉ: No more questions.
 20 JUDGE PEARSON: Thank you.
 21 Okay. Yakama Power?
 22 MR. PEPPLÉ: Oh, I'm sorry.
 23 JUDGE PEARSON: Sorry?
 24 MR. SCHWARTZ: If I may --
 25 MR. PEPPLÉ: We're kind of second -- I have

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CROSS-EXAMINATION BY MR. SCHWARTZ / BOLTON 190

1 no more questions. Mr. Schwartz has a few questions for
 2 Mr. Bolton.
 3 MR. SCHWARTZ: We just tried to divide up
 4 some of the subject matter here.
 5 JUDGE PEARSON: Sure.
 6 CROSS-EXAMINATION
 7 BY MR. SCHWARTZ:
 8 Q. Just by way of introduction, Mr. Bolton, my name
 9 is Stanley Schwartz.
 10 JUDGE PEARSON: Can you use the microphone,
 11 Mr. Schwartz?
 12 MR. SCHWARTZ: I'm sorry. I've got it.
 13 BY MR. SCHWARTZ:
 14 Q. So by way of introduction, my name is Stanley
 15 Schwartz. I'm general counsel for Columbia REA.
 16 And you're aware that Columbia REA is a
 17 nonprofit corporation in Washington, correct?
 18 **A. Yes.**
 19 Q. Operating a cooperative form of government?
 20 **A. Yes.**
 21 Q. And that Columbia REA does not have
 22 shareholders, correct?
 23 **A. It has members, yes.**
 24 Q. Right, which is different than shareholders in
 25 terms of the profit incentive of a shareholder.

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CROSS-EXAMINATION BY MR. SCHWARTZ / BOLTON 191

1 So I think what I'd like to do, just to frame
 2 this, is I really only want to talk about two -- two
 3 subject matters with you. One is the proposed
 4 disconnection practices that you've outlined in your
 5 modified Rule 6, and then, second, is the purchase and
 6 sale of practices that you're proposing.
 7 So I think the first thing I'd like to do is ask
 8 you if you'd be kind enough to correct your testimony,
 9 and I ask you to take a look at page 9, line 1, of your
 10 opening testimony.
 11 Page 9, line number 3, you're -- that's the
 12 middle of a quote, and to be fair, the quote is from
 13 existing Rule 6, and it's starting on line number 1 [as
 14 read], "When a customer requests permanent disconnection
 15 of a Company facilities [sic], customers shall pay to
 16 Company the actual cost for removal less salvage of" --
 17 the word "only" is missing. Do you know that? You'll
 18 take my word for it, it is missing?
 19 **A. I do not see the word "only."**
 20 Q. You do not see the word "only." But it does
 21 appear in the existing Rule 6, doesn't it? If you don't
 22 know, let's --
 23 MR. GREENFIELD: Your Honor, we'd be happy
 24 to stipulate, there was a typo that was acknowledged
 25 through DR responses and clarified quite some time ago.

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CROSS-EXAMINATION BY MR. SCHWARTZ / BOLTON 192

1 JUDGE PEARSON: Okay.
 2 MR. SCHWARTZ: Great.
 3 BY MR. SCHWARTZ:
 4 Q. So I'd like to take a moment, then, and start
 5 reviewing Rule 6 with you. I'm trying to locate it.
 6 I'm sorry.
 7 MR. GREENFIELD: I believe we actually have
 8 handouts of the entirety that also included the
 9 revisions to 1 and 4 that we discussed yesterday. I'd
 10 be happy to provide a copy to counsel.
 11 JUDGE PEARSON: That sounds good.
 12 Mr. Schwartz, are you looking for the
 13 existing Rule 6 or the proposed Rule 6?
 14 MR. SCHWARTZ: The proposed Rule 6.
 15 JUDGE PEARSON: Okay.
 16 MR. GREENFIELD: This is, again, RMM-3 with
 17 the additions of the revisions to 1 and 4 that were
 18 filed with Mr. Dalley's initial testimony.
 19 JUDGE PEARSON: Okay.
 20 MR. SCHWARTZ: Your Honor, can I just take a
 21 minute? I want to look through my briefcase, because I
 22 have notes on the actual document. If I can just stand
 23 up and look for it. I apologize.
 24 JUDGE PEARSON: Sure. It's okay.
 25 (Brief pause in the proceedings.)

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CROSS-EXAMINATION BY MR. SCHWARTZ / BOLTON 193

1 JUDGE PEARSON: Okay. Let's be back on the
 2 record.
 3 BY MR. SCHWARTZ:
 4 Q. Mr. Bolton, I'd like you to take a look at
 5 RMM-3, page 7 of 16. And specifically, I want to draw
 6 your attention to subsection I.1.a., which is at the
 7 bottom of the page. And I'm looking at the red line
 8 version.
 9 Do you have that in front of you?
 10 **A. Yes.**
 11 Q. In subsection "a," you've stricken the word
 12 "only," which has appeared in Rule 6, I believe, for a
 13 number of years. And what's -- is the reason for
 14 striking that because the Company no longer wants
 15 facilities to be removed only because there's a safety
 16 or operational reason?
 17 **A. That's correct. It's for all permanent**
 18 **disconnection requests.**
 19 Q. Okay.
 20 Now, you do agree, though, that even with your
 21 rule modification, that there will be circumstances
 22 where the Company chooses to discommit -- to
 23 decommission underground facilities such as conduit in
 24 place without destroying them, correct?
 25 **A. No. If we decommission, we would also -- if we**

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1 abandon plant, we would decommission that plant as well.
 2 Q. So from this day forward, or from the day that
 3 this rule would become effective, anytime there's an
 4 underground facility that will not be sold, you will
 5 decommission it by destroying it; is that correct?
 6 **A. If it's the result of a permanent -- if a**
 7 **customer permanent disconnection request [sic].**
 8 Q. And decommission for underground conduit means,
 9 for example, filling it with a concrete slurry?
 10 **A. (Nods head.)**
 11 Q. And that would be your practice going forward?
 12 **A. Yes.**
 13 Q. Whether it's in public right of way or on
 14 private property?
 15 **A. What I would highlight, though, is that**
 16 **decommissioning facilities would be really an option of**
 17 **last resort, that really the purpose of the multiple**
 18 **options that we are providing in our revised tariff**
 19 **would be to either sell or remove the facility.**
 20 **So as we look at this, that would be the**
 21 **majority or the vast preponderance of transactions that**
 22 **would occur when a customer asks to permanently**
 23 **disconnect, either removing the facility so that the new**
 24 **provider can install theirs, or sell to the customer,**
 25 **who is really having the new provider purchase on their**

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1 behalf, those facilities at fair market value.
 2 Abandonment really would be in only those
 3 extreme circumstances where that was the best option due
 4 to some extenuating circumstance.
 5 Q. But let me ask you a specific question. Thank
 6 you for that.
 7 So factually, if you have a situation where
 8 there's a private party, a customer who chooses to
 9 disconnect and has underground facilities, but doesn't
 10 want to agree to your definition of fair market value,
 11 now you've got underground conduit, is that a
 12 circumstance where you will destroy or decommission the
 13 underground conduit on private property?
 14 **A. Most likely, in that circumstance, if the**
 15 **customer does not wish to purchase those facilities, the**
 16 **next best option would be to remove those facilities.**
 17 Q. I said decommission. Will you decommission?
 18 Removal is different than decommission.
 19 **A. Again, it would be on a case-by-case basis. It**
 20 **would be only in really those extenuating circumstances**
 21 **where we would decommission the facilities in place.**
 22 **Again, we imagine that in almost every case, the**
 23 **customer will either purchase the facility or will have**
 24 **those facilities removed.**
 25 Q. But in those cases where the customer and the

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1 Company do not agree upon fair market value, you do
 2 agree, on private property, if it is not feasible or
 3 cost prohibitive to dig up the conduit, that you will
 4 destroy it by putting, for example, a concrete slurry in
 5 it, correct?
 6 **A. Again, possibly that could happen in certain**
 7 **circumstances. But I would also clarify that, while the**
 8 **facilities may be located on a customer's property,**
 9 **those facilities themselves are the Company's property.**
 10 Q. I understand that.
 11 But all I'm trying to get you to agree to is
 12 that there can be a circumstance where you will
 13 decommission by destroying underground conduit on
 14 private property, correct?
 15 **A. That could happen, and --**
 16 Q. Okay.
 17 **A. -- that's the flexibility the Company seeks, is**
 18 **to have that ability as far as the -- and what we're**
 19 **trying to do here is contemplate the universe of**
 20 **possibilities of property disposition in the case of a**
 21 **customer disconnection request.**
 22 Q. So under that circumstance, when you destroy,
 23 you obviously will destroy any economic value associated
 24 with that underground conduit, correct? It will become
 25 useless.

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1 **A. It will -- that's correct. It will not be able**
 2 **to be used further.**
 3 Q. And that's the customer's -- or that's, I guess,
 4 the result if the customer and Pacific Power cannot
 5 agree upon fair market value, correct?
 6 **A. Or the facilities may be removed.**
 7 Q. And for example, you're familiar with the
 8 Walla Walla Country Club case, right?
 9 **A. I'm familiar with the Commission's order in the**
 10 **Walla Walla Country Club case.**
 11 Q. Now, you were asked a number of questions
 12 earlier, though, I think by your counsel concerning that
 13 case in terms of the appraisal, right?
 14 **A. I was not asked by my counsel about the**
 15 **appraisal.**
 16 Q. You know the value -- weren't you asked about
 17 the value of the underground facilities?
 18 **A. I was not asked about the value by my counsel.**
 19 **I will say, in general terms, I am generally familiar**
 20 **with the circumstances of that case. I was not --**
 21 **within the Company, I was not a party to working on that**
 22 **case. So I just want a caveat that I have a general**
 23 **familiarity with the case. I may not know every detail**
 24 **of that particular one. But I am familiar with the**
 25 **Commission's ultimate order in that case.**

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1 Q. Okay. And that's fair.
 2 So I guess, in summary, your testimony in the
 3 revision to Rule 6 is recognizing that, if the Company
 4 and the customer cannot reach agreement on fair market
 5 value, if it's infeasible or cost prohibitive to remove
 6 the underground conduit, then it will be decommissioned
 7 or destroyed, correct?
 8 **A. Yes.**
 9 Q. I'm going to ask you to take a look at an
 10 exhibit, please.
 11 The Company does agree that abandoning
 12 underground conduit that no longer contains a wire does
 13 not violate the NESC, doesn't it?
 14 **A. That's what the Commission found in its order in**
 15 **the Walla Walla Country Club case.**
 16 Q. And through your Rule No. 6, is the Company
 17 trying to nullify that finding by removing the word
 18 "only" as well as the remaining statement -- and I'm
 19 quoting -- "that need to be removed for safety or
 20 operational reasons" -- is that the point of that
 21 removal, to nullify the finding and the conclusion in
 22 the Walla Walla Country Club case?
 23 **A. No, not at all. The Walla Walla Country Club**
 24 **case demonstrated to the Company -- we heard the**
 25 **Commission loud and clear that there are deficiencies in**

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1 how the current net removal tariff is constructed, and
 2 that it did not contemplate options such as sale of the
 3 facilities to the customer. So we've updated it for
 4 that circumstance as well.
 5 We've also updated it in order to really try to
 6 imagine every contingency that the Company would face in
 7 facing a permanent disconnection request, while trying
 8 to ensure that, in every single option, that cost
 9 shifting that results from permanent disconnection isn't
 10 visited upon our remaining customers, and, in turn, that
 11 our remaining customers aren't in some way subsidizing
 12 the departure of that customer.
 13 So in the circumstance where we would not be
 14 able to agree to a sale price of facilities, that the
 15 Company should be expected to then just abandon conduit
 16 in the ground that the next utility could come in, at no
 17 cost, and be able to serve that new customer, we believe
 18 is a subsidy for that departing customer. And, frankly,
 19 gives second mover advantage to whoever comes in after
 20 the initial service provider has installed systems to
 21 serve that customer in the first instance.
 22 Q. Excuse me.
 23 Was that an answer to my question?
 24 **A. Yes.**
 25 Q. Very comprehensive.

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1 So what I really want to do, though, is take a
 2 look at page 6 of your beginning testimony, please,
 3 because I was asking specifically about the Walla Walla
 4 Country Club.
 5 So I'm on page 6, and this is on -- this is
 6 footnote No. 3. The language I'm interested in begins
 7 with the third line down, the line actually begins
 8 "...at its own expense." This is footnote No. 3, it
 9 said, "The Country Club and Columbia REA preferred to
 10 avoid the business disruption associated with the
 11 excavation and removal of extensive underground
 12 facilities. Consequently, the parties reached a
 13 negotiated settlement."
 14 That's, of course, a true fact, right?
 15 **A. Yes.**
 16 Q. Do you believe that Columbia REA was the
 17 purchaser of that underground conduit on private
 18 property?
 19 **A. Yes.**
 20 Q. You certain about that?
 21 **A. I believe that was the agreement found during**
 22 **discovery, that Columbia REA would cover the costs of**
 23 **switching over from Pacific Power to Columbia REA.**
 24 Q. So you're not saying that -- you're not saying
 25 Columbia REA became the owner of that conduit, are you,

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1 on private property?

2 **A. I don't know the relationship of ownership**

3 **between Columbia REA and Walla Walla Country Club. I do**

4 **believe that Columbia REA helped pay for the costs of**

5 **those facilities. Whether Columbia REA deeded those**

6 **back to the country club or as the fee owner, I don't**

7 **know.**

8 Q. Well, your Company, in fact, also assists in

9 paying for costs of underground facilities, doesn't it?

10 **A. No.**

11 Q. Isn't that what line extension credit's all

12 about?

13 **A. For underground facilities, the customer pays**

14 **for installation of those underground facilities.**

15 Q. Don't you offer a line extension credit?

16 **A. For overhead facilities.**

17 Q. Nothing for underground?

18 **A. I'll need to review Rule 14.**

19 Q. Okay.

20 So with regard to the appraisal for the Walla

21 Walla Country Club, which was discussed, I believe, if

22 it wasn't with you, it was another witness by counsel,

23 and I think the value was put in at \$108,000.

24 Do you remember that testimony?

25 **A. I recall that, yes.**

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1 Q. Would it surprise you if that appraisal placed

2 no value on the underground conduit and -- subject to

3 check, would that surprise you?

4 **A. I'm sorry. Which appraisal?**

5 Q. The Walla Walla Country Club appraisal for the

6 underground facilities, which included wire, meter, and

7 other associated facilities and appendages, I guess,

8 that relate to the underground; would it surprise you if

9 that appraisal placed no value on the underground

10 conduit itself?

11 **A. It would.**

12 Q. Okay.

13 I want to go back to Rule 6. I'd like to draw

14 your attention now to --

15 MR. TILL: Which version of Rule 6,

16 Mr. Schwartz?

17 MR. SCHWARTZ: This is from RMM-3, and I'm

18 looking at the red line version, and I'm now going to

19 page 9.

20 BY MR. SCHWARTZ:

21 Q. And I want to look at the new proposed language

22 in subsection 2, and I'll just read it into the record.

23 So [as read] "In lieu of removal or purchase by

24 the departing customer as set forth in 1" -- or excuse

25 me -- "1.1 above, the Company may abandon some or all of

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1 the Facilities when, in the Company's sole discretion,

2 service may be negatively impacted or safety issues may

3 arise as a result of removal or purchase by the

4 departing customer."

5 Now, I want to break this down because there's

6 really a number of concepts going on here. Is it fair

7 that the summary is that, if the customer -- and I'm

8 sorry if this is asked and answered, but I want to

9 confirm it -- that based upon this language, is it fair

10 to say that, if a departing customer and Pacific Power

11 cannot reach agreement on the purchase price, or the

12 customer does not want to purchase that, in certain

13 circumstances, Pacific Power will decommission or

14 destroy the facilities? Isn't that what this amendment

15 says?

16 **A. Not quite. What the amendment says is, if for**

17 **safety or reliability purposes a sale or removal doesn't**

18 **make sense, then the Company wishes to retain the**

19 **flexibility to abandon in place those facilities. I**

20 **don't agree with the characterization that it would just**

21 **be upon failure of agreement over fair market value that**

22 **that would be the outcome.**

23 BY MR. PEPPLER:

24 Q. So then let's talk about what you just said.

25 This -- this rule is written in the disjunctive. You've

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1 got two circumstances, which, in your sole discretion,

2 can occur that would warrant decommission or

3 destruction.

4 The second one you just talked about, "or safety

5 issues may arise as a result of removal or purchase by

6 the departing customer," you've told me that this is not

7 intended to nullify the result and the findings in the

8 Walla Walla Country Club case; thus, if you have a fact

9 pattern where the Company and the customer cannot agree

10 upon a purchase, according to that precedent, where the

11 NESC said there is no danger to empty conduit, you would

12 leave it in the ground as is. Is that correct,

13 according to this rule revision?

14 MR. GREENFIELD: I do have to object on

15 asked and answered, your Honor. We've covered this a

16 few times.

17 JUDGE PEARSON: Yeah, I sustain the

18 objection.

19 MR. SCHWARTZ: Sustained it?

20 JUDGE PEARSON: Yes.

21 MR. SCHWARTZ: Okay, your Honor.

22 BY MR. SCHWARTZ:

23 Q. Let me -- let me then ask you, then, about the

24 words "sole discretion." Sole discretion, I presume

25 that means in Pacific Power's unilateral judgment or

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1 decision, it will make the determination with regard to
 2 the disjunctive here, negative impact on service or
 3 safety issues; is that correct?
 4 **A. Yes.**
 5 Q. Is there -- how would a customer ever challenge
 6 that determination of sole discretion if it disagreed
 7 with your determination about there being a negative
 8 service impact or a safety issue?
 9 MR. GREENFIELD: I'd object to the form.
 10 That calls for a legal conclusion.
 11 JUDGE PEARSON: Do you want to rephrase the
 12 question?
 13 BY MR. SCHWARTZ:
 14 Q. Do you envision a process about which a customer
 15 could challenge that determination of sole discretion?
 16 **A. There's not a process outlined in the net**
 17 **removal tariff; however, this is the Company's property**
 18 **and it's the Company who is responsible and liable for**
 19 **the disposition of the property. And it would be within**
 20 **the Company's rights and discretion on how to best deal**
 21 **with the property in that circumstance.**
 22 Q. There have been many circumstances, though,
 23 where, even though the Company -- and this is really --
 24 accept this representation, but I know you know this is
 25 true -- there are many, many examples where the Company

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1 obtains property simply by operation of the tariff and
 2 rules, correct?
 3 Let me be specific. There are many
 4 circumstances where the Company, Pacific Power, obtains
 5 underground conduit that has been installed by a
 6 customer simply by operation of your rules when you
 7 energize that customer, correct?
 8 **A. That's correct. That's a provision of service.**
 9 Q. Right.
 10 So in the situation where you have not installed
 11 it, the removal or the decommission could be
 12 accomplished by simply giving the customer a bill of
 13 sale to that empty conduit and absolving yourself of
 14 liability, correct?
 15 **A. And that's what we contemplate in providing for**
 16 **a purchase option under a permanent disconnection**
 17 **scenario.**
 18 Q. But if the Company -- if the customer doesn't
 19 want to purchase and you want to absolve yourself of
 20 liability or responsibility, you could simply deliver a
 21 bill of sale, which you have done in the past, haven't
 22 you, with regard to empty conduit?
 23 **A. If the customer doesn't wish to purchase the**
 24 **facilities, then the next best option would be to remove**
 25 **those facilities.**

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1 Q. I just want to establish that there are
 2 circumstances where, without the payment of
 3 consideration in terms of fair market value, your
 4 company has conveyed empty underground conduit to
 5 customers through a bill of sale; are you aware of those
 6 situations?
 7 **A. I'm not aware of specific situations. Could you**
 8 **be -- could you give me an example?**
 9 Q. Not off the top of my head, but I certainly know
 10 that they exist in the Walla Walla Country Club matter.
 11 Let me talk about the other qualifier in this
 12 subsection 2. Now, it says that "the Company may
 13 abandon" -- and I'm reading from the rule -- "some or
 14 all of the facilities when, in the Company's sole
 15 discretion, service may be negatively impacted."
 16 Negative impact on service, is this an
 17 engineering determination that the Company is going to
 18 make?
 19 **A. It would be a determination from our field**
 20 **operations personnel.**
 21 Q. And give me an example of, if you abandon, you
 22 remove all the wires, and you've just got empty conduit
 23 in the ground on private property, that there's a
 24 negative impact on service.
 25 **A. I'm not expert in what those conditions would**

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1 be. I would trust that, in the best judgment of our
 2 field operations folks, that they would know whether it
 3 would be a situation where we would abandon the asset.
 4 Q. Have you discussed this phrase internally with
 5 any of your experts who would make that determination or
 6 judgment?
 7 **A. Well, again, I think as far as establishing**
 8 **conditions in a tariff, it's to try to create, you know,**
 9 **a universe of possible inflexibility for when those**
 10 **situations would occur, so that there is clarity, so**
 11 **that there is a -- you know, a regulatory rationale for**
 12 **the Company's action.**
 13 Q. That's not what I asked you.
 14 I asked you, have you discussed this phrase with
 15 any of the professionals or --
 16 **A. I've not personally discussed this phrase.**
 17 Q. So the answer is no?
 18 **A. No.**
 19 Q. Which means that, as you just testified, this
 20 entire phrase is really subject to interpretation from
 21 this point forward, correct? It's not defined, and you
 22 can't define it here today.
 23 **A. It is to ensure flexibility for any number of**
 24 **potential possibilities that the Company may run across**
 25 **in any number of scenarios from a customer's departure**

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1 request, so yes.

2 Q. In the Company's sole discretion, correct;

3 that's the qualifier?

4 **A. When it comes to Company -- the Company's**

5 **property, yes.**

6 Q. So at this point, with regard to service being

7 negatively impacted, you're not aware of such a

8 determination being based upon any national standard

9 like the NESC, are you?

10 **A. I'm aware of the NESC.**

11 Q. But that's not -- is that a standard -- do you

12 know, is that a standard that would be applied to this

13 phrase "may be negatively impacted"?

14 **A. Yes, it could very well be a standard that may**

15 **apply based on that specific customer circumstance.**

16 Q. With regard to service, is your position that if

17 you have abandoned empty conduit on empty property where

18 that property is no longer connected to your system,

19 that that could create a negative impact on service for

20 your system?

21 MR. GREENFIELD: Asked and answered,

22 your Honor.

23 JUDGE PEARSON: Yeah, I'm going to sustain

24 the objection.

25 MR. SCHWARTZ: Excuse me?

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1 JUDGE PEARSON: He already answered that

2 question.

3 BY MR. SCHWARTZ:

4 Q. Let me ask you about the next sentence with

5 regard to -- and I'm still in subsection 2. It reads --

6 and this is a presumption that there's no agreement

7 between the customer and Pacific Power -- "The Company

8 will decommission and leave in place such Facilities in

9 a safe manner consistent with best industry practices."

10 Do you ever decommission wire or abandon wire

11 underground that is no longer energized?

12 **A. Yes, that has happened.**

13 Q. Does that create a safety concern for the

14 Company?

15 **A. Not if it's been decommissioned in a safe and**

16 **appropriate way.**

17 Q. And that means it's no longer energized,

18 correct?

19 **A. Correct. And there may be other mitigation**

20 **actions that have taken place as well.**

21 Q. I want to ask you a hypothetical question, and

22 I'm really done with Rule No. 6 at this point.

23 So I want you to assume that a customer paid to

24 install facilities in an amount, on its own property,

25 that exceeds the line extension credit, and so the

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1 customer now wants to change service providers but does

2 not want to repurchase what it's already paid for.

3 Your revision to Rule 6 doesn't account for the

4 customer's costs that have been incurred above your line

5 extension credit on a purchase of those facilities,

6 correct?

7 **A. Not beyond what we would credit back through the**

8 **line extension.**

9 Q. So if the customer spent more than the line

10 extension credit, you simply would not give them any

11 credit for that amount, you would only credit your line

12 extension allowance, if you will, correct?

13 **A. Yes.**

14 Q. I'd like to ask you to take a look at RBD-34X,

15 and this is a Yakama exhibit -- you know what?

16 Actually, I'm going to move on so that I don't repeat

17 that line of questioning.

18 Mr. Bolton, I want to talk about fair market

19 value. Fair market value is the new concept that you've

20 introduced in Rule No. 1. And I'm going to ask you -- I

21 think you're familiar with that definition.

22 **A. Yes.**

23 Q. It was attached to your opening testimony and,

24 unfortunately, it was not -- it was not numbered. Is it

25 your understanding that fair market value -- if you want

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1 to look at the definition, it's Rule No. 1. I'll just

2 read it into the record.

3 **A. I have.**

4 Q. Okay.

5 Your understanding thus far is that, for fair

6 market value, there will be a replacement cost analysis?

7 **A. Yes.**

8 Q. And do you understand what a replacement cost

9 analysis is in terms of appraisal work?

10 **A. Yes.**

11 Q. It's different, of course, than income

12 approach --

13 **A. Yes.**

14 Q. -- or sales comparison approach.

15 Do you agree that the premise of a replacement

16 cost analysis is for the owner to recover its cost or

17 investment?

18 **A. Yes.**

19 Q. So in this scenario, what the Company's

20 assuming, is that, even though it takes ownership by

21 virtue of the tariff and the rules, that it has

22 purchased the asset and thus should be entitled to its

23 entire value; isn't that the assumption that you're

24 proceeding with here with regard to fair market value?

25 **A. The Company owns the assets, maintains services,**

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1 takes on the liability associated with the assets, and
 2 basically socializes that cost in its cost basis.
 3 Q. Returning to the hypothetical, a customer
 4 installs underground conduit, line extension credit that
 5 your company offers does not reimburse the Company for
 6 its entire cost; yet, when you do the fair market
 7 analysis and you request the customer to make the
 8 purchase, the assumption is that you've paid the entire
 9 purchase price of that installation, but, in fact, you
 10 haven't, correct?
 11 **A. The Company views that, by taking ownership, by**
 12 **indemnifying the customer for those facilities, by**
 13 **providing 24/7 maintenance service and the obligation to**
 14 **serve that customer forevermore, that that does offset**
 15 **the customer's one-time cost of installation to connect**
 16 **into the system.**
 17 Q. And you told us in a response to a discovery
 18 request that the customer -- or the Company does not
 19 track individual maintenance obligations for individual
 20 customers, correct?
 21 **A. That's correct, because the operations,**
 22 **maintenance, safety, every -- every component of service**
 23 **to that customer then becomes socialized among the**
 24 **customers, among the Company's customer base. And so to**
 25 **kind of back that out on a customer-by-customer basis is**

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1 very difficult to do.
 2 Q. And isn't that precisely why it's embedded in
 3 your rates, those costs?
 4 **A. That's what I mean when I say those rates are**
 5 **socialized across our customer base, yes.**
 6 Q. Okay. Thank you.
 7 Would you take a look at RBD-14, please? And
 8 I'm focused on the Company's response here, and
 9 specifically in this data request, we -- you discussed
 10 Rule No. 1 that we just talked about. It is understood
 11 that replacement costs depreciated is going to be the
 12 methodology used.
 13 And then I'm interested in talking about the
 14 fourth paragraph -- the third paragraph beginning with
 15 the words "Replacement cost," and I'll read that,
 16 "Replacement cost represents the costs to rebuild
 17 facilities today, and is estimated using the Company's
 18 standard construction estimating tool."
 19 Do I understand correctly that your testimony is
 20 that if a customer elects to depart from Pacific Power's
 21 services, but wants to retain some of the facilities,
 22 that an in-house company estimator will make that fair
 23 market value determination; is that how the process is
 24 designed to start?
 25 **A. Yes. And really, from a customer convenience**

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1 standpoint, when that customer notifies the Company that
 2 they wish to permanently disconnect, the first real
 3 action that happens after creating a work order is we
 4 will send an estimator to the property. That estimator
 5 will look at both what conditions are present and the
 6 state of equipment as far as removal should the customer
 7 choose to remove the facilities, but also be available
 8 to provide a fair market valuation should the customer
 9 choose to purchase those facilities.
 10 Q. So hypothetically, again, with the departing
 11 customer, he or she or they or it gives you notice, you
 12 will provide an estimate of the cost to remove
 13 facilities, and then if the customer says, you know, I'd
 14 really like to keep that conduit, then your estimator
 15 will value that conduit, correct?
 16 **A. That's correct.**
 17 Q. Okay.
 18 And then the process would be, if there's not an
 19 agreement, each party can get an appraisal, and I think
 20 you said the lowest appraisal will control the purchase
 21 price?
 22 **A. That's not quite the process. The process would**
 23 **be, if the customer disputes the Company's estimate,**
 24 **then the customer would get an independent appraisal**
 25 **from a Commission-approved list of appraisers, and then**

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1 the lowest of those two appraisals would govern the
 2 transaction.
 3 Q. And for purposes of my hypothetical, if the
 4 estimate concerns the existence of underground conduit,
 5 then your estimate really will be the cost of -- today,
 6 if you will, if this were to happen today -- of
 7 installing brand-new underground conduit in terms of the
 8 equipment costs, labor costs and material costs; that
 9 would be the replacement cost value, correct?
 10 **A. Our method would be replacement cost less**
 11 **depreciation, so there would be an accounting for the**
 12 **fact that that asset already exists, that it may have**
 13 **aged, that it's not in pristine, brand-new condition.**
 14 **It's not unlike purchasing a used car versus buying a**
 15 **new car.**
 16 Q. So your estimate would be discounted; is that
 17 what you're saying?
 18 **A. It would be replacement cost less depreciation.**
 19 Q. Okay. Got it. Finally, let me ask you to
 20 take -- just on this subject -- a look at RBD-15,
 21 please. And specifically, I want to focus on your
 22 answer in section A, the second paragraph, you talk
 23 about "net book value not properly reimbursing remaining
 24 customers," and then "this proposal and revisions to the
 25 net removal tariffs are designed to properly compensate

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1 remaining customers for any facilities that are sold."
 2 In all the scenarios we've just talked about,
 3 the only expense that an existing Pacific Power customer
 4 would have would be the line extension credit that the
 5 Company would give to the customer toward their
 6 installation of facilities, correct?
 7 **A. No, the total expense visited upon an existing**
 8 **Pacific Power customer would be the cost shifting due to**
 9 **the impact of the departing customer.**
 10 Q. But --
 11 **A. It would not be limited to just the line**
 12 **extension credit.**
 13 Q. Well, what I'm focusing on is your statement
 14 here that your proposal is, quote, "designed to properly
 15 compensate remaining customers for any facilities that
 16 are sold."
 17 The facilities that are being sold in this
 18 hypothetical is underground conduit --
 19 **A. Um-hmm.**
 20 Q. -- but yet, your remaining customers have not
 21 paid for that underground conduit, save for the line
 22 extension credit, correct?
 23 **A. Not necessarily. Because our remaining**
 24 **customers have paid for all of the maintenance and**
 25 **safety and billing and everything that goes into**

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CROSS-EXAMINATION BY MR. SCHWARTZ / BOLTON 218

1 providing service through that conduit.
 2 Q. But you just told us that those costs are
 3 embedded in your rates --
 4 **A. Right. Correct.**
 5 Q. -- which the customer is paying in order to take
 6 service from you.
 7 **A. Right, but which all customers cover.**
 8 Q. I'm going to move on to RBD-19, please. And
 9 I'll represent to you that this is a collection of a
 10 number of your line extension agreements. And I'd like
 11 to start with page 2 of 7 of this exhibit, please.
 12 As I understand it, this is where the applicant
 13 is going to build a line extension, and I'm focusing on
 14 the second paragraph. "Applicant desires to build a
 15 contract with someone other than Company to build a
 16 primary or secondary voltage line extension."
 17 And then the next line, "When the Applicant has
 18 completed, to the company's satisfaction, Applicant will
 19 transfer ownership of the line and Company will connect
 20 to its Company facilities, assume ownership."
 21 That's your standard practice under this
 22 contract, correct?
 23 **A. Yes.**
 24 Q. Under paragraph A-1, it talks about line design
 25 and estimate. And I want to focus on the third line

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CROSS-EXAMINATION BY MR. SCHWARTZ / BOLTON 219

1 that begins with the quote, "line extension cost."
 2 But the full line reads, The minimum monthly
 3 charges, reimbursements and refunds under the line
 4 extension policy are calculated from line extension
 5 cost, line extension allowance, and the advance for
 6 Company-built line, the advance, right?
 7 So that's basically telling us how much money
 8 the Company -- or credit -- will give the customer for
 9 its facility installation, correct?
 10 **A. Yes.**
 11 Q. Please turn to page 4 of 27. Paragraph 7-B,
 12 second line, says, Applicant will, within three business
 13 days, provide company with a bill of sale, et cetera,
 14 et cetera, so then after the project or the facilities
 15 are complete, the customer is required to turn this over
 16 to you, correct?
 17 **A. Yes.**
 18 Q. Please turn to page number 5. Paragraph 10
 19 identifies the line extension allowance, and I'll
 20 summarize: Once the Company gets the bill of sale, the
 21 Company pays the line extension allowance, less the cost
 22 of any unreimbursed equipment or services provided by
 23 the Company, as the purchase price. If these costs --
 24 if these other costs exceed line extension allowance,
 25 Applicant pays the Company the difference.

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CROSS-EXAMINATION BY MR. SCHWARTZ / BOLTON 220

1 So with an underground construction, for
 2 example, of conduit, all the Company is going to do is
 3 pay its allowance, and if the owner of the property
 4 exceeds that, by contract, it's their responsibility,
 5 correct?
 6 **A. Yes.**
 7 Q. Turn to page 5 of 92 -- I'm sorry, 6 of 27.
 8 MR. SCHWARTZ: I know, Judge, you looked at
 9 me, and I'm sorry about that. I meant page 6 of 27.
 10 BY MR. SCHWARTZ:
 11 Q. Paragraph No. 2 talks about the applicant's
 12 obligations. So now the customer, in consideration for
 13 building the underground and accepting your line
 14 extension credit, they, under sub A, have to sign up for
 15 a five-year contract, right?
 16 **A. Yes.**
 17 Q. Is it reasonable to assume that that five-year
 18 contract will amortize the cost of the line extension?
 19 **A. Yes.**
 20 Q. There are a number of other contracts in here,
 21 but let me just ask you to please take a look at page 23
 22 of 27. The second paragraph, to summarize, says that
 23 the Company's filed tariffs, of course, with this
 24 Commission, regulate this contract. That's essentially
 25 the first line. In the event of a conflict between the

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CROSS-EXAMINATION BY MR. SCHWARTZ / BOLTON 221

1 contract and the electric service schedules, or the
 2 rates, such schedule and rules shall control, which, of
 3 course, makes the tariff and the rules have precedent
 4 [sic] over any alternative language in this or
 5 inconsistent language in this contract.
 6 So I want to focus on paragraph 3. Now, this is
 7 the same understanding that we just looked at with
 8 regard to the other agreement. Company agrees to
 9 invest, whatever the number is, the extension allowance
 10 to fund a portion of the improvements as per the tariff.
 11 Customer then agrees to pay Company estimated costs in
 12 excess of the extension allowance. Exact same principal
 13 we just saw in the other contract, right? Yes?
 14 **A. Yes.**
 15 Q. Okay.
 16 And this is consistent through your general
 17 service or electric service agreements, this principal,
 18 correct?
 19 **A. I believe so.**
 20 Q. Paragraph number 4, once again, there's a
 21 contract minimum of five years, same answer with regard
 22 to that being to amortize the cost of the line extension
 23 credit.
 24 **A. I'm not sure I understand your question.**
 25 Q. If you look at paragraph number 4, it talks

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CROSS-EXAMINATION BY MR. SCHWARTZ / BOLTON 222

1 about contract minimum billing -- customer agrees to pay
 2 a contract minimum during the first 60 months, and if
 3 you marry that up to paragraph 6 on the next page where
 4 it says this is a five-year contract term, as you've
 5 told us in the previous agreement, the design is so that
 6 amortizes or pays back the Company allowance, correct?
 7 **A. I'm not sure.**
 8 Q. Are you changing your answer that you gave us on
 9 the first contract?
 10 MR. GREENFIELD: Object to the form of the
 11 question. Argumentative.
 12 JUDGE PEARSON: Mr. Schwartz, if you could
 13 ask your question a little more clearly, I think that
 14 would help.
 15 MR. SCHWARTZ: I'll try.
 16 BY MR. SCHWARTZ:
 17 Q. With regard to the contract minimum billing,
 18 section 4, and section 6, contract minimum billing term,
 19 is the amount that is repaid to the Company under this
 20 contract designed to reimburse the Company for the
 21 extension allowance set forth in section 3 of this
 22 agreement that we're looking at, which is the general
 23 service contract, 1,000 KVA or less?
 24 **A. Yes.**
 25 Q. Okay. Thank you.

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CROSS-EXAMINATION BY MR. SCHWARTZ / BOLTON 223

1 So under your proposed tariff, I'd like you to
 2 make an assumption for me. I want you to assume that a
 3 customer, under one of these contracts, installed
 4 underground conduit at a cost of \$50,000. And per your
 5 allowance, Pacific Power has given them a \$10,000 line
 6 extension allowance.
 7 Ten years later, the customer wants to
 8 disconnect, comes to the Company, the Company provides
 9 an estimate, which is equivalent, if you will, or an
 10 estimate of fair market value, and the Company
 11 determines that the fair market value or the
 12 reconstruction estimate is \$60,000.
 13 Because we are more than ten years out, there is
 14 no credit given back for the line extension, which means
 15 that, if the customer wants to buy these underground
 16 facilities that it installed, it has to pay
 17 Pacific Power \$60,000, correct?
 18 **A. If that's the agreed-to fair market price.**
 19 Q. That's the scenario.
 20 **A. Yeah.**
 21 Q. In addition to that, the customer also has its
 22 own \$40,000 investment for the original construction
 23 that it never recovered from Pacific Power because,
 24 under my hypothetical, the line extension credit was
 25 only 10,000, which nets to the customer a \$100,000

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CROSS-EXAMINATION BY MR. SCHWARTZ / BOLTON 224

1 expense to repurchase a line that it originally
 2 installed, correct?
 3 **A. Presuming that that customer is the same**
 4 **customer that paid for the original installation, yes.**
 5 Q. Yes. And that's the presumption.
 6 The final -- the final matter is -- and I just
 7 want to confirm this, on page 5 of line 22 of your
 8 testimony --
 9 JUDGE PEARSON: Is this direct or rebuttal?
 10 MR. SCHWARTZ: I'm sorry. Direct.
 11 JUDGE PEARSON: You said page 5?
 12 MR. SCHWARTZ: Yes, your Honor. Excuse me.
 13 I'm sorry. It's a little bit new to me. I meant the
 14 rebuttal.
 15 JUDGE PEARSON: Okay.
 16 MR. SCHWARTZ: I apologize for the
 17 inconvenience. This is my last question.
 18 BY MR. SCHWARTZ:
 19 Q. I'm looking at line 22, and I presume that this
 20 is reflective of the contracts and the practices. It is
 21 still true today, your statement that the vast majority
 22 of customers who elect underground service have the
 23 conduit and equipment foundations installed by
 24 third-party contractors as opposed to the Company,
 25 correct?

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CROSS-EXAMINATION BY MR. WILLIAMS / BOLTON 225

1 **A. Yes.**
 2 Q. Okay.
 3 MR. SCHWARTZ: I have no further questions.
 4 Thank you.
 5 JUDGE PEARSON: Okay. Thank you. So I need
 6 to take a break at this point. My question to you is,
 7 how long, Dan? Five minutes? Is that sufficient?
 8 CHAIRMAN DANNER: Why don't we take our
 9 midmorning break.
 10 JUDGE PEARSON: So we will take a ten-minute
 11 break and come back at 10:25.
 12 (A break was taken from 10:14 a.m.
 13 to 10:30 a.m.)
 14 JUDGE PEARSON: Okay. Then we will be back
 15 on the record. And Mr. Williams, if you'd like to
 16 proceed with cross-examination.
 17 MR. WILLIAMS: Thank you. Good morning,
 18 everybody.
 19 CROSS-EXAMINATION
 20 BY MR. WILLIAMS:
 21 Q. Mr. Bolton, I'm the attorney for Yakama Power.
 22 I only have a few questions, so it's almost over.
 23 **A. Okay.**
 24 Q. I have a question about Exhibit RBD-25X. This
 25 is the Company's response to data request 8, Yakama

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CROSS-EXAMINATION BY MR. WILLIAMS / BOLTON 226

1 Power.
 2 **A. Yes.**
 3 Q. You see on there where it says that the Company
 4 had, in 2002, I believe, a temporary franchise agreement
 5 with the Yakama Nation; do you see that?
 6 **A. Yes.**
 7 Q. You know, I'm just -- I'm wondering --
 8 MR. GREENFIELD: Your Honor, I believe there
 9 was an objection to this exhibit and it was sustained.
 10 JUDGE PEARSON: Let me look.
 11 MR. WILLIAMS: I believe we stipulated to
 12 this exhibit.
 13 JUDGE PEARSON: Hold on one second. 25X is
 14 not on my list of the exhibits to which there was an
 15 objection.
 16 MR. GREENFIELD: Thank you, your Honor. I
 17 apologize.
 18 JUDGE PEARSON: Go ahead, Mr. Williams.
 19 BY MR. WILLIAMS:
 20 Q. I just wanted to know what your understanding of
 21 temporary was, whether you understood the franchise
 22 agreement would still be in effect or not?
 23 **A. I believe that the Company still pays the three**
 24 **percent franchise fee to the Yakama Nation.**
 25 Q. But it's not -- the franchise agreement is not

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CROSS-EXAMINATION BY MR. WILLIAMS / BOLTON 227

1 on that list of current franchise agreements; is that
 2 correct?
 3 **A. Again, it may be temporary, but the Company's**
 4 **belief is that's still in effect.**
 5 Q. Okay. Thank you.
 6 Mr. Bolton, are you aware of any treaty between
 7 the United States and Yakama Nation, or in any of the
 8 Yakama Nation statutes or laws, that would create an
 9 obligation to serve customers on Indian lands?
 10 MR. GREENFIELD: Your Honor, I'd have to
 11 object. This is beyond the scope of this document.
 12 This is the issue we addressed yesterday when we were
 13 discussing exhibits.
 14 JUDGE PEARSON: I'll sustain the objection.
 15 I agree.
 16 MR. WILLIAMS: I'm sorry, your Honor. I
 17 don't understand how it's outside the scope when it
 18 addresses the obligation to serve.
 19 JUDGE PEARSON: I'm going to sustain the
 20 objection.
 21 BY MR. WILLIAMS:
 22 Q. Turning to Exhibit RBD-26X --
 23 MR. WILLIAMS: Actually, your Honor, given
 24 that you sustained that objection, I think that's the
 25 end of my line of questioning.

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REDIRECT EXAMINATION BY MR. GREENFIELD / BOLTON 228

1 JUDGE PEARSON: Okay. Thank you.
 2 Mr. Greenfield, do you have redirect --
 3 MR. GREENFIELD: I have just a few
 4 questions, your Honor.
 5 JUDGE PEARSON: -- of your witness?
 6 REDIRECT EXAMINATION
 7 BY MR. GREENFIELD:
 8 Q. I think there was perhaps a little bit of
 9 confusion around Option 1 and Option 2 under the
 10 proposed revisions to the Company's tariffs.
 11 Mr. Bolton, what's your understanding under the
 12 proposed revisions as to when the Company can actually
 13 choose to decommission facilities?
 14 **A. Under the Company's proposed net removal tariff,**
 15 **the Company would choose to decommission facilities only**
 16 **when there's safety or operational conditions involved**
 17 **where the sale or removal of those facilities would be**
 18 **infeasible.**
 19 Q. I think there was an implication that the
 20 Company could choose to abandon/decommission if there
 21 was a lack of agreement between the departing customer
 22 and the Company as to fair market value.
 23 Is that actually the case under the proposed
 24 revisions?
 25 **A. No, no. As I tried to indicate in my testimony,**

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REDIRECT EXAMINATION BY MR. GREENFIELD / BOLTON 229

1 the customer has the option to purchase those
 2 facilities; otherwise, those facilities would be
 3 removed. Only in the extenuating circumstance that, for
 4 safety or operational purposes, abandonment was
 5 necessary.
 6 Q. Again, in the event that the customer chooses to
 7 permanently disconnect within five years of initial
 8 installation, is there any form of credit provided to
 9 the customer under the proposed revisions to the tariff?
 10 **A. Yes, there would be a credit that would**
 11 **generally align with the Company's line extension**
 12 **credit.**
 13 Q. And that appears where in the
 14 proposed revisions?
 15 JUDGE PEARSON: Mr. Greenfield, is your
 16 microphone turned on?
 17 MR. GREENFIELD: It appears to be,
 18 your Honor.
 19 JUDGE PEARSON: Can you just speak a little
 20 closer?
 21 MR. GREENFIELD: I will. Thank you.
 22 JUDGE PEARSON: Thank you.
 23 **A. That's in proposed revisions to Rule 6 and that**
 24 **would be in I-B.**
 25 **///**

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REDIRECT EXAMINATION BY MR. GREENFIELD / BOLTON 230

1 BY MR. GREENFIELD:
 2 Q. Mr. Schwartz asked a number of questions
 3 regarding the circumstance if a customer doesn't agree
 4 with the initial determination of fair market value.
 5 To your knowledge, what is available to the
 6 customer at that point if there is a disagreement?
 7 **A. The customer does have the opportunity to seek**
 8 **an independent third-party estimate, and certainly if no**
 9 **negotiation could be accomplished, then the customer can**
 10 **avail themselves of the customer complaint process at**
 11 **the Commission.**
 12 Q. So we've got a second fair market value
 13 determination by an independent appraiser, and then,
 14 again, if there's lack of agreement, the customer could
 15 start a proceeding before the Commission?
 16 **A. That's correct.**
 17 Q. I want to talk a little bit about that analogy
 18 of purchasing a home with a mortgage. If someone were
 19 to come and buy your home, would you expect them to pay
 20 a fair market value of your home?
 21 **A. Absolutely.**
 22 Q. And in this case, I think you testified that
 23 quite often because of CREA's contracts with departing
 24 customers of Pacific Power, Columbia REA is actually the
 25 purchaser, in effect, of the facilities that we're

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REDIRECT EXAMINATION BY MR. GREENFIELD / BOLTON 231

1 discussing, correct?
 2 **A. That's the agreement between Columbia REA and**
 3 **their customer that they're seeking to switch service,**
 4 **that they would cover those costs associated --**
 5 MR. PEPPLER: I'm going to object,
 6 your Honor. I don't think that there's any testimony in
 7 the record on that.
 8 JUDGE PEARSON: Mr. Greenfield?
 9 MR. GREENFIELD: We actually do have the
 10 testimony of Mr. Gorman yesterday, and there's bench
 11 requests to the point of what Columbia REA's contracts
 12 are with regard to disconnecting customers of
 13 Pacific Power.
 14 JUDGE PEARSON: Can you restate the
 15 question, or repeat the question for me?
 16 BY MR. GREENFIELD:
 17 Q. Is it the Company's understanding that, in
 18 effect, the entity purchasing the facilities that we've
 19 been discussing is, in fact, Columbia REA as opposed to
 20 the departing customer?
 21 **A. Yes.**
 22 MR. SCHWARTZ: Your Honor, I'm going to
 23 object to the question, and allow me to explain why.
 24 Similar to Pacific Power, Columbia REA
 25 offers a line extension credit to the customer, but the

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REDIRECT EXAMINATION BY MR. GREENFIELD / BOLTON 232

1 customer takes title to onsite facilities, not Columbia
 2 REA.
 3 JUDGE PEARSON: Okay. I'm going to overrule
 4 the objection because this is within the scope of the
 5 cross-examination questions that he asked.
 6 So go ahead.
 7 MR. GREENFIELD: Yeah.
 8 BY MR. GREENFIELD:
 9 Q. Mr. Bolton, have you seen a copy of the
 10 agreement between Walla Walla Country Club and Columbia
 11 REA?
 12 **A. I have seen it.**
 13 Q. Okay.
 14 And does it provide that Columbia REA will pay
 15 all costs of the Walla Walla Country Club disconnecting,
 16 including the attorney fees related to the proceeding
 17 that was advanced a year or so ago?
 18 MR. SCHWARTZ: I object, your Honor. I seem
 19 to recall in that case that the joint representation
 20 agreement was excluded from that proceeding by your
 21 decision.
 22 JUDGE PEARSON: I think you're correct. So
 23 I'll sustain the objection.
 24 BY MR. GREENFIELD:
 25 Q. Is it the customer's decision to underground

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REDIRECT EXAMINATION BY MR. GREENFIELD / BOLTON 233

1 facilities?

2 **A. Yes, it is.**

3 Q. And that's an aesthetic choice made by the

4 customer?

5 **A. Yes.**

6 Q. Is that why the Company deems it appropriate for

7 the customer to pay for that extension in the

8 undergrounding?

9 **A. Yes.**

10 Q. Turning to the Oregon Direct Access, there were

11 some questions along those lines.

12 Can customers return on a cost-of-service basis

13 after disconnecting?

14 **A. The customer doesn't disconnect, and I think**

15 **that is the fundamental difference between the Oregon**

16 **Direct Access program, or frankly almost any other**

17 **customer provision of service by an alternative provider**

18 **than what we have in this circumstance.**

19 **In the Oregon situation, it really is a customer**

20 **receiving alternative generation supply service from**

21 **another provider. The incumbent utility continues to be**

22 **connected to that customer and is responsible for**

23 **delivery of services.**

24 **And in almost every other case where there is**

25 **some level of deregulation or competition in the market,**

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EXAMINATION BY COMMISSIONER RENDAHL / BOLTON 234

1 there's still an obligation of that wires company to

2 deliver somebody else's service. In this case, this is

3 about permanent disconnection from Pacific Power's

4 system.

5 MR. GREENFIELD: Thank you. That's all I

6 have.

7 JUDGE PEARSON: Okay. Thank you.

8 Do we have any questions from the bench for

9 Mr. Bolton?

10 EXAMINATION

11 BY COMMISSIONER RENDAHL:

12 Q. Good morning, Mr. Bolton.

13 **A. Good morning.**

14 Q. In reference to Mr. Dailey's testimony that

15 you've adopted, one of the Company's modifications is to

16 base the residential customer stranded cost recovery fee

17 on the revenue multiplier rather than the flat fee that

18 the -- that Public Counsel -- or as originally

19 recommended by Public Counsel, correct?

20 **A. We originally recommended the flat fee.**

21 Q. Right.

22 And now you've proposed --

23 **A. Yes.**

24 Q. -- you've agreed to Public Counsel's

25 recommendation?

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EXAMINATION BY COMMISSIONER RENDAHL / BOLTON 235

1 **A. Yes, we have.**

2 Q. Ms. Kelly also recommended setting a cap for

3 residential customers, and the Company's testimony,

4 which you've adopted, is silent on this issue.

5 So what is the Company's position on the idea of

6 capping the residential customer fee?

7 **A. We agree -- we agree with Public Counsel's**

8 **recommendation.**

9 Q. Okay.

10 In terms of the appraisal proposal that you

11 discussed in your testimony today, the idea to have a

12 list of appraisers that are previously approved by the

13 Commission, you also talked about Oregon's process.

14 Does Oregon have a similar process for some sort of

15 appraisal by the Commission, some list condoned by the

16 Oregon Commission?

17 **A. Not that I'm aware of because, again, it's a**

18 **different situation as far as the disposition of**

19 **property.**

20 Q. And so my question to you is, why would the

21 Commission be the one making this decision? Why would

22 the Company not have a list of available appraisers on

23 its website?

24 **A. And we could certainly do that. I think the**

25 **Company's belief was to, you know, create additional**

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EXAMINATION BY COMMISSIONER RENDAHL / BOLTON 236

1 integrity to that second opinion process, that there

2 would be at least some arm's length from the Company's

3 own approved list of appraisers, since the Company is

4 providing the first opinion on the appraisal amount.

5 Q. I think you talked about this in your response

6 to cross questions, but how did you imagine that this

7 list would be created? So I think I understood you to

8 say that you -- that PacifiCorp would come up with a

9 list of appraisers in the area, and then it would be

10 potentially subject to --

11 **A. Submitted to the Commission, yes.**

12 Q. Submitted to the Commission, and others could

13 propose other appraisers?

14 **A. (Nods head.)**

15 Q. And somehow would that be in your tariff, or

16 would it be -- this list on your website, or would it be

17 on our website?

18 **A. I think that could be further defined through**

19 **the compliance filing for this tariff.**

20 Q. Okay.

21 And the appraisers that we're talking about, I

22 mean, I imagine that the property that we're talking

23 about involving underground vaults and other sort of

24 equipment is not the usual appraisal that's done by, for

25 example, a homeowner getting an appraisal for a

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EXAMINATION BY CHAIRMAN DANNER / BOLTON 237

1 residential sale.

2 Are you aware of appraisers that are

3 specifically focused and would have the knowledge about

4 energy infrastructure and understanding what value would

5 be appropriate for that?

6 **A. Commissioner, I think that there would be --**

7 **there would be significant expertise in this area. I**

8 **think about where there's transfer of ownership of**

9 **telecommunications systems, water systems, that there**

10 **are appraisers generally performing that work in that**

11 **field where there's a transfer of assets or even a**

12 **construction of new assets. So I'm not an expert, but I**

13 **do believe that there should be a requisite amount of**

14 **appraisal capability to be available.**

EXAMINATION

15 **BY CHAIRMAN DANNER:**

16 Q. So to follow up with that, I'm trying to figure

17 out what kind of vetting would be required of these

18 people. It would seem to me we have to be concerned

19 about their professional credentials, which could be

20 easy enough, but what about things like conflicts of

21 interest or fairness? Because the way I think you've

22 got it set up, it's just you look at your appraisal,

23 their appraisal and take the lower.

24 And I'm just not sure what -- because I don't

25

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EXAMINATION BY COMMISSIONER BALASBAS / BOLTON 238

1 know who these appraisers are, right off the bat, and,

2 you know, what their background is. I'm just curious,

3 you know, what kind of vetting you would expect us to do

4 and what would we need to do to come up to speed?

5 **A. And that's something I think we can follow up**

6 **with you on, Mr. Chair.**

EXAMINATION

7 **BY COMMISSIONER BALASBAS:**

8 Q. Mr. Bolton, one of the essential issues in this

9 proceeding is the lack of a service territory agreement

10 between Pacific Power and Columbia REA. Can you

11 articulate from the Company's perspective what you

12 believe are the major obstacles to reaching an agreement

13 with Columbia REA?

14 **A. Thank you, Commissioner. It's hard to say. I**

15 **would say -- and again, you know, I think the Exhibit**

16 **RBD-2, showing the map and the growth of where Columbia**

17 **REA initiated as a rural electric provider in the**

18 **outskirts of these communities, now building into these**

19 **communities, even insofar as we now have new**

20 **infrastructure that is now located near some of our**

21 **largest industrial loads, it's difficult to say how much**

22 **that can be unwounded [sic], if it would take -- well,**

23 **certainly from our perspective, it would be having**

24 **firmly defined service territory, here's where Columbia**

25

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EXAMINATION BY CHAIRMAN DANNER / BOLTON 239

1 REA serves, here's where Pacific Power serves.

2 And I think, in addition to that, there would be

3 a -- a standard of conduct or rules of the road between

4 utility providers, much like we have informally with

5 other REAs in the area as far as distance of facilities

6 to new customers to serve. So not only firmly

7 delineating and demarcating service territories, but

8 also having, you know, some mutually agreeable rules of

9 the road for how we would deal with new construction and

10 new growth.

11 To me, those are really the fundamentals of what

12 a service territory agreement should include and we

13 would hope to achieve.

EXAMINATION

14 **BY COMMISSIONER RENDAHL:**

15 Q. To follow up, what have been the major

16 obstacles -- I mean, what is preventing that from

17 happening, from PacifiCorp's perspective? I think we

18 asked this of Columbia REA's witness yesterday.

19 **A. Commissioner, from our perspective, it has been,**

20 **frankly, an inability to settle on what those boundaries**

21 **would be, and where there were the consideration of**

22 **transfer of assets an inability to agree on the purchase**

23 **price of those assets.**

EXAMINATION

24

25

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EXAMINATION BY CHAIRMAN DANNER / BOLTON 240

1 **BY CHAIRMAN DANNER:**

2 Q. So Staff has taken the position that you should

3 get back to the table and negotiate, and I'm just

4 wondering if you see any merit in further negotiations,

5 or do you think that that would lead to the same result

6 that you have in the past?

7 **A. You know, Chair Danner, I think there's always**

8 **merit in negotiation and continuing an open dialogue. I**

9 **think that the circumstances between now and the last**

10 **time there was a serious discussion between the two**

11 **providers have become even more dire.**

12 **And, again, it really is because of the amount**

13 **of infrastructure and now -- that now encroaches within**

14 **Pacific Power's traditional service territory, I think**

15 **will make future negotiation even more difficult as far**

16 **as even defining what boundaries would look like.**

17 **That's not to say that it's impossible, and it's**

18 **not to say that Pacific Power doesn't willingly engage**

19 **in such negotiations. Let me be very clear that we will**

20 **continue to seek out ways to reach a mutually agreeable**

21 **outcome, but it is becoming difficult. And I think that**

22 **the net removal tariff now has become, in some ways, the**

23 **Commission's best, or perhaps even last best mechanism**

24 **for dealing with the impacts of cost shifting that may**

25 **occur even if a single large load were to leave. Unlike**

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EXAMINATION BY CHAIRMAN DANNER / BOLTON 241

1 even the Puget circumstance, this is about the complete
 2 cutover of one system to the other.
 3 CHAIRMAN DANNER: All right. Thank you. I
 4 have no more questions.
 5 JUDGE PEARSON: Okay. Then you are excused,
 6 Mr. Bolton. Thank you very much.
 7 THE WITNESS: Thank you.
 8 JUDGE PEARSON: I'd just like to go off the
 9 record briefly for one minute so I can discuss something
 10 with the commissioners.
 11 (Brief discussion off the record.)
 12 JUDGE PEARSON: Okay. Let's be back on the
 13 record. So we just had a brief little discussion about
 14 switching the order of witnesses.
 15 Given Ms. Kelly's availability, we want to
 16 switch her order with Mr. Panco. So what we'll do now
 17 is bring up Mr. Meredith, and we'll break for lunch when
 18 he's done, whatever time that may be. And then when we
 19 come back from lunch, Ms. Kelly will take the stand
 20 followed by Mr. Panco, just to ensure that we can finish
 21 by quarter to 5 today, and we won't need her tomorrow.
 22 Okay?
 23 MS. GAFKEN: Okay.
 24 JUDGE PEARSON: Good morning, Mr. Meredith.
 25 THE WITNESS: Good morning.

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DIRECT EXAMINATION BY MR. GREENFIELD / MEREDITH 242

1 JUDGE PEARSON: If you could just raise your
 2 right hand.
 3
 4 ROBERT MEREDITH, witness herein, having been
 5 first duly sworn on oath,
 6 was examined and testified
 7 as follows:
 8
 9 JUDGE PEARSON: Go ahead and be seated, and
 10 then if you could just state your first and last name,
 11 spelling your last name for the record.
 12 THE WITNESS: My name is Robert Meredith,
 13 last name is spelled M-E-R-E-D-I-T-H.
 14 JUDGE PEARSON: Go ahead, Mr. Greenfield.
 15 **DIRECT EXAMINATION**
 16 **BY MR. GREENFIELD:**
 17 Q. Mr. Meredith, you've submitted pre-filed
 18 rebuttal testimony in this case, correct?
 19 **A. That's correct.**
 20 Q. I understand you've also adopted some testimony
 21 previously attributed to Mr. Dalley, correct?
 22 **A. That is correct.**
 23 Q. Which -- specifically which lines and page did
 24 you adopt? I believe it's line -- or page 15, lines 1
 25 through 16.

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 243

1 **A. One through sixteen, that's correct.**
 2 Q. Okay.
 3 And you've also submitted exhibits with your
 4 testimony, correct?
 5 **A. Yes.**
 6 Q. Which ones are those?
 7 **A. With my testimony, the testimony itself is**
 8 **RMM-1T as well as RMM-2 and RMM-3, and then I have**
 9 **adopted RBD-4.**
 10 Q. Are there any necessary changes to either your
 11 testimony or accompanying exhibits?
 12 **A. No.**
 13 MR. GREENFIELD: Thank you. We'll pass this
 14 witness for cross, your Honor.
 15 JUDGE PEARSON: Okay. Thank you.
 16 Mr. Casey?
 17 **CROSS-EXAMINATION**
 18 **BY MR. CASEY:**
 19 Q. Good morning, Mr. Meredith.
 20 **A. Good morning.**
 21 Q. So do you agree that the stranded cost fee issue
 22 is, at its core, an issue about equity and fairness of
 23 cost shifts between customers?
 24 **A. Yes, I would say that this is ultimately about**
 25 **fairness between departing customers and remaining**

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 244

1 customers.
 2 Q. And do you agree with Mr. Bolton's testimony
 3 earlier that it's the loss of load of the departing
 4 customer that drives the cost shift?
 5 **A. I would say that it's the loss of load, but also**
 6 **the loss of the customer itself.**
 7 Q. Do you want to just very briefly explain that
 8 last part --
 9 **A. Sure.**
 10 Q. -- the loss of --
 11 **A. I would say that it's not only the megawatt**
 12 **hours that are lost, but it's also just having a**
 13 **customer that is lost, the physical connection to that**
 14 **site, and the rection [sic] in the number of customers.**
 15 Q. That changes the costs that the Company has
 16 already incurred?
 17 **A. That creates a greater burden on the remaining**
 18 **customers.**
 19 Q. To do what?
 20 **A. To recover the costs incurred to serve those**
 21 **customers who have departed.**
 22 Q. Permanent disconnections are not the only
 23 instance where cost shifts between customers take place,
 24 correct?
 25 **A. Sure. There are a number of situations under**

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 245

1 which there may be some cost shifting that occurs.

2 Q. In fact, the very basic principle of cost of

3 service ratemaking is cost sharing between customers,

4 correct?

5 **A. Could you break that down for me, cost sharing**

6 **between customers?**

7 Q. Between customers, customers with common

8 characteristics that make up a class.

9 **A. Right. We have rates that identify -- have**

10 **specific rate schedules for a particular type of**

11 **service, that's correct.**

12 Q. So the rate for each customer class is based on

13 the average cost incurred to serve that class, correct?

14 **A. It is based upon the average cost to serve that**

15 **class; however, it -- sometimes rates aren't exactly**

16 **tied to a specific cost-of-service study. There's other**

17 **considerations that are taken into place when base rates**

18 **are set. I would also say it's not designed to capture**

19 **the average cost of serving that customer.**

20 **A specific rate schedule includes different**

21 **charges, demand energy, facility/customer charges that**

22 **capture the unique characteristics of a particular**

23 **customer.**

24 Q. Sure.

25 Rate making is complicated?

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 246

1 **A. Right.**

2 Q. When an individual customer within a class

3 causes costs above or below the kind of average rate

4 that's charged, does some form of cost shift occur

5 between the customers within that class?

6 **A. I think our rates are set at a level that the**

7 **Commission deems to be reasonable and just in the public**

8 **interest. I think that there are situations where**

9 **particular customers within a class may be more costly**

10 **to serve.**

11 **There could be a customer perhaps who's served**

12 **in a more remote location and a customer who's served,**

13 **you know, in a more central location. And I think**

14 **that's part of what is one of the main challenges in**

15 **this unique circumstance, is that that Company has the**

16 **obligation to serve all customers who ask for service**

17 **from it.**

18 Q. Even if we stipulate that it might be a

19 reasonable cost shift, you'll acknowledge that a cost

20 shift can occur, correct?

21 **A. I think you could characterize that as a cost**

22 **shift, sure.**

23 Q. Can we -- do you have Exhibit DJP-3 in front of

24 you?

25 **A. I don't.**

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 247

1 MR. CASEY: Would the Company be able to

2 provide it to you?

3 MR. TILL: Just give us a moment, please.

4 BY MR. CASEY:

5 Q. You're able to make sense of this document?

6 **A. Of course.**

7 Q. Isn't it -- so a minute ago you acknowledged

8 that cost shifts can -- well, you testified that each

9 class's rate is not necessarily based on that class's

10 cost of service, correct?

11 **A. Right. As part of establishing base rates,**

12 **there can be settlements that are entered into amongst**

13 **the parties, the Commission in its discretion can, you**

14 **know, because of a number of different factors --**

15 Q. Isn't it true --

16 **A. -- order something that's different than what**

17 **specifically a certain cost-of-service study indicates**

18 **is the change required.**

19 Q. So isn't it true that, under Pacific Power's

20 current rate structure, certain classes are contributing

21 more or less than their cost of service?

22 **A. Per the cost of service study, there are some**

23 **classes of customers that are contributing more or less.**

24 **However, I would note -- and I think this is probably**

25 **the cost-of-service study results from the last general**

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 248

1 rate case -- you know, all these classes are within

2 about 11 percent of parity, plus or minus.

3 Q. To your knowledge, is there any relationship

4 between the classes of customers that are choosing to

5 disconnect and the classes of customers that are

6 overpaying with respect to their cost of service?

7 **A. I think in general -- and again, Mr. Bolton is**

8 **probably the best to address the specific customers that**

9 **are departing and what that looks like.**

10 **I think, in general, my understanding is that it**

11 **may not be so much a matter of the specific rate**

12 **schedule or how they are performing relative to the**

13 **cost-of-service study as it is a matter of customers who**

14 **he has defined as high-margin customers, so customers**

15 **who have a high level of revenue associated with that**

16 **site, but are relatively easy to serve, or close to a**

17 **feeder where it's easy for Columbia REA to connect to**

18 **that customer.**

19 **So I don't know that it's so much a matter of a**

20 **customer class, you know, that it's a Schedule 36**

21 **customer who happens to be, you know, needing a**

22 **reduction relative to what the cost-of-service study**

23 **shows, as much as it is a high-margin customer, is my**

24 **understanding.**

25 Q. Would the information contained in column E help

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 249

1 identify which classes provide higher margins?
 2 **A. I think that this is one element, looking at it**
 3 **on a rate-schedule-by-rate-schedule basis. But as far**
 4 **as looking at the cherry picking that occurs of**
 5 **individual customers, there are other factors that play**
 6 **into that. And again, Mr. Bolton's probably the --**
 7 **would be the most expert on what's actually happening in**
 8 **the field for that.**
 9 Q. Under the proposed stranded cost fee, if a
 10 customer from a class that is paying more than its cost
 11 of service chooses to disconnect, then the -- then the
 12 subsidy embedded in the customer's rate would also exist
 13 and carry forward in the stranded cost fee applicable to
 14 that customer, correct?
 15 **A. Can you restate that question? It was a little**
 16 **bit confusing for me.**
 17 Q. I'll try. It was hard for me to write.
 18 Under the proposed stranded cost fee, if a
 19 customer from a class that is paying more than its cost
 20 of service chooses to disconnect, then the subsidy
 21 embedded in that customer's rate would also exist in the
 22 stranded cost fee applicable to that customer, correct?
 23 **A. So I don't know that I would characterize it as**
 24 **the subsidy inherent in that fee. Again, I think the**
 25 **Commission sets rates that it believes are just and**

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 250

1 reasonable in the public interest, looking at factors
 2 beyond just a specific cost-of-service study.
 3 Q. So I'm not trying to characterize the cost shift
 4 that's occurring is unreasonable. I'll stipulate to
 5 that it's reasonable.
 6 I just want to acknowledge that a cost shift is
 7 occurring, and that cost shift would also carry forward
 8 in the rate -- the stranded cost fee because it's a
 9 multiplier. Would you acknowledge that?
 10 **A. So what you're trying to argue, if I may, is**
 11 **that, inherent within this class, since they have a**
 12 **particular level of revenue, and there's a multiplier**
 13 **based upon the revenue, that since their rates were**
 14 **maybe set higher than they should have, that that**
 15 **carries forward?**
 16 Q. I wouldn't say that they should have been set
 17 differently. I'm just saying, if there's a difference
 18 from cost of service, that difference carries forward
 19 into the stranded cost fee, is that correct, because
 20 it's a revenue multiplier?
 21 **A. So it's a revenue multiplier, so whatever those**
 22 **rates are, it's based upon those rates and that**
 23 **recovery, which has been deemed to be a -- reasonable**
 24 **charges for those customers.**
 25 Q. Okay. Thank you.

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 251

1 Costs are both caused by and allocated to
 2 customers based on load, correct?
 3 **A. Based upon load, which is sometimes not very**
 4 **well defined, so that would be both -- a number of**
 5 **factors at play in a cost-of-service study. I would**
 6 **also say the customer counts themselves is a determinant**
 7 **of cost of service.**
 8 Q. Okay.
 9 And if an individual customer uses energy --
 10 consumes energy in a manner that different -- differs
 11 from the kind of assumptions about how customers would
 12 use load, or that were used to develop the rates, could
 13 that cause a cost shift between customers?
 14 **A. So your question, if I may rephrase it, is**
 15 **can -- since a customer uses power in a different sort**
 16 **of way than the average customer within their class,**
 17 **that that would create cost shifts; is that a fair --**
 18 Q. I can go -- I'm trying not to kind of go into,
 19 you know, long lines of questioning to develop --
 20 **A. Okay.**
 21 Q. -- a foundation, to keep this kind of moving
 22 forward.
 23 But again, when we -- when rates are developed,
 24 they're developed using some assumptions about how
 25 customers use energy, correct?

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 252

1 **A. Right. So there's a load research study that**
 2 **examines the characteristics inherent within a**
 3 **particular class.**
 4 Q. And if customers within that particular class
 5 use -- actually consume energy in a manner that is
 6 different from the assumption used to develop rates,
 7 could a cost shift occur between customers?
 8 **A. In a hypothetical sense, I suppose that that's**
 9 **possible. However, I think the rates themselves include**
 10 **energy charges, demand charges, facilities charges,**
 11 **customer charges that capture, to an extent, some of**
 12 **those variations, I think.**
 13 Q. Those are --
 14 **A. Rates are not perfect, right?**
 15 Q. Yeah.
 16 **A. You can't identify a cost of service for every**
 17 **single customer and have a rate for every single**
 18 **customer on the extreme end.**
 19 Q. You just said you cannot develop a cost of
 20 service for each individual customer, correct?
 21 **A. Right. That's sort of part of cost of service**
 22 **101 is that you have particular classes, they have**
 23 **unique characteristics for that class that -- in which**
 24 **they're similarly situated, and so you develop rates**
 25 **that will reflect some of those variations within that**

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 253

1 rate schedule. But you can't develop -- I mean, that's
 2 just one of the principles, that you don't develop a --
 3 you develop rates for particular rate schedules and
 4 particular classes of customers.
 5 Q. If a customer's load is greatly reduced, could
 6 that cause a cost shift?
 7 **A. I think that -- not necessarily. I think that**
 8 **that customer is paying the charges that are appropriate**
 9 **for that particular customer.**
 10 Q. What happens if a reduction in load occurred due
 11 to -- a drastic reduction in load occurred due to a
 12 residential customer installing a solar panel, could
 13 that cause a cost shift?
 14 **A. Yes, that could cause a cost shift.**
 15 Q. To your knowledge, have any utilities argued
 16 that that does cause a cost shift that needs to be
 17 addressed within Commission rates?
 18 **A. Yes.**
 19 Q. Could a reduction in load due to numerous
 20 conservation measures cause a cost shift?
 21 **A. I think it could cause a cost shift. I think**
 22 **that's maybe a little bit less likely than the situation**
 23 **with distributed generation. I think, in general, all**
 24 **classes generally, to some extent, participate in energy**
 25 **efficiency.**

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 254

1 But yes, over time as rates are compared,
 2 dynamically those classes evolve with time, and the
 3 characteristics underlying them and the revenue support
 4 for those classes changes.
 5 Q. What about if a customer who only has electric
 6 service decides to switch their heating and cooking
 7 appliances to natural gas, could that cause a cost
 8 shift?
 9 **A. I think there's a lot of hypothetical examples**
 10 **under which you could say that a cost shift -- I think**
 11 **that's what you're trying to establish. There are loads**
 12 **that change and fluctuate over time, and that's part of**
 13 **the cost-of-service process, is that over time we**
 14 **examine specifically the characteristics of our**
 15 **customers and see how those have changed, and certainly**
 16 **that could cause a class to have differences on their --**
 17 **on their performance and their cost of service.**
 18 Q. In your opinion, should this fee also apply to a
 19 customer who connects to Cascade Natural Gas and
 20 switches most of their major appliances to natural gas?
 21 **A. No. I think that's a totally different**
 22 **situation than what we're experiencing for our company.**
 23 **Customers do that, they switch to natural gas, and**
 24 **that's -- that's fine. That's part of what we**
 25 **experience.**

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 255

1 I think this is a unique situation because we no
 2 longer have a relationship with that customer, we have
 3 planned for that customer, to serve them, and then that
 4 relationship is no longer there. Those facilities that
 5 were in place to serve that customer are gone. It's
 6 different than that situation where we're still serving
 7 those customers.
 8 We -- we recognize that that happens. That's
 9 just a natural part of our customer base. Over time,
 10 some of those customers switch to natural gas heating,
 11 some of them will put solar panels up on their roof,
 12 other things will happen like that over time that would
 13 otherwise reduce load.
 14 But I think it's fundamentally different than
 15 the unique circumstances that we are experiencing
 16 specifically in the Greater Walla Walla area where we
 17 are having a customer completely stop taking service
 18 from the Company.
 19 Q. Would you acknowledge that the Company is in
 20 competition with Cascade Natural Gas for the provision
 21 of energy in the Greater Walla Walla area?
 22 **A. I think my ability to characterize who we're in**
 23 **competition with or not, I think that would probably be**
 24 **better addressed by somebody like Mr. Bolton.**
 25 Q. What happens if a business closes and another

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 256

1 business does not come and take its place for a
 2 significant amount of time, would that cause a cost
 3 shift?
 4 **A. Again, as I've stated, there's a number of**
 5 **things within a class that can move around the**
 6 **characteristics of that class.**
 7 Q. I'll move on.
 8 Does the Company's customer count change from
 9 year to year?
 10 **A. Yes.**
 11 Q. By approximately how many?
 12 **A. I don't have those exact figures before me. I**
 13 **think that, in general, there have been, over time, more**
 14 **customers over a long period of time.**
 15 Q. Can you give an approximation, subject to check?
 16 **A. I don't have those exact numbers in front of me.**
 17 **I would hesitate to do that.**
 18 Q. Not even an order of magnitude?
 19 **A. Again, I don't have those exact percentages in**
 20 **front of me.**
 21 Q. Are you aware that only 68 customers have
 22 disconnected from Pacific Power since 1999?
 23 **A. I'm aware that that's what is in Mr. Bolton's**
 24 **testimony is 68 customers; however, I would note that**
 25 **those are generally high-margin customers, well above**

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 257

1 average revenue for our customers.
 2 So, you know, I think when we have about -- I
 3 would say about 105,000 customers in our Washington
 4 service area, those 67 [sic] are not the average-size
 5 customer. These are, you know, generally pretty
 6 good-sized customers revenue-wise.
 7 Q. Focusing on number of customers, how do you
 8 think the number of annual disconnects compares to --
 9 the number of customers who disconnect annually compares
 10 to the annual change in overall customer count?
 11 **A. So just -- I think that, in general, the annual**
 12 **number of customers that disconnect each year, it is a**
 13 **lesser amount than perhaps the number of customers who**
 14 **may connect. I don't know what that is specifically for**
 15 **the Walla Walla area versus our Yakima area, but again,**
 16 **I would mention that these are not just a residential**
 17 **customer that's disconnecting generally. Lately we've**
 18 **seen they are bigger, higher-margin customers.**
 19 Q. Can you please turn to RMM-1T on page 2? I'm
 20 looking at lines 10 to 12. You testify that it's
 21 difficult to balance accuracy with the ease of
 22 understanding and applying the stranded cost fee,
 23 correct?
 24 **A. Which lines did you say?**
 25 Q. Ten through twelve.

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 258

1 **A. Okay. Right.**
 2 Q. In its initial proposal, how did the Company
 3 strike the balance between accuracy and kind of ease of
 4 understanding?
 5 **A. So initially our proposal was to look at all**
 6 **cost recovery less net power costs that were in base**
 7 **rates. The purpose of that was, as I mentioned in my**
 8 **testimony, having a methodology that would be easy for**
 9 **someone to understand and to verify.**
 10 Q. Is it possible to accurately identify the exact
 11 costs of a single customer disconnecting from the
 12 system?
 13 **A. So is it -- is it -- rephrase that question**
 14 **again, please.**
 15 Q. Is it possible to accurately identify the exact
 16 cost of a single customer disconnecting from the system?
 17 **A. I think it's possible to accurately identify and**
 18 **estimate. I mean, it's not going to be perfect.**
 19 Q. Okay.
 20 **A. Sure.**
 21 Q. How important is the accuracy of a stranded cost
 22 fee?
 23 **A. It's important, certainly.**
 24 Q. What type of range of error would be reasonable?
 25 **A. In terms of, like, a perfect world, like, you**

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 259

1 get it exactly accurate? I mean, I think we have
 2 proposed a methodology that we believe is balanced. We
 3 took a limited term or a -- I would -- I think I
 4 characterized it as an intermediate term, period of
 5 time, specifically in my rebuttal testimony, six years
 6 of cost recovery; however, I would note that we have
 7 assets in place that have a much longer life than that.
 8 So in terms of exactness, there is some, I would
 9 say, just balance involved in our proposal. We didn't
 10 try to have a 20-year cost recovery fee. We wanted to
 11 present something that was balanced.
 12 So in terms of being exact, I mean, I think that
 13 our methodology is -- is -- particularly as filed in my
 14 rebuttal testimony, has some discrete adjustments that
 15 look at some elements that I believe you could say are
 16 avoidable from that customer permanently disconnecting.
 17 Q. You acknowledge that the modifications that the
 18 Company supports on rebuttal add more detail and result
 19 in significantly lower costs, correct?
 20 **A. That's correct.**
 21 Q. Do you believe the lower fees are more accurate?
 22 **A. I believe that there are elements of it that are**
 23 **more accurate. I believe that there are elements of it**
 24 **that represent a compromise, based upon my review of**
 25 **Ms. Kelly's testimony, such as the reduction in the**

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 260

1 number of years.
 2 I do note there are a couple other adjustments
 3 that are --
 4 Q. And I'm --
 5 **A. -- intended to address accuracy of the**
 6 **calculation and make sure that we're considering all of**
 7 **the different pieces that could possibly be avoidable by**
 8 **a customer's permanent disconnection.**
 9 Q. I don't want to cut you off or rush you, but I
 10 have a couple more questions, so narrative explanations
 11 are --
 12 **A. Sure.**
 13 Q. -- you know, it will take me a little bit longer
 14 to get through these.
 15 **A. Okay.**
 16 Q. Did you agree with Mr. Bolton yesterday when he
 17 testified that it would be reasonable to recover
 18 stranded costs for a 20-year period, yes or no?
 19 **A. I do believe that it would be reasonable. I**
 20 **believe that is a more accurate calculation of our**
 21 **costs.**
 22 Q. Turning to page 5 of your rebuttal testimony,
 23 you addressed the time period there.
 24 **A. Yes.**
 25 Q. You testified that the Company decided to reduce

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 261

1 the time period used to calculate the stranded cost fee
 2 from ten years to six years, correct?
 3 **A. That is correct.**
 4 Q. And this alone decreases the fee by
 5 approximately 33 percent, correct?
 6 **A. That is correct.**
 7 Q. And you also testify that you still believe the
 8 ten years is a reasonable timeframe for the stranded
 9 cost calculation, correct?
 10 **A. Yes.**
 11 Q. Is six years also a reasonable timeframe, or is
 12 it unreasonable?
 13 **A. I think that both are reasonable. I think that**
 14 **it's looking at balancing the interests of departing**
 15 **customers and remaining customers, and this is a**
 16 **compromise based upon the testimony that we reviewed of**
 17 **Ms. Kelly.**
 18 Q. Would a variation in the Company's total revenue
 19 requirement by 33 percent be reasonable?
 20 **A. You're saying would it be reasonable if our --**
 21 **if we got 33 percent less? No.**
 22 Q. Is there a correlation between the accuracy of
 23 the fee and the time period used to develop the fee?
 24 **A. Is there a correlation -- let me just make sure**
 25 **I understand your question.**

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 262

1 Q. Yeah.
 2 **A. Between which developments, the --**
 3 Q. So essentially you said that, you know, there
 4 are -- parts of the fee rely on estimates, correct?
 5 **A. Yes.**
 6 Q. And so if the fee is developed using a longer
 7 time period, is there kind of -- is there a correlation
 8 between the accuracy of the fee and the time period used
 9 to develop the fee?
 10 **A. Meaning that the longer it is, the more accurate**
 11 **it is, the less long it is, the more accurate it is**
 12 **[sic], I would say not necessarily in the accuracy so**
 13 **much as in the protection that is afforded to remaining**
 14 **customers.**
 15 **So the longer the period you're capturing more**
 16 **of those fixed costs that will ultimately be passed**
 17 **along to remaining customers, so the longer period,**
 18 **within reason -- I think twenty years, we believe, is**
 19 **probably the most reflective of our planning cycle, so**
 20 **twenty years would provide more protection for remaining**
 21 **customers than six.**
 22 Q. Let's turn to page 8, lines 4 through 7. There
 23 you agree that the stranded cost fee proposed in the
 24 initial filing would double recovery of the value of the
 25 facilities that the Company would sell or remove as a

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CROSS-EXAMINATION BY MR. CASEY / MEREDITH 263

1 condition of the disconnection, correct?
 2 **A. Yes. I said that there could be the possibility**
 3 **of double counting.**
 4 Q. Were you aware of this double recovery issue at
 5 the time of filing?
 6 **A. I wasn't. It was just something that I didn't**
 7 **consider.**
 8 Q. How is a cost that makes up approximately ten
 9 percent of the total fee so easy to overlook?
 10 **A. I think when we were developing it, I think it**
 11 **just -- we responded specifically to the testimony of**
 12 **other parties, and this was something that I had not**
 13 **considered. I had not spent a lot of time reviewing**
 14 **particularly the Rule 6 changes in the initial filing,**
 15 **but I think that it's a very valid concern and so that's**
 16 **why we made this adjustment.**
 17 Q. Last couple questions.
 18 Same page -- yeah, page 8, line 22, you testify
 19 that the Company agrees that in its original proposed --
 20 the original proposal included costs avoidable when a
 21 customer chooses to disconnect, correct?
 22 **A. So you're saying that in the initial filing we**
 23 **included some elements that were avoidable?**
 24 Q. Yes.
 25 **A. We included some elements that maybe could be**

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CROSS-EXAMINATION BY MS. GAFKEN / MEREDITH 264

1 argued to be avoidable.
 2 Q. And were you aware that these costs were
 3 avoidable at the time of the original filing?
 4 **A. I think -- looking at the customer service**
 5 **expenses, I think we've offered up an adjustment that I**
 6 **think is pretty conservative. I mean, eliminating a lot**
 7 **of the customer service costs. Certainly there are**
 8 **elements of customer service, phone calls, the postage**
 9 **of the bill that's sent out, that are truly variable**
 10 **with the number of customers.**
 11 **A lot of folks elect to get electronic bills.**
 12 **There's systems in place, IT systems for customer**
 13 **service that are fixed. Other elements of customer**
 14 **service that are fixed.**
 15 **So I think this is a conservative assumption,**
 16 **recognizing that, yes, there are some components of this**
 17 **that may vary with customers leaving and so, in an**
 18 **attempt to be -- to really adequately address some costs**
 19 **that may be avoidable, we agreed to remove those values.**
 20 MR. CASEY: I'll stop there. Thank you.
 21 JUDGE PEARSON: Okay. Thank you.
 22 Ms. Gafken?
 23 ///
 24 ///
 25 CROSS-EXAMINATION

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CROSS-EXAMINATION BY MS. GAFKEN / MEREDITH 265

1 BY MS. GAFKEN:
 2 Q. Good morning.
 3 **A. Good morning.**
 4 Q. I want to ask a couple of follow-up questions to
 5 what Mr. Casey asked you, then I do have a few prepared
 6 questions for you as well.
 7 **A. Okay.**
 8 Q. You were asked a question with respect to
 9 Ms. Kelly's recommendation to shorten the time period to
 10 6 years, and then you were asked to relate that to a
 11 33 percent variance in the revenue requirement.
 12 Is there a correlation between the stranded cost
 13 calculation and revenue requirement calculation?
 14 **A. A correlation -- yes, I would say there's a**
 15 **correlation between -- the stranded cost calculation is**
 16 **looking for the revenue requirement that's within base**
 17 **rates, including some adjustments, so there is a**
 18 **correlation there.**
 19 Q. Is there a correlation between the 33 percent
 20 decrease in the stranded cost calculation and 33 percent
 21 decrease in a hypothetical revenue requirement
 22 calculation?
 23 **A. When you say a correlation, I don't know exactly**
 24 **what you mean. Are the two situations analogous to each**
 25 **other? I don't know if I understand the question fully.**

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CROSS-EXAMINATION BY MS. GAFKEN / MEREDITH 266

1 Q. Is there anything to be drawn from that
 2 distinction?
 3 **A. I don't think so.**
 4 Q. With respect to calculating a stranded cost
 5 amount, there are different views in how that's done; is
 6 that correct?
 7 **A. Yes.**
 8 Q. For example, one view -- one view that Public
 9 Counsel has advanced in several cases is that, the
 10 further out in time you go, the less known or the less
 11 certain cost is.
 12 Are you familiar with that viewpoint?
 13 **A. Sure, yeah.**
 14 Q. Is it fair to say that one purpose of a stranded
 15 cost fee is to capture those stranded costs over the
 16 time period that those costs remain stranded?
 17 **A. I think that could be one principle among many**
 18 **principles to consider in terms of the timeframe that's**
 19 **examined.**
 20 Q. And one idea is that the Company can adjust, and
 21 so at some point in time those costs are no longer
 22 stranded?
 23 **A. I think over a long period of time, I think**
 24 **those costs could no longer be stranded. Again, the**
 25 **lives of a lot of these facilities are quite long.**

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CROSS-EXAMINATION BY MS. GAFKEN / MEREDITH 267

1 Q. Okay.
 2 Would you please turn to your testimony, which
 3 is Exhibit RMM-1T, and go to page 11?
 4 **A. Okay.**
 5 Q. And let's see. So starting at line -- I have
 6 line 11, and then going to page 12, line 10, there
 7 you're discussing Pacific Power's integrated resource
 8 plan and the preferred portfolio showing new wind
 9 collection in 2021; is that correct?
 10 **A. Yes.**
 11 Q. You testified that the selection of new wind is
 12 not driven [sic] by load, but rather by economics?
 13 **A. That's correct.**
 14 Q. In the preferred portfolio, does the new wind
 15 replace other generation rather than increase the
 16 incremental generation being produced or acquired by the
 17 portfolio overall?
 18 **A. You're saying, does it replace other types of**
 19 **generation? Yes. So having more energy produced by the**
 20 **wind would -- would, in fact, replace other forms of**
 21 **generation or market purchases, that's correct.**
 22 Q. You also testify that the inclusion of new wind
 23 in Pacific Power's IRP should have no implication for
 24 the stranded cost calculation; is that correct?
 25 **A. Yes, I believe that it should not be a factor.**

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CROSS-EXAMINATION BY MS. GAFKEN / MEREDITH 268

1 Q. Would there come a point where the reduction in
 2 load affects Pacific Power's acquisition of new wind?
 3 **A. I don't believe the reduction of load for our**
 4 **Washington customers would play any role in whether we**
 5 **ultimately made this acquisition or not.**
 6 Q. Would you please turn to page 15 of Exhibit
 7 RMM-1T?
 8 **A. Okay.**
 9 Q. There you testify about Pacific Power's proposed
 10 low-income and conservation stranded cost fees, correct?
 11 **A. Yes.**
 12 Q. With respect to the low-income fee, the
 13 multiplier applied to residential and nonresidential
 14 customers is the same under Pacific Power's proposal; is
 15 that correct?
 16 **A. Yes.**
 17 Q. Why is that?
 18 **A. The way that it was calculated is we looked**
 19 **specifically at the costs that residential customers on**
 20 **average versus nonresidential customers on average**
 21 **contribute to the low-income assistance program, and**
 22 **that's what the math determined per our calculation of**
 23 **six years of that that recovery would be.**
 24 Q. So that it was just a function of the math,
 25 then; there wasn't --

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CROSS-EXAMINATION BY MS. GAFKEN / MEREDITH 269

1 **A. Yeah. I mean, if you probably rounded it down,**
 2 **I'm sure it wouldn't be the exact number. It would**
 3 **probably be .0 something that's slightly different. I**
 4 **think it just was coincident that it happened to be the**
 5 **same, rounded to that same value.**
 6 Q. Would your answer be the same with respect to
 7 the conservation fee, that it was just a function of the
 8 math?
 9 **A. Well, they're a little bit different. The**
 10 **conservation fee is 0.17 versus 0.18.**
 11 Q. Right.
 12 There's a slight difference in the --
 13 **A. It's a slight difference.**
 14 Q. There's a slight difference between residential
 15 and nonresidential customers with the conservation fee;
 16 is that just a function of the math and the numbers as
 17 well?
 18 **A. Right. That's -- that's the present recovery of**
 19 **the system benefits charge, which recovers demand side**
 20 **and management expenses, looking at that over a six-year**
 21 **period.**
 22 Q. Okay.
 23 Cost-of-service issues and parity issues are not
 24 the problems to be solved in this particular case, are
 25 they?

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1 **A. I would agree.**
 2 Q. The issue that's being resolved in this case are
 3 [sic] identifying whether there's any cost shift and
 4 quantifying that cost shift, and then allocating the
 5 cost to the cost causers; is that a fair representation?
 6 **A. Yes, I would agree with that characterization.**
 7 MS. GAFKEN: Thank you. That concludes my
 8 questions.
 9 JUDGE PEARSON: Okay. Thank you.
 10 Mr. Cowell?
 11 MR. COWELL: Thank you, your Honor.
 12 CROSS-EXAMINATION
 13 BY MR. COWELL:
 14 Q. Good morning, Mr. Meredith.
 15 **A. Good morning.**
 16 Q. Mr. Meredith, do you still have DGP-3 in front
 17 of you?
 18 **A. I do.**
 19 Q. I'd like to start there and follow up with some
 20 questions asked by Mr. Casey.
 21 **A. Okay.**
 22 Q. Now, to begin, I think you had testified that
 23 this cost-of-service study was prepared for the
 24 Company's last general rate case. That was the 2014
 25 general rate case, right?

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1 **A. That's my understanding from looking at this.**
 2 Q. Right.
 3 And so to confirm that, this cost-of-service
 4 study is based on the 12 months ending 2013, right?
 5 **A. That's what it says, yes.**
 6 Q. Okay.
 7 And you had testified, I believe, that -- to an
 8 understanding that currently all classes are within
 9 11 percent of parity; was that what you testified
 10 earlier?
 11 **A. That's what I see per column M of this, is that**
 12 **I can see that all classes are at least plus or minus**
 13 **within meeting an 11 percent increase or decrease.**
 14 Q. Okay.
 15 And if you were to conduct a cost-of-service
 16 study today, would you expect column E to look
 17 different?
 18 **A. Sure. I think that anytime that you perform a**
 19 **new cost-of-service study, there are going to be changes**
 20 **with the different test period.**
 21 Q. And in -- based on your professional expertise,
 22 if the Company were to make plans today to file a new
 23 general rate case, would you recommend using this study
 24 based on calendar year 2013?
 25 **A. If we were to file a new general rate case and**

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1 **ask --**
 2 Q. If you were to start work on that today, would
 3 you recommend using this cost-of-service study?
 4 **A. We would prepare a new cost-of-service study.**
 5 Q. Thank you.
 6 One other question I wanted to ask here. I
 7 believe you testified that the Company can't develop a
 8 cost-of-service study for an individual customer; is
 9 that what you --
 10 **A. I said for all individual customers. I didn't**
 11 **say for an individual customer.**
 12 Q. Okay.
 13 **A. Big difference there.**
 14 Q. Fair enough.
 15 So you'd agree that in the Company's standard
 16 cost-of-service studies as we see here, that there's a
 17 special row for dedicated facilities, customer's class,
 18 right?
 19 **A. Yes, I would.**
 20 Q. Okay. Okay.
 21 And one other follow-up question on the previous
 22 cross. In answering Ms. Gafken, I believe you had
 23 stated that you did not believe that the reduction of
 24 Washington load would affect the Company's plans to
 25 acquire new wind, correct?

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1 **A. Yes.**
 2 Q. And is that because you don't believe that there
 3 would be enough of an impact based on the size of the --
 4 relative size of Washington load compared to the
 5 Company's overall system?
 6 **A. I think that the -- and again, I am not the IRP**
 7 **expert of the company, but my understanding of the wind**
 8 **that's in the IRP that we're looking to acquire, both**
 9 **the repowering as well as the new wind, is that it's**
 10 **driven primarily by the economics related to the**
 11 **production tax credits.**
 12 **And so I think that it is -- I wouldn't say that**
 13 **it's completely unrelated to load. I think that, you**
 14 **know, looking at an IRP, there's -- the loads will**
 15 **always play a factor, but I think it's primarily related**
 16 **to those production tax credits. And I think even a**
 17 **very large reduction of load wouldn't change that.**
 18 **But again, I'm not the IRP expert on this. I**
 19 **think it's -- but my understanding is it's primarily**
 20 **related to these favorable economics. And so that**
 21 **wouldn't change because we have different load in**
 22 **Washington, or even a bigger decline somewhere else.**
 23 Q. Okay.
 24 Now, I wanted to touch upon a couple matters
 25 from the cross of Mr. Bolton yesterday. And you were

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1 here for that, right?
 2 **A. Yes.**
 3 Q. Okay.
 4 So first I'll pose a question that Mr. Bolton
 5 referred to you yesterday. Did the Company base its
 6 stranded cost recovery fee proposal upon any analysis
 7 related to cost of service by class?
 8 **A. Yes. Within my revised calculation, there were**
 9 **some adjustments that were based upon that**
 10 **cost-of-service study, and looking at the relative**
 11 **proportions for those customer classes that were related**
 12 **to specific cost elements, such as those that are**
 13 **related to meters, services, transformers, and then**
 14 **another adjustment which is related to**
 15 **customer-service-related O&M.**
 16 Q. Okay.
 17 So this was an advent with the modified
 18 proposal, right, not -- you didn't conduct --
 19 **A. This was not part of the initial -- yeah.**
 20 **Sorry. It was not --**
 21 **(Court reporter clarification.)**
 22 BY MR. COWELL:
 23 Q. I had asked, this was not an advent -- this was
 24 an advent with the modified proposal?
 25 **A. Yes.**

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1 Q. Okay. Thank you.
 2 Now, do you also recall the conversation
 3 yesterday between Mr. Bolton and me regarding the likely
 4 stranded cost recovery fee for dedicated facility class?
 5 **A. Yes, I recall that conversation.**
 6 Q. Okay.
 7 And just to clarify, because I'm not sure that
 8 Mr. Bolton was comfortable answering these questions,
 9 would you agree that the Company's calculation of annual
 10 revenue for the dedicated facilities class was 27
 11 million?
 12 **A. I would agree that that was part of the**
 13 **calculation, it was 27 million for the dedicated**
 14 **facilities, yeah.**
 15 Q. Okay.
 16 Now, the Company's modified proposal for
 17 nonresidential customers would be a requirement to pay
 18 2.98 times the annual revenue; is that correct?
 19 **A. Yes.**
 20 Q. Okay.
 21 So just doing the math there, are we looking at
 22 around 80 million that would be required for a dedicated
 23 facilities customer?
 24 **A. That's correct.**
 25 Q. Okay.

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1 Could you please turn to page 18 of your
 2 testimony? So I'm looking at Table 2 here, and as I
 3 look at that table, the .03 and .18 figures attributable
 4 to the low income and demand side management fees, those
 5 are inclusive within the 2.98, correct?
 6 **A. No, those are additional fees.**
 7 Q. So it's 2.98 plus those other fees?
 8 **A. Correct.**
 9 Q. Okay.
 10 How familiar are you, Mr. Meredith, with Docket
 11 UE-161123 that was discussed yesterday regarding PSE and
 12 Microsoft service streams?
 13 **A. I am, at a very high level, familiar that it**
 14 **exists.**
 15 Q. Okay.
 16 Are you familiar with the \$23.7 million
 17 transaction fee that was agreed upon between PSE and
 18 Microsoft in the filed settlement stipulation?
 19 **A. I don't know that I can speak to that.**
 20 Q. That's -- this is the first you've heard of it?
 21 **A. I don't know that it's the first that I've heard**
 22 **of it, but that's not a figure that I could have quoted**
 23 **off the top of my head. I think I may have seen that**
 24 **before.**
 25 Q. Okay. Just a moment here.

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1 Subject to check, would that \$23.7 million
 2 figure, the figure we just agreed upon, ballpark around
 3 80 million for a dedicated facilities customer --
 4 **A. Um-hmm.**
 5 Q. -- that's about -- that's more than three and a
 6 half times the amount that -- the 23.7 million agreed
 7 upon in the PSE Microsoft case, right?
 8 **A. Well, you're comparing two completely different**
 9 **customers, so I don't know how I can compare Microsoft,**
 10 **of whom I have no knowledge of their load or their**
 11 **revenue, and which is also a customer who's not**
 12 **permanently disconnecting from PSE's service territory,**
 13 **so I don't know how I could draw any kind of useful**
 14 **comparison between the 80 million --**
 15 Q. Okay.
 16 **A. -- and the 23.6 million or --**
 17 Q. So let me ask this question.
 18 Do you have any reason to believe that
 19 Microsoft's load in the PSE system is more than three
 20 and a half times greater than Boise's Pacific Power
 21 load?
 22 **A. I don't have any knowledge of Microsoft's load**
 23 **or their recovery of their revenue. Again, my**
 24 **understanding is that they will continue to take**
 25 **delivery service from PSE, so it is fundamentally a**

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1 **different situation.**
 2 Q. Okay. We can move on.
 3 Let's turn to page 2 of your testimony, please.
 4 And I'm looking at, beginning on line 8, among the key
 5 considerations for the stranded cost recovery fee, you
 6 testified that it was "necessary to balance the accuracy
 7 of the fee's calculation and application to customers
 8 with having a methodology that would be easy for others
 9 to understand and interpret."
 10 Do you see that?
 11 **A. Yes.**
 12 Q. Okay.
 13 So in your view, Mr. Meredith, do all of the
 14 Company's customers have the same level of
 15 sophistication?
 16 **A. No, not all of our customers have the same level**
 17 **of sophistication. But I think that when I was making**
 18 **this statement, I don't know that it was so much around**
 19 **customers necessarily understanding and interpreting the**
 20 **calculations, but as far as parties who would evaluate**
 21 **our proposal understanding and being able to interpret**
 22 **those calculations. I don't know that individual**
 23 **residential customers would probably get into this type**
 24 **of calculation.**
 25 Q. Okay.

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1 You recall yesterday that Mr. Bolton testified
 2 to the Company's practice of individually negotiating
 3 with large sophisticated customers on green energy
 4 issues, right?
 5 **A. Yes.**
 6 Q. Okay.
 7 So I want to -- I do want to relate this back to
 8 your testimony here that -- do you think the balance
 9 between fee calculation accuracy and the ease of
 10 understanding should be the same for all customers?
 11 **A. So the balance of --**
 12 Q. Because you testified --
 13 **A. Considering these two balances, right, so we**
 14 **have, you know, a calculation of a specific fee that**
 15 **we're looking to have approved by the Commission,**
 16 **relative to it being something that's verifiable by**
 17 **other parties.**
 18 **And so your question is whether that should be**
 19 **the same balance for every -- sorry -- for every single**
 20 **situation where -- what was your question again?**
 21 Q. For instance, should the balance be the same
 22 between a residential customer and the Company's largest
 23 customer, the balance between accuracy and ease of
 24 understanding?
 25 **A. I think that, yes, we shouldn't treat customers**

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1 **differently, particularly with this fee. We haven't --**
 2 **we've made a calculation that I think is fair for all**
 3 **different customers. We didn't look at segmenting it by**
 4 **residential and nonresidential.**
 5 Q. Okay.
 6 So beyond that segmentation, it should be a
 7 one-size-fits-all?
 8 **A. That's our proposal. It's not necessarily a**
 9 **one-size-fits-all, because we've asked for a revenue**
 10 **multiplier, so that would vary depending upon the cost**
 11 **recovery that's inherent within particular customers.**
 12 Q. Okay.
 13 If you'd look at line 12, please.
 14 **A. Line 12?**
 15 Q. Still here on page 2, you testified that the
 16 Company could have designed a more detailed study,
 17 right?
 18 **A. That's what I said, yes.**
 19 Q. Okay.
 20 And then line 15, you also testified that the
 21 Company has the ability to perform separate detailed
 22 calculations for an individual customer requesting
 23 disconnection, right?
 24 **A. I posed that as a hypothetical, that there could**
 25 **be, in theory -- I don't think this is -- would serve**

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<p>1 the public interest, you could have a situation where</p> <p>2 every single customer comes before us, we have a</p> <p>3 proceeding with a Commission and determine the exact</p> <p>4 stranded cost recovery fee for that customer.</p> <p>5 But I think that gets to the balance that I was</p> <p>6 looking at, is having a calculation that has been proved</p> <p>7 by the Commission, with a fee that varies depending upon</p> <p>8 the level of revenue for that customer, and inherently</p> <p>9 tracks with the cost recovery associated with that</p> <p>10 customer.</p> <p>11 Q. So again, it's a hypothetical that could be</p> <p>12 actualized, for instance, for the Company's largest</p> <p>13 customer; would you agree?</p> <p>14 A. In theory, that could be a specific</p> <p>15 examination --</p> <p>16 Q. Okay.</p> <p>17 A. -- sure.</p> <p>18 Q. And is it your understanding that that's what</p> <p>19 occurred in Docket UE-161123, the --</p> <p>20 A. With Microsoft, that there was a specific --</p> <p>21 Q. (Nods head.)</p> <p>22 A. I don't -- and again, my knowledge of that is</p> <p>23 very thin. I think that that was a -- my understanding</p> <p>24 was a settlement. So elements of that, you know, aren't</p> <p>25 available to the public, so I don't know that I could</p>	<p>1 look at RMM-2 for a minute -- and bear with me. On page</p> <p>2 8 of RMM-2, I show that if you were to do a specific</p> <p>3 calculation for this customer, per all the adjustments</p> <p>4 and all the math that we've done into this, the fee for</p> <p>5 Schedule 48 dedicated facilities would be 2.8 times</p> <p>6 annual revenue. So it's -- it's not exactly the 2.98,</p> <p>7 but I think that it is within a fairly close range to</p> <p>8 that.</p> <p>9 Q. Now -- but you've -- to confirm, you have</p> <p>10 testified that you chose a simpler approach and that you</p> <p>11 could have done a more detailed study than what's</p> <p>12 reflected here, correct?</p> <p>13 A. We could have done that. We could have also</p> <p>14 proposed having a stranded cost recovery fee for every</p> <p>15 rate schedule. I mean, that is another possibility.</p> <p>16 Again, we wanted to balance that and have a fee that was</p> <p>17 easy for customers to understand that didn't introduce a</p> <p>18 lot of complexity.</p> <p>19 Q. Okay.</p> <p>20 Let's move on to page 4 of your testimony, line</p> <p>21 7, please. Now, you testify here that the purpose of</p> <p>22 the stranded cost recovery fee is to protect the</p> <p>23 Company's remaining customers from the adverse</p> <p>24 consequences of customers leaving the Company's system,</p> <p>25 right?</p>
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<p>1 speak specifically to that proceeding.</p> <p>2 Q. Okay.</p> <p>3 Line 17, please, Mr. Meredith, you testify that</p> <p>4 the Company, in considering its options, instead elected</p> <p>5 to propose a simpler approach by estimating stranded</p> <p>6 costs, right?</p> <p>7 A. That's correct.</p> <p>8 Q. Okay.</p> <p>9 So -- and you've worked with the Company</p> <p>10 12 years, right?</p> <p>11 A. That's correct.</p> <p>12 Q. Okay.</p> <p>13 So in your professional opinion, do you think</p> <p>14 that a simpler approach to stranded cost issue recovery</p> <p>15 [sic] that includes estimating costs is sound and</p> <p>16 appropriate for a very large customer like Boise,</p> <p>17 considering the magnitude of costs involved?</p> <p>18 A. I think it can be reasonable to have this be in</p> <p>19 place, and for that fee to apply to a customer such as</p> <p>20 Boise or another large industrial customer, because</p> <p>21 it's -- based upon the facts and based upon the recovery</p> <p>22 and scales to the level, particularly of the revenue</p> <p>23 that that customer's providing, the recovery associated</p> <p>24 with that customer, I think it is reasonable.</p> <p>25 I think, just for example, if you may, let's</p>	<p>1 A. Yes.</p> <p>2 Q. And can you describe how you factored the</p> <p>3 beneficial consequences of customers leaving</p> <p>4 Pacific Power's system?</p> <p>5 A. Sure. That's considered in the value of</p> <p>6 freed-up energy, which the Company has calculated. That</p> <p>7 shows that, when those customers and their consequent</p> <p>8 load leaves our system, there is a benefit in terms of</p> <p>9 less fuel expense, less market purchases, more market</p> <p>10 sales, and that has been calculated throughout the</p> <p>11 six-year period.</p> <p>12 Q. And I'm just asking you to testify the extent of</p> <p>13 your knowledge. Are you familiar with testimony filed</p> <p>14 in the PSE/Microsoft case from both PSE and Microsoft</p> <p>15 calculating overall net benefits to Puget's remaining</p> <p>16 customers resulting from the loss of large</p> <p>17 nonresidential load?</p> <p>18 A. Again, I couldn't speak specifically. My</p> <p>19 knowledge of that is pretty thin.</p> <p>20 Q. Okay.</p> <p>21 So Mr. Meredith, when you think of the Company's</p> <p>22 demand side management program, does this include energy</p> <p>23 efficiency?</p> <p>24 A. Yes.</p> <p>25 Q. Okay.</p>

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1 And do you consider energy efficiency as a
 2 resource?
 3 **A. Yes, I do.**
 4 Q. Okay.
 5 Would you please turn to page 12 of your
 6 testimony, line 3?
 7 JUDGE PEARSON: Sorry. Which line?
 8 MR. COWELL: So starting at line 3 on page
 9 12, your Honor.
 10 JUDGE PEARSON: Okay.
 11 BY MR. COWELL:
 12 Q. Are you there, Mr. Meredith?
 13 **A. Yes.**
 14 Q. Okay.
 15 So you testified that inclusion of resource
 16 costs not already in rates would be inappropriate within
 17 the context of Pacific Power's stranded cost
 18 calculations, right?
 19 **A. I think that there's a couple of parts to this**
 20 **sentence. So "It would be inappropriate to include**
 21 **costs and resultant benefits from resources that are not**
 22 **already in rates and are not being driven by a need to**
 23 **serve loads in the Company's stranded cost calculation."**
 24 **So I think there's a couple of elements here.**
 25 **Certainly -- and if I recall right, in the PSE case,**

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1 **there was a resource need in the intermediate term. I**
 2 **believe they were looking to have a build, I think,**
 3 **within their IRP, and so I think that that was a**
 4 **different situation than us where we're looking at a --**
 5 **to meet our capacity need, having a build in 2028, which**
 6 **is quite a ways out from where we are right now.**
 7 **So I think that it's -- you could argue, I**
 8 **think, that if there was a resource need that was**
 9 **imminent, that there could be some kind of benefit, if**
 10 **that's where you're getting at.**
 11 Q. Well, just to state it this way, this portion of
 12 your testimony, because it applies to resources, the
 13 same logic could be applied to energy efficiency,
 14 correct?
 15 **A. So that's where you're going with this, is that**
 16 **that same logic could be applied to a reduction in need**
 17 **for energy efficiency; is that --**
 18 Q. In the terms of, that you said it would be
 19 inappropriate to include costs from resources that are
 20 not already in rates.
 21 **A. Right, and demand side management is in rates.**
 22 Q. Okay.
 23 **A. Is that what you were trying to --**
 24 Q. Well, I'm also looking at future demand side
 25 management costs that might be included in the stranded

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1 cost recovery fee calculation.
 2 **A. So your understanding is that, if a customer**
 3 **departed, that we would -- we should acquire less demand**
 4 **side management?**
 5 Q. No. I'm just asking you to state, yes or no,
 6 whether -- that resources being inappropriately
 7 included, that are not already in rates, includes energy
 8 efficiency. That's all I'm looking for.
 9 **A. So let me -- I just want to make sure I**
 10 **understand the question.**
 11 **So because this is saying, I think, the opposite**
 12 **of that, that if there's something that isn't in rates**
 13 **and is not -- I think I have two -- there's a**
 14 **conjunction there, that both -- if it's not in rates and**
 15 **it's not related to serving the loads or the capacity**
 16 **needs, it shouldn't be included in that situation.**
 17 **That's the statement that I'm making here. I don't know**
 18 **that it necessarily relates to demand side management.**
 19 Q. Well, let me ask it this way.
 20 The stranded cost recovery fee in the modified
 21 proposal -- and actually, I think now we've established
 22 that there's an add-on for demand side management
 23 recovery --
 24 **A. That's correct.**
 25 Q. -- right?

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1 And that is -- is the intention there to collect
 2 what a departing customer would otherwise contribute if
 3 they stayed on the system?
 4 **A. That is the intention, is that the costs**
 5 **associated with the energy-efficiency programs would not**
 6 **be shifted onto other customers.**
 7 Q. Okay.
 8 But it's meant to collect what essentially is a
 9 prospective cost, because they're leaving the system,
 10 they're not going to pay rates because they're leaving,
 11 and so you're seeking to collect what they otherwise
 12 would pay if they stayed on, right?
 13 **A. Right.**
 14 Q. Okay.
 15 So in the interest of time here, let's move on.
 16 Page 13, line 20, please. You state that the Company's
 17 stranded cost calculations provide an estimate of fixed
 18 costs?
 19 **A. Um-hmm.**
 20 Q. Okay.
 21 And we may have answered this earlier, but if
 22 you could just clarify for me, it's not clear to me, at
 23 least, as I look in this paragraph above, whether the
 24 Company's using its 2014 cost-of-service study in any
 25 fashion for the ultimate estimation of fixed costs in

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1 the modified proposal.

2 **A. It is using the --**

3 Q. Okay.

4 **A. -- cost-of-service study.**

5 Q. That 2013 calendar year cost-of-service study?

6 **A. It is, I think, appropriately looking at the**

7 **proportion of that cost of service at that time, and**

8 **applying it to the base rates that are presently -- our**

9 **customers are paying.**

10 Q. Okay.

11 MR. COWELL: No further questions. Thank

12 you, your Honor.

13 JUDGE PEARSON: Okay. Thank you. I need to

14 take just a short break, five minutes. So let's take a

15 five-minute break and be back at 12:00.

16 (A break was taken from

17 11:55 a.m. to 12:02 p.m.)

18 JUDGE PEARSON: Okay. We are back on the

19 record following a brief recess. And Mr. Pepple, I will

20 turn Mr. Meredith over to you.

21 MR. PEPPE: Thank you, your Honor.

22 CROSS-EXAMINATION

23 BY MR. PEPPE:

24 Q. Good afternoon, Mr. Meredith.

25 **A. Good afternoon.**

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CROSS-EXAMINATION BY MR. PEPPE / MEREDITH 290

1 Q. I just have a couple of questions for you.

2 So I heard in your exchange with Mr. Casey that

3 you believed that any period for calculating the

4 stranded cost recovery fee between 6 and 20 years would

5 be reasonable; is that accurate?

6 **A. Yes.**

7 Q. Would a five-year period be reasonable?

8 **A. I think that a five-year period would be less**

9 **protection for remaining customers. Again, there's a**

10 **range of reasonableness and of protection that's**

11 **afforded to remaining customers.**

12 Q. Do you know what the difference in terms of a

13 percent would be in the stranded cost recovery fee if

14 you calculated it over a 6-year period versus a 20-year

15 period?

16 **A. I don't have that number exactly before me. I**

17 **believe that it was provided in discovery. That was one**

18 **of -- I think that there was a piece of discovery that**

19 **asked what were the different options that the Company**

20 **considered, and I think that calculation was part of**

21 **that discovery request. But I don't have that in front**

22 **of me. I don't know that answer.**

23 Q. That's okay.

24 But we've established that the difference

25 between the 10 years and 6 years is approximately

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CROSS-EXAMINATION BY MR. PEPPE / MEREDITH 291

1 33 percent, correct?

2 **A. Yes.**

3 Q. So the difference between 20 years and 6 years

4 would presumably be higher than that?

5 **A. Yes.**

6 Q. Okay.

7 And I believe you also testified that you felt

8 that 20 years was more protective of remaining customers

9 than 6 years?

10 **A. Yes.**

11 Q. Would 21 years be more protective?

12 **A. I think that -- I mean, it would give more**

13 **consideration to remaining customers. I think that**

14 **20 years -- I don't know that we would advocate for**

15 **something beyond 20 years. That's our resource planning**

16 **period.**

17 Q. So would it be fair to say, then, that in your

18 opinion, using a six-year period for stranded costs,

19 remaining customers will still be subject to some cost

20 shifting as a consequence of departing customers?

21 **A. I think that remaining customers there, there**

22 **may be still some costs that they would bear, yes. I**

23 **think that, ultimately, we lose those customers forever,**

24 **but it does consider that, over time, you know,**

25 **eventually those assets are, you know, no longer on our**

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CROSS-EXAMINATION BY MR. PEPPE / MEREDITH 292

1 books.

2 Q. Okay.

3 Can you turn to page 5 of your testimony,

4 please? I'm looking at the Q and A starting on line 8.

5 And in this response, you explain why you decided to

6 reduce the stranded cost recovery fee from a ten-year

7 period to a six-year period.

8 Do you see that?

9 **A. Yes.**

10 Q. And the last sentence starting on line 13 says,

11 "This modification is in line with Public Counsel's

12 recommendation and is also reasonable since it

13 represents three IRP cycles."

14 Do you see that?

15 **A. Yes.**

16 Q. Can you explain to me what, in your mind, is the

17 relationship between an IRP and stranded costs?

18 **A. So I think that that's one of the considerations**

19 **to take into place. I think that there's -- I think,**

20 **primarily, the costs are costs that are already in place**

21 **to serve our customers that are being recovered.**

22 **But looking at an IRP planning cycle, that is**

23 **the period of time over which the Company would make**

24 **plans to acquire new resources. And so that's one**

25 **measure of reasonableness is the IRP planning cycle, and**

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1 considering planning for those customers and developing
 2 resources to serve their load. And so three IRP cycles
 3 represents some period of time for adjustment.
 4 Q. So -- well, it sounds to me like what you're
 5 saying is the IRP can help you identify costs that you
 6 can avoid as a consequence of a customer departure; is
 7 that true?
 8 **A. That is, yeah, one thing that you could look to**
 9 **the IRP for.**
 10 Q. Wouldn't that represent a cost savings to the
 11 Company?
 12 **A. It would represent a cost savings if we had**
 13 **intermediate term resource need for meeting our**
 14 **capacity.**
 15 Q. Does your IRP help you in any way avoid a cost
 16 you have already incurred?
 17 **A. Our IRP does not help us necessarily avoid a sum**
 18 **cost I guess that's already been incurred, but it does**
 19 **help us as we look forward to making good decisions**
 20 **about which costs to -- or which resources to acquire to**
 21 **meet our loads, and then after that point, that resource**
 22 **has been acquired.**
 23 Q. So do you have any basis for choosing three IRP
 24 cycles other than what Public Counsel recommended?
 25 **A. Again, I think probably the fair way to**

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CROSS-EXAMINATION BY MR. PEPPE / MEREDITH 294

1 characterize this is, is it a compromise considering the
 2 testimony of Public Counsel? I think there are a number
 3 of considerations, not only just the number of IRP
 4 cycles and the period of time to readjust, I think also
 5 just the long lives of the assets in place to serve our
 6 customers is also a consideration.
 7 Q. Did you ask Public Counsel any data requests
 8 [sic] regarding Ms. Kelly's proposal to reduce the
 9 stranded costs fee from ten to six years?
 10 **A. I don't recall.**
 11 MR. PEPPE: That's all I have.
 12 JUDGE PEARSON: Okay. Thank you. Any
 13 redirect?
 14 MR. GREENFIELD: No, your Honor. Thank you.
 15 JUDGE PEARSON: Okay. Do we have any
 16 questions from the bench? No?
 17 All right. Then we will -- you're excused,
 18 Mr. Meredith. We will break for lunch. Let's come back
 19 at 1:15, so we'll take just over an hour. And we will
 20 start with Ms. Kelly when we return. Thank you.
 21 (Lunch recess was taken from
 22 12:09 p.m. to 1:21 p.m.)
 23 JUDGE PEARSON: Okay. Let's be back on the
 24 record, and Ms. Kelly is on the stand.
 25 So if you would please stand and raise your

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DIRECT EXAMINATION BY MS. GAFKEN / KELLY 295

1 right hand, I'll swear you in.
 2
 3 KATHLEEN KELLY, witness herein, having been
 4 first duly sworn on oath,
 5 was examined and testified
 6 as follows:
 7
 8 JUDGE PEARSON: Go ahead and be seated. If
 9 you could just state your first and last name and spell
 10 your last name for the record.
 11 THE WITNESS: Sure. My first name is
 12 Kathleen, my last name is Kelly, K-E-L-L-Y.
 13 JUDGE PEARSON: Thank you.
 14 And Ms. Gafken?
 15 DIRECT EXAMINATION
 16 BY MS. GAFKEN:
 17 Q. Good afternoon. Your testimony -- your
 18 pre-filed testimony in exhibits were admitted earlier
 19 per stipulation, and those were found in KAK-1T through
 20 KAK-18.
 21 Do you have any changes to your testimony or
 22 exhibits?
 23 **A. I do. On KAK-1T, I have two changes. The first**
 24 **is on page 9, line 20, the word "permanently" should be**
 25 **"permanent," as in permanent disconnection.**

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CROSS-EXAMINATION BY MR. CASEY / KELLY 296

1 And the second one is on page 41, line 4, should
 2 delete the word "of." That's it.
 3 Q. Ms. Kelly, if you were asked the questions
 4 contained in Exhibit KAK-1T, would your answers be the
 5 same today as they appear in the exhibit?
 6 **A. Yes, they would.**
 7 MS. GAFKEN: Ms. Kelly is available for
 8 cross-examination.
 9 JUDGE PEARSON: Thank you. I'll turn it
 10 over to Mr. Greenfield.
 11 MR. GREENFIELD: Your Honor, in the interest
 12 of saving time, the Company's prepared to essentially
 13 waive examination of Ms. Kelly if we could just have a
 14 latitude to perhaps ask a few questions at the end if
 15 there's anything that needs to be touched upon based on
 16 the examination of the other parties.
 17 JUDGE PEARSON: I'm fine with that.
 18 MR. GREENFIELD: Thank you.
 19 JUDGE PEARSON: Thank you. Okay. Then
 20 Mr. Casey?
 21 CROSS-EXAMINATION
 22 BY MR. CASEY:
 23 Q. Good afternoon, Ms. Kelly.
 24 **A. Good afternoon.**
 25 Q. Would you agree that the stranded cost fee issue

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CROSS-EXAMINATION BY MR. CASEY / KELLY 297

1 is, at its core, an issue about equity and fairness of
 2 cost shifts between customers, correct?
 3 **A. I agree it is a device that's used to ensure**
 4 **that customers who remain are not subsidizing the costs**
 5 **of the customers who have departed, so it is an issue of**
 6 **fairness and equity.**
 7 Q. Okay.
 8 And at a high level, kind of theoretically, I
 9 want to talk a little bit about the cost shift. You
 10 agree that the stranded cost fee is intended to equal
 11 the departing customer's fair share of costs that the
 12 Company incurred to serve the departing customer,
 13 correct?
 14 **A. Can you restate that again?**
 15 Q. The stranded cost fee is intended to equal the
 16 departing customer's fair share of costs that the
 17 Company incurred to serve the departing customer?
 18 **A. I think that the stranded costs are intended to**
 19 **recover the costs that are unavoidable. So they are**
 20 **intended to cover more fixed-type costs, as opposed to**
 21 **those costs that can be avoided as the Company makes**
 22 **modifications to the way it does business relative to a**
 23 **customer's departure.**
 24 Q. Do you agree it's the departing customer's kind
 25 of fair share of costs?

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CROSS-EXAMINATION BY MR. CASEY / KELLY 298

1 **A. Yes, it is the fair share of costs.**
 2 Q. Now, if the fee is set too low, cost shifts will
 3 still occur from the departing customer to the remaining
 4 customers, correct?
 5 **A. Correct.**
 6 Q. And the harm that would occur, that is, the kind
 7 of deficient payment, would be dispersed across many
 8 customers and many monthly bills, correct?
 9 **A. Yes, assuming that the Commission authorized**
 10 **recovery of that cost across all customers, yes.**
 11 Q. In the case of a single residential customer,
 12 the impact may not be identifiable in rates, correct?
 13 **A. Depending on the level of the stranded costs**
 14 **that are being recovered, that may be the case. But if**
 15 **it were a much larger number of customers, or a very**
 16 **large component of the system, then, yes, it could**
 17 **become a big enough fee.**
 18 Q. Now, if the fee is set too high, a cost shift
 19 would flow in the other direction resulting in a subsidy
 20 from the departing customer to the remaining customers,
 21 correct?
 22 **A. I'm not sure it's a subsidy, but if the fee is**
 23 **set high or too high, that is -- that's dependent on**
 24 **what's included and how it's developed and how it's**
 25 **calculated.**

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CROSS-EXAMINATION BY MR. CASEY / KELLY 299

1 Q. But --
 2 **A. Assuming -- assuming it's very high, then it may**
 3 **be perceived as the departing customer paying for too**
 4 **many costs.**
 5 Q. And this would harm the departing customer who
 6 would have to pay some portion of the remaining
 7 customer's fair share of costs, correct?
 8 **A. Can you restate that?**
 9 Q. If the fee is set too high, this would harm the
 10 departing customer, because the departing customer would
 11 be required to pay some portion of the remaining
 12 customer's fair share of costs, correct?
 13 **A. I think the premise of this question is that, in**
 14 **the setting-too-high premise, that's probably something**
 15 **that we're assuming we can check to make sure that it's**
 16 **accurate, and that it's been set too high for some**
 17 **reason. So then if it were higher than the costs that**
 18 **could have been accrued to that customer, then, yes,**
 19 **they would be providing some assistance to the remaining**
 20 **customers.**
 21 Q. And this harm to the departing customer, so that
 22 is the overpayment, would fall on a single customer in a
 23 single payment, correct?
 24 **A. The way it's proposed here, it's a single**
 25 **payment.**

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CROSS-EXAMINATION BY MR. CASEY / KELLY 300

1 Q. Does the stranded cost fee set too high have a
 2 disproportionately harmful impact?
 3 **A. On whom?**
 4 Q. On customers.
 5 **A. If the stranded cost fee is set too high,**
 6 **inasmuch as they're paying for the costs over and above**
 7 **what they would have incurred, then it's -- then it is**
 8 **not fair to the departing customer. It provides a broad**
 9 **support to the customers that are remaining.**
 10 Q. In your opinion, is it more important to ensure
 11 that remaining customers are protected by a sufficient
 12 stranded cost fee or to ensure that the departing
 13 customer is not required to overpay?
 14 **A. I think it's important to make sure that the**
 15 **remaining customers are held as much full as possible,**
 16 **and are not subsidizing the person or the company that**
 17 **has the opportunity to leave, because there are**
 18 **participating customers and non-participating customers,**
 19 **and that's a broad issue that's being addressed**
 20 **throughout the US today by utilities.**
 21 Q. So you would err [sic] on the side of
 22 remaining customers, correct?
 23 **A. Well, hopefully we would not err, but we would**
 24 **pick something that was reasonable for all parties.**
 25 Q. Quantifying the cost shift caused by a single

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CROSS-EXAMINATION BY MR. CASEY / KELLY 301

1 customer disconnecting from the system is very
 2 difficult, correct?
 3 **A. It has a lot of built-in assumptions that need**
 4 **to be made, so it requires somebody with a lot of**
 5 **knowledge of what -- a cost-of-service study and the**
 6 **planning functions of a utility.**
 7 Q. Is that a yes?
 8 **A. That's a yes.**
 9 Q. Thank you.
 10 And you agree that it is not possible to
 11 accurately identify the exact costs of a single customer
 12 disconnecting from the system because it is, in part, an
 13 estimation, correct?
 14 **A. It depends on your definition of exact. I think**
 15 **the utilities that have done these calculations can get**
 16 **within a range of reason. As one of the witnesses,**
 17 **Mr. Meredith, testified this morning, you can do a**
 18 **cost-of-service study right down to an individual**
 19 **customer. It's just time and it takes a lot of**
 20 **assumptions and it's difficult to do.**
 21 Q. How important is the accuracy of the stranded
 22 cost fee?
 23 **A. How important in what context?**
 24 Q. It's a difficult number to pinpoint, and so, you
 25 know, how important is it that we get a number that we

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CROSS-EXAMINATION BY MR. CASEY / KELLY 302

1 feel very confident is accurate?
 2 **A. In this case, with the context of the stranded**
 3 **costs in that they are being driven by customers who**
 4 **have choice, I think it is important in this case to**
 5 **make sure that we are within the realm of reason to make**
 6 **sure that the economics of their decision is known, and**
 7 **that they understand, by making their decision, that**
 8 **there are costs associated with that.**
 9 Q. And is there a kind of plus-or-minus percentage
 10 on that -- that trying to pinpoint that stranded cost
 11 fee that is kind of reasonable?
 12 **A. I would say plus or minus 20 percent would be a**
 13 **reasonable range.**
 14 Q. Yes or no, did you agree with the Company's
 15 testimony that it would be reasonable to recover
 16 stranded costs for a 20-year time period?
 17 **A. No, I didn't agree. I understand that that is a**
 18 **FERC belief and a position that 20 years is standard and**
 19 **that is adequate. I believe in this case in particular,**
 20 **where it is the fact that there is choice in the region,**
 21 **and that customers are allowed to have choice and**
 22 **competition is allowed, that it's important to make sure**
 23 **that the playing field is reasonable for those who**
 24 **leave.**
 25 Q. With respect to this time period, would you

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CROSS-EXAMINATION BY MR. CASEY / KELLY 303

1 characterize your difference of opinion about a 20-year
 2 time period with the Company as subjective or objective?
 3 **A. I would say it's subjective.**
 4 Q. And just to clarify, you recommend a six-year
 5 time period based on three IRP planning cycles, correct?
 6 **A. That's correct.**
 7 Q. And why not -- why six years based on three
 8 planning cycles instead of four years based on two
 9 planning cycles?
 10 **A. When I made the recommendation to use the three**
 11 **planning cycles, I was looking at the operations of the**
 12 **utility, and considering that with the three planning**
 13 **cycles for new rated planning, they would be able to get**
 14 **to some intermediate contracts or changes in their**
 15 **intermediate purchases that they have in their plan, but**
 16 **also thinking that the six years provides the utility**
 17 **time to make operating changes, and that might be in**
 18 **their distribution planning, how they -- how they build**
 19 **their infrastructure. It would be changes in their**
 20 **staffing, how they do some of the work to support**
 21 **customers. So it's providing them more time to be able**
 22 **to make modifications.**
 23 Q. You made a recommendation with respect to taking
 24 account [sic] the conservation writer for the stranded
 25 cost fee, correct?

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CROSS-EXAMINATION BY MR. CASEY / KELLY 304

1 **A. That's correct.**
 2 Q. And do you know how many conservation planning
 3 cycles would occur within the time period of your
 4 recommendation?
 5 **A. Probably several.**
 6 Q. And won't the conservation target be reset after
 7 one cycle?
 8 **A. I am not aware of what the cycle is here in**
 9 **Washington, but typically when you institute a**
 10 **conservation or energy-efficiency program, it's a**
 11 **multi-year program. And the reason I went with the six**
 12 **years there as well is to ensure that the remaining**
 13 **customers are not paying the costs that were planned in**
 14 **that multi-year program for the departing customers.**
 15 Q. Do you believe the Commission should justify the
 16 stranded cost fee, or set the amount of the stranded
 17 cost fee based on whether Pacific Power is better at
 18 obtaining conservation than CREA?
 19 **A. I don't believe that they should be setting it**
 20 **based on that rationale. They should be setting it**
 21 **based on the fact that the remaining customers should**
 22 **not need to pay the portion that would have been paid by**
 23 **that customer.**
 24 Q. Can we please turn to page 29 of your direct
 25 testimony? According to the table on page 29, using a

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CROSS-EXAMINATION BY MR. CASEY / KELLY 305

1 20-year time period instead of a 6-year time period
 2 would cause the cost to more than double for residential
 3 customers, correct?
 4 **A. That's correct.**
 5 Q. Also for nonresidential customers, correct?
 6 **A. Yes.**
 7 Q. As one of the exhibits, you submitted testimony
 8 from PSE Docket UE-161123, correct?
 9 **A. Correct.**
 10 Q. And you submitted Mr. Piliaris's testimony
 11 regarding calculation of Microsoft's stranded cost fee
 12 as an exhibit, correct?
 13 **A. Yes, I did.**
 14 Q. Are you aware that PSE's proposed retail
 15 wheeling tariff, which would have been a generally
 16 applicable service, would not have established a
 17 particular method for identifying stranded costs?
 18 **A. Can you restate that?**
 19 Q. Well, are you aware that PSE's proposed retail
 20 wheeling tariff in that docket, which would have been a
 21 generally applicable service, would not have established
 22 any particular method for identifying stranded costs?
 23 **A. No, I'm not.**
 24 Q. Are you aware that -- are you aware that the
 25 stranded costs fee in that docket only accounted for a

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CROSS-EXAMINATION BY MR. CASEY / KELLY 306

1 five-year time period?
 2 **A. I am aware that there was a smaller time period,**
 3 **but it -- let me correct that. My understanding -- and**
 4 **I'm not an expert in that case -- my understanding is**
 5 **that they were looking at a long time frame of costs,**
 6 **avoided costs, and it was mostly power supply costs,**
 7 **which is not applicable, is not completely the stranded**
 8 **costs that are occurring in this case.**
 9 **And that in their analysis, there was a benefit**
 10 **that started after some point in time in that case, so**
 11 **that the stranded costs were positive for a number of**
 12 **years, and then the benefits began to come into play.**
 13 **So they were looking at a longer period, and they looked**
 14 **at a number of periods, I thought, in that case. I'm**
 15 **not aware of how it settled.**
 16 Q. So the case -- it settled. It hasn't been
 17 decided. There's no Commission order there yet. But
 18 the fee that was proposed was based on a five-year
 19 period, correct?
 20 **A. That's correct.**
 21 Q. And that five-year period accounted for four
 22 years of costs and one year of benefits to customers,
 23 correct?
 24 **A. I'll accept that, subject to check.**
 25 Q. So subject to check, if a six-year period was

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CROSS-EXAMINATION BY MR. CASEY / KELLY 307

1 used, it would have accounted for two years of benefits
 2 and the total fee would have been reduced by several
 3 million dollars, correct?
 4 **A. Subject to check, yes.**
 5 Q. And the five-year period in that case
 6 corresponded to the closure date of a major generation
 7 resource, correct?
 8 **A. I don't recall all the particulars, but I**
 9 **believe that was the case.**
 10 Q. And based on the method that was used in that
 11 case, if Microsoft's departure was to occur in 2022,
 12 remaining customers would have owed Microsoft tens of
 13 millions of dollars, correct?
 14 **A. Can you restate that?**
 15 Q. Essentially, if Microsoft's departure, instead
 16 of taking place when it was proposed to take place, it
 17 took place when the benefits started accruing, remaining
 18 customers would have owed Microsoft tens of millions of
 19 dollars, correct?
 20 **A. Or there would have been no fee.**
 21 Q. Would you agree that six years may not be the
 22 most appropriate time frame in all situations?
 23 **A. I believe that commissions in each of the states**
 24 **have the authority to define stranded cost recovery**
 25 **terms as they believe they need to be set. So there can**

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CROSS-EXAMINATION BY MR. CASEY / KELLY 308

1 be different uses in different places depending on what
 2 the facts are.
 3 Q. And would you agree that, under certain facts, a
 4 six-year time frame may not be the most appropriate time
 5 frame to consider?
 6 **A. I'm not sure I agree with that in this case. So**
 7 **I can't say that it's right for this state or right for**
 8 **that state, but based on what I've seen in the**
 9 **literature, five years to ten years is the more common**
 10 **approach to stranded costs.**
 11 Q. Yes or no, should remaining customers have to
 12 pay departing customers a stranded cost fee if the
 13 departing customer would cause cost savings by leaving?
 14 **A. No.**
 15 Q. If a participant in Pacific Power's low-income
 16 program were to permanently disconnect, would that
 17 create a beneficial cost shift to remaining customers?
 18 **A. If a low-income customer was getting a discount**
 19 **on its rates permanently, and decides to leave, there**
 20 **would be costs associated with that customer's leaving**
 21 **that should be offset by their discount.**
 22 Q. But as currently proposed, this fee would apply
 23 to a low-income customer, correct?
 24 **A. It would, yes. It might be a modification that**
 25 **should be considered. It's not something I thought**

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CROSS-EXAMINATION BY MR. CASEY / KELLY 309

1 about when I made my recommendations.
 2 Q. So you acknowledge that it might not be fair to
 3 charge a low-income customer a several-thousand-dollar
 4 fee for a shift that they would not cause, correct?
 5 **A. That's not what I said. I said that the**
 6 **low-income customer would be a cost to the utility when**
 7 **they leave. They might be reduced, because now there is**
 8 **no longer that discount in their rates.**
 9 Q. Can we turn to page 52 of your testimony,
 10 please? Here you talk about state policy and you cite
 11 some laws. Do you understand Washington law to
 12 contemplate competition between electric utilities?
 13 **A. I understand that, in the state of Washington,**
 14 **that there is a preference to allow competition, but**
 15 **there is also a preference to have agreements around**
 16 **service territories so that you avoid duplication of**
 17 **facilities. But there is the regulatory commission and**
 18 **the regulatory approach to making sure that public**
 19 **utilities play by the rules.**
 20 Q. Do you support the establishment of a stranded
 21 cost fee as a means to eliminate competition or
 22 otherwise impede the choice of the customers -- of the
 23 Company's customers to receive service from another
 24 provider?
 25 **A. I missed the very beginning of that question.**

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CROSS-EXAMINATION BY MR. CASEY / KELLY 310

1 Q. Do you support the establishment of a stranded
 2 cost fee as a means to eliminate competition or
 3 otherwise impede the choice of the customers -- of the
 4 Company's customers?
 5 **A. I don't believe that a stranded cost fee is**
 6 **intended to impede competition. It is intended to**
 7 **ensure that remaining customers are treated fairly.**
 8 Q. But would you acknowledge that a stranded cost
 9 fee could serve as an economic barrier to making such a
 10 choice?
 11 **A. I believe the stranded cost fee changes the**
 12 **economics and changes the decision for a customer who**
 13 **might depart.**
 14 Q. Do you think establishing a stranded cost fee in
 15 this case will have the practical effect of deterring
 16 permanent disconnection by customers?
 17 MS. GAFKEN: Objection. Speculation.
 18 JUDGE PEARSON: Sorry. My microphone wasn't
 19 close.
 20 Do you want to respond to that, Mr. Casey?
 21 MR. CASEY: I can rephrase.
 22 JUDGE PEARSON: Okay.
 23 BY MR. CASEY:
 24 Q. I'll move on.
 25 Do you think there are fairness issues with

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CROSS-EXAMINATION BY MR. CASEY / KELLY 311

1 charging an individual customer a very significant fee
 2 when that -- when accurately identifying that fee is so
 3 difficult and estimates can vary so greatly?
 4 **A. I don't understand the question. You might want**
 5 **to restate it.**
 6 Q. Is it potentially problematic to charge an
 7 individual customer a fee for causing a cost shift when
 8 pinpointing that cost shift is so difficult and opinions
 9 on what exactly that cost shift is can vary so greatly?
 10 **A. First, I think it's not that difficult, really,**
 11 **to look at the costs and estimate the costs. I think**
 12 **what the Company has offered is a simplification so that**
 13 **customers understand what they will be facing should**
 14 **they be trying to make an economic decision.**
 15 **So it's -- I believe it's fair to charge them,**
 16 **but I also believe that the approach the company took is**
 17 **simplification to ease the efforts the customers have to**
 18 **make.**
 19 Q. Okay. Thank you.
 20 And finally, I want to turn to the summary of
 21 your recommendation on page 59. And just for the
 22 record, my understanding is you testify that the
 23 Commission should not adopt Pacific Power's proposed
 24 revisions as they were originally filed, and you say, if
 25 the Commission approves revisions, you offered a number

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CROSS-EXAMINATION BY MR. COWELL / KELLY 312

1 of adjustments.
 2 I would like to know, is your recommendation --
 3 is your primary recommendation to just reject and stop
 4 there, or is it to establish the kind of proposed
 5 modifications?
 6 **A. My primary recommendation, before the Company**
 7 **modified its proposal, was to reject it. But with the**
 8 **modifications, my recommendation is to move forward with**
 9 **that approach.**
 10 MR. CASEY: Thank you.
 11 JUDGE PEARSON: Okay. Mr. Cowell?
 12 MR. COWELL: Thank you, your Honor.
 13 CROSS-EXAMINATION
 14 BY MR. COWELL:
 15 Q. Good afternoon, Ms. Kelly.
 16 **A. Good afternoon.**
 17 Q. Let's start, please, with your testimony at page
 18 4. And I'm looking at your first answer in this
 19 background section. And if you need a moment to look it
 20 over, you can, but I'll just pose this question.
 21 Would it be fair to say that you're simply
 22 restating the background provided by the Company in this
 23 paragraph?
 24 **A. Essentially, I am restating with the additional**
 25 **knowledge that I received through discussions with my**

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CROSS-EXAMINATION BY MR. COWELL / KELLY 313

1 client. But yes, I relied on the Company's description
 2 of the situation.
 3 Q. Okay.
 4 If you could please turn to page 10, and
 5 starting at line 16 here, you testify that "In the
 6 absence of a Franchise Agreement, Pacific Power should
 7 have a means by which their existing customers are
 8 protected from the rate impacts of competitive customer
 9 departures to a new provider."
 10 Do you see that?
 11 **A. Yes, I do.**
 12 Q. Could you please explain the basis for this
 13 conclusion?
 14 **A. Essentially, the regulatory compact here in**
 15 **Washington is set up such that public power utility, or**
 16 **investor-owned utilities are subject to regulation by**
 17 **the Commission. But there's also the desire for**
 18 **competition in the state, and a desire to have entities**
 19 **that are operating within the state attempt to arrive at**
 20 **these agreements to eliminate duplication of facilities.**
 21 **So in this case, the Company has -- as most**
 22 **companies would, believes it has an obligation to serve**
 23 **and has provided service to customers over time, and**
 24 **invested in the long-term investments required to keep**
 25 **the system reliable and useful for its customers.**

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CROSS-EXAMINATION BY MR. COWELL / KELLY 314

1 Because of all of those reasons, I recommend
 2 that there needs to be some means by which those
 3 customers who are attracted to CREA be encouraged to
 4 pay, or be required to pay for some stranded costs that
 5 have been created as a result of their decision, and
 6 because of the policies that are in place here in
 7 Washington.
 8 Q. Now, as you mentioned, the regulatory compact --
 9 you were here yesterday as Mr. Bolton discussed his
 10 notion of what the regulatory compact means, correct?
 11 **A. I was.**
 12 Q. Do you agree with Mr. Bolton's characterization?
 13 **A. I don't recall exactly how he said it.**
 14 Q. Okay.
 15 Then I'll phrase it this way. What's your
 16 conception of the regulatory compact that should govern
 17 the Commission's decision in this proceeding?
 18 **A. Basically it's a framework in which utilities**
 19 **are engaged in business, in a jurisdiction such as**
 20 **Washington, in return for the -- following the**
 21 **regulatory requirements of the Commission, and making**
 22 **sure that they work with customers who are -- both**
 23 **provide a lot of profit and those who don't. They're**
 24 **basically obliged to serve no matter what the customer**
 25 **looks like. In return, they're allowed to attempt to**

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CROSS-EXAMINATION BY MR. COWELL / KELLY 315

1 earn a fair return. So it's a -- kind of a business
 2 arrangement within the state that says, in return for
 3 this, we'll offer you that.
 4 Q. Okay.
 5 Your last statement there, it's a business
 6 arrangement, is it -- so it's just kind of like a -- is
 7 it an unstated quid pro quo, or is it founded upon any
 8 other authority, and, if so, what's that authority?
 9 **A. There are a number of statutes, I'm sure, that**
 10 **have a lot of the information in them that speak to the**
 11 **requirements of the Commission, the responsibilities of**
 12 **the Commission in regulating the entities that are here**
 13 **in this state, so there are some statutory basis [sic]**
 14 **for it.**
 15 **There are a number of decisions ordered -- that**
 16 **have been ordered by the Commission that set forth the**
 17 **rules and regulations by which these entities are going**
 18 **to operate. So there's a very intermingled set of**
 19 **rules, requirements, laws, and that sort of thing that**
 20 **have set up the regulatory compact. It's discussed a**
 21 **lot in other states as well, but there's much more**
 22 **fine-tuned detail about what that compact means. There**
 23 **is actually a regulatory requirement.**
 24 Q. The last question on this.
 25 Is your -- your personal understanding of the

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CROSS-EXAMINATION BY MR. COWELL / KELLY 316

1 regulatory compact as you're testifying in this
 2 proceeding, is that based on your personal research or
 3 based on what you've read the Company to represent?
 4 **A. It's a combination. It is based on what the**
 5 **Company represented, what my discussions with the Public**
 6 **Counsel included in my understanding, the research done**
 7 **by my staff in preparation of some of the analysis in**
 8 **this testimony, and my own research.**
 9 Q. Okay.
 10 What's your understanding of Washington's
 11 statute concerning the necessity of franchise or service
 12 area agreements?
 13 **A. They are preferred. Based on what I understand,**
 14 **it is something that the legislature has indicated that**
 15 **franchise agreements are preferred.**
 16 Q. They're not required, correct?
 17 **A. They are not required.**
 18 Q. Ms. Kelly, what's your understanding of
 19 Pacific Power's corporate structure and affiliations?
 20 **A. I did not do a lot of research on their**
 21 **corporate structure. I understand that they are a**
 22 **multi-state jurisdictional utility.**
 23 Q. Okay.
 24 And are you aware that they operate in six
 25 different states?

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CROSS-EXAMINATION BY MR. COWELL / KELLY 317

1 **A. I believe that was in the testimony, yes.**
 2 Q. Okay.
 3 If you please turn to your testimony, page 12,
 4 and I'm looking at line 18, you testified that a utility
 5 asset is said to be stranded if it is no longer used and
 6 useful prior to the end of its typical useful life,
 7 correct?
 8 **A. Correct.**
 9 Q. Now, given the Company's operations in multiple
 10 jurisdictions, do you understand that PacifiCorp
 11 generation assets would become stranded by customers
 12 leaving Pacific Power's system in Washington?
 13 **A. Can you say that again?**
 14 Q. Sure.
 15 So starting from the premise with the previous
 16 question, that Pacific Power operates in six states, so
 17 given that fact, do you understand Pacific Power
 18 generation assets -- or excuse me, PacifiCorp, the
 19 system, would become stranded if customers in
 20 Pacific Power's Washington system departed?
 21 **A. Now, these are generation assets you're speaking**
 22 **about, correct?**
 23 Q. Correct.
 24 **A. I believe that those assets will not necessarily**
 25 **be stranded by Washington customers. There is**

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CROSS-EXAMINATION BY MR. COWELL / KELLY 318

1 consideration in the way that the Company established
 2 its stranded costs that took out the net power costs.
 3 There may be some remaining costs, fixed costs that are
 4 in the rest of the stranded costs that cover generation
 5 asset fixed costs that they are including in the
 6 stranded cost calculation, which we have as, for the
 7 short-term, some of the fixed costs that will no longer
 8 be covered.
 9 Q. Okay.
 10 Let's move on to page 16, please. And I'm
 11 looking here at line 7, starting line 7, you quote a UTC
 12 decision stating that the term "stranded costs" refers
 13 to costs that may become unrecoverable if the industry
 14 is deregulated, correct?
 15 **A. That's what it says, yes.**
 16 Q. So is it your understanding that Washington has
 17 recently become deregulated?
 18 **A. No. Washington state has not recently become**
 19 **deregulated, but there is -- over the last 17 years,**
 20 **there has been no service area agreement between**
 21 **Pacific Power and CREA, and there has been an increasing**
 22 **number of customers who are actively choosing to leave.**
 23 Q. So let me follow up on that as -- you mentioned
 24 for the last 17 years, correct?
 25 **A. Um-hmm.**

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CROSS-EXAMINATION BY MR. COWELL / KELLY 319

1 Q. If you look at line 14, and -- you testified
 2 that the current filing is an example of stranded costs
 3 arising in the absence of a franchise agreement between
 4 Pacific Power and the counties of Columbia and
 5 Walla Walla, right?
 6 **A. Correct.**
 7 Q. So you point to an example of stranded costs
 8 arising. But is the absence of a Pacific Power service
 9 agreement with any neighboring utility, except -- with
 10 the exception of Benton REA, is that a circumstance that
 11 has recently arisen?
 12 **A. No, it appears to have occurred over time.**
 13 Q. As you testified, for at least the last
 14 17 years, if not longer, there has been no service area
 15 agreement with Columbia REA, right?
 16 **A. That is correct. But I might add that, just**
 17 **because it's been 17 years and there's been no**
 18 **resolution of the issue of stranded costs over this time**
 19 **except through the disconnection tariff that's been in**
 20 **play, this is an issue that could continue to grow.**
 21 **It's an issue that should be addressed so that the**
 22 **remaining customers are no longer hurt by some of the**
 23 **departures. So it's a long-term issue that hasn't been**
 24 **addressed sufficiently.**
 25 Q. Let me expand it out a little bit and look

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CROSS-EXAMINATION BY MR. COWELL / KELLY 320

1 backwards. To your knowledge, is Washington's lack of
 2 exclusive service territory law a dynamic that has
 3 recently arisen?
 4 **A. I lost the tail end of that. I'm sorry.**
 5 Q. Sure.
 6 Washington's lack of an exclusive service
 7 territory law -- which I think we've established,
 8 correct?
 9 **A. Yes.**
 10 Q. -- is that a dynamic that has recently arisen,
 11 to your knowledge?
 12 **A. Not to my knowledge, no.**
 13 Q. Okay.
 14 Let's turn to page 22 of your testimony. And
 15 starting at line 16, you testified that Pacific Power
 16 has been impacted by duplicative infrastructure that has
 17 been and is being built to serving large commercial or
 18 high-margin Pacific Power customers, right?
 19 **A. That's correct. It's a reference to the**
 20 **Company's testimony.**
 21 Q. Right.
 22 And that -- and that was my question. You cite
 23 three times, in fact, in this one statement to the
 24 Company's testimony, correct?
 25 **A. That's correct.**

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CROSS-EXAMINATION BY MR. COWELL / KELLY 321

1 Q. Okay.

2 Now, were you in the room yesterday when I

3 crossed Mr. Bolton about current and prior instances of

4 redundant service and redundant facilities in

5 Pacific Power's service area?

6 **A. I was.**

7 Q. Okay.

8 Do you recall Mr. Bolton testifying to no

9 current redundancy issues and to only two prior

10 instances of redundancy?

11 MR. GREENFIELD: Your Honor, I believe

12 that -- objection. I believe that mischaracterizes the

13 exchange. There's a difference between redundant

14 service and duplicate facilities, and I think

15 Mr. Cowell's confusing the two.

16 JUDGE PEARSON: Could you clarify your

17 question?

18 MR. COWELL: Sure.

19 BY MR. COWELL:

20 Q. What -- let me ask this. What's your

21 understanding of what Mr. Bolton testified to regarding

22 redundancy in the sense of facilities or service?

23 **A. I believe he indicated that there were no**

24 **redundant services but there were, in fact, duplicative**

25 **services.**

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CROSS-EXAMINATION BY MR. COWELL / KELLY 322

1 Duplicative services, in my opinion, or in my

2 understanding, would be where you would have duplicate

3 sets of lines running down the streets to serve

4 customers on the same street.

5 Redundant services would be where there was

6 service to a single customer in a building and there

7 were two separate services going in that would serve

8 that customer.

9 That, to me, is what redundant and duplicative

10 would be.

11 Q. And to your knowledge, how many instances of

12 this -- of the duplicative circumstances have occurred

13 over the last 17 years?

14 **A. I, unfortunately, can only go based on what I've**

15 **seen in the Company's testimony. I haven't been in the**

16 **service area to look around for myself so...**

17 Q. Okay.

18 So you're relying on the Company's

19 representations?

20 **A. Yes, I am.**

21 Q. Okay.

22 Let's turn to page 36, and I'm looking at the

23 paragraph that runs from lines 5 to 11. You lead off

24 this paragraph by testifying that Pacific Power's

25 customers are relatively smaller compared to the large

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CROSS-EXAMINATION BY MR. COWELL / KELLY 323

1 commercial customer in the PSE case, Docket UE-161123.

2 Do you see that?

3 **A. Yes, I do.**

4 Q. Okay.

5 Is it your understanding that the Boise load in

6 Pacific Power's system is much smaller compared to the

7 Microsoft load in 161123?

8 **A. I'm sorry, but I don't have -- I don't**

9 **understand. I don't know the Boise load's**

10 **characteristics, so I can't answer with regard to that.**

11 Q. Okay.

12 So in terms of looking at your testimony here,

13 you make a statement that Pacific Power's customers are

14 relatively smaller compared to the large commercial

15 customer in the PSE case. So without a knowledge of

16 Boise's load, would it be fair to say that this may not

17 apply to Boise?

18 **A. I don't know whether it would or would not. It**

19 **seemed to me, based on the discussion that you had about**

20 **the size of Boise's revenue yesterday, that it might**

21 **be -- might, in fact, be a large enough customer to be**

22 **able to do that.**

23 Q. Okay.

24 **A. But subject to not really having a good**

25 **understanding of Boise's load.**

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CROSS-EXAMINATION BY MR. COWELL / KELLY 324

1 Q. Sure.

2 But you did make a definitive statement here

3 regarding a comparison of Pacific Power's customers

4 relative to Puget's, right?

5 **A. That's correct, but I'm -- I'm doing that**

6 **basically from the perspective of the customers who are**

7 **choosing to leave, based on the history that's in this**

8 **case.**

9 Q. Let's turn to page 44 of your testimony, please.

10 **A. I'm sorry. What page?**

11 Q. 44. And I'm looking at lines 19 through 21

12 here.

13 You testify to a departing customer's obligation

14 to support the Company's commitment to low-income rate

15 assistance and energy-efficiency programs, right?

16 **A. That's correct.**

17 Q. So what's this obligation based upon, in your

18 view?

19 **A. Essentially, the Company has made commitments to**

20 **support low income as a result of regulation by the**

21 **Commission, and also to support energy-efficiency**

22 **programs that are long term in nature, beyond a year,**

23 **essentially, that they're in place, and that the funding**

24 **for those programs is coming from the remainder of the**

25 **customers.**

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CROSS-EXAMINATION BY MR. COWELL / KELLY 325

1 Q. So to maybe clarify or hone in on your testimony
 2 there, the term of the obligation would be what in your
 3 understanding?
 4 **A. The term would be?**
 5 Q. What would the term of the obligation, which
 6 you're referring to, what would that term be?
 7 **A. In this case because I'm recommending the six**
 8 **years, then it would be the six-year term.**
 9 Q. Is that your understanding of the Company's
 10 usual planning for energy-efficiency and low-income
 11 assistance?
 12 **A. They're planning for the DSM or EE, and the low**
 13 **income is likely somewhat shorter. But the intent here**
 14 **is to ensure that there is continued support for those**
 15 **programs for that same time frame as there would be for**
 16 **the rest of the stranded costs.**
 17 Q. Okay.
 18 That's your intent by your proposal for the six
 19 years?
 20 **A. Yes.**
 21 Q. Okay.
 22 If you would turn to the next page, please. So
 23 looking at page 45, lines 16 through 18, and my -- I'd
 24 like to know what your basis is for the conclusion that
 25 nonresidential customers are likely to depart upon being

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CROSS-EXAMINATION BY MR. COWELL / KELLY 326

1 offered incentives from a competitive supplier.
 2 **A. Based on -- what I read in the Company's**
 3 **testimony was that there were incentives being offered,**
 4 **and as I've heard here in the testimony over the last**
 5 **day or so, they're paying -- that CREA was offering to**
 6 **pay their costs of departure. So essentially,**
 7 **nonresidential are being offered incentives to leave.**
 8 Q. So -- and to restate the testimony you just
 9 gave, it was based on the Company's testimony and what
 10 you heard here in the hearing room. So when you made
 11 this testimony, it was simply based upon the Company's
 12 testimony, correct?
 13 **A. Yes, it was.**
 14 Q. If you would turn, please, to page 48, and I'm
 15 looking at the question and answer on lines 4 through
 16 18. This question and answer is on your understanding
 17 of why there is no franchise agreement in place between
 18 Pacific Power and the counties in which it operates,
 19 right?
 20 **A. That's correct.**
 21 Q. Okay.
 22 And your answer contains six citations to the
 23 Company's direct testimony without any other sources
 24 referenced; isn't that correct?
 25 **A. That's correct.**

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CROSS-EXAMINATION BY MR. COWELL / KELLY 327

1 Q. So again, is it fair to say that your
 2 understanding on this point as well is entirely based on
 3 Pacific Power's representations?
 4 **A. Yes. This was the information I had at that**
 5 **time to make that conclusion.**
 6 Q. If you could please turn to page 49. And I'm
 7 looking at lines 2 and 3. You refer to stranded costs
 8 due to the permanent departure of large-volume customers
 9 to CREA over time.
 10 Do you see that?
 11 **A. Yes, I do.**
 12 Q. To your recollection, is the term "large-volume
 13 customers" one that Pacific Power ever uses in this
 14 proceeding?
 15 **A. I'm not aware that I heard that.**
 16 Q. Okay.
 17 Looking here at lines 3 through 6, you restate
 18 what the Company cites as a risk of duplicative
 19 facilities being installed at customer locations. And
 20 then you testify to first responder concerns if
 21 facilities which were live and those abandoned could not
 22 be distinguished; is that right?
 23 **A. Could you tell me what lines you're at again?**
 24 Q. Sure.
 25 So I'm looking at lines 3 through 6.

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CROSS-EXAMINATION BY MR. COWELL / KELLY 328

1 **A. Yep. Thank you.**
 2 Q. Okay.
 3 Now, I don't see any citation here to the
 4 hypothetical scenario that you presented about first
 5 responders being unable to differentiate between live
 6 and abandoned facilities. Did you base this portion of
 7 your testimony on a Pacific Power argument in the
 8 Walla Walla case?
 9 **A. No, I based the comments beyond the citation on**
 10 **my experience as a utility executive and understanding**
 11 **what happens when there are duplicative facilities.**
 12 Q. Are you aware of a similar argument being made
 13 by the Company in the Walla Walla docket?
 14 **A. I am not that familiar with the Walla Walla**
 15 **docket.**
 16 Q. Okay.
 17 So staying here on page 49, I'm looking now at
 18 lines 11 through 19. Here you discuss your
 19 understanding of current negotiations between
 20 Pacific Power and CREA, right?
 21 **A. Was that a question?**
 22 Q. Yeah. I said, right -- excuse me -- I'm just
 23 confirming, is that what you were testifying to here?
 24 **A. Yes.**
 25 Q. So first you note CREA's claim to sending

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CROSS-EXAMINATION BY MR. COWELL / KELLY 329

1 letters to Pacific Power's CEO seeking to impose -- to,
 2 excuse me, improve relations, but receiving no response,
 3 and then you state Pacific Power's claim to being unable
 4 to negotiate a service area agreement even in mediation;
 5 is that correct?
 6 **A. That's correct.**
 7 Q. Okay.
 8 What's your understanding of the actual
 9 chronology of these events?
 10 **A. I don't know the actual chronology.**
 11 Q. Okay.
 12 Could you please -- do you have your own
 13 testimony and exhibits in front of you?
 14 **A. Yes, I do.**
 15 Q. Okay.
 16 Could you please turn to KAK-16? And I'm going
 17 to represent to you that in that Pacific Power discovery
 18 response, there are statements made concerning ALJ
 19 involvement in -- over the period from 2001 to 2003. Is
 20 that your understanding as you look at that, at your
 21 exhibit?
 22 **A. May I take a moment to read it?**
 23 Q. Sure, yes.
 24 **A. Thank you.**
 25 **Yes, that is what it represents.**

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CROSS-EXAMINATION BY MR. COWELL / KELLY 330

1 Q. And I'm assuming -- well, let me phrase it this
 2 way.
 3 Is that what you based your testimony upon?
 4 It's not cited here in your actual testimony, but I'm
 5 assuming that you based it upon that Pacific Power data
 6 response; is that correct?
 7 **A. I believe I based most of it on the Company**
 8 **testimony, but also some of the information in the form**
 9 **of this request.**
 10 Q. Okay.
 11 If you turn, please, to KAK-14, and please also
 12 take a moment to review, especially the attachments to
 13 that data response. And please confirm if my
 14 understanding is correct that the CREA letters that you
 15 referred to and that you cite here in your testimony
 16 were sent in 2013 and 2015.
 17 **A. Yes, they were.**
 18 Q. So would it be accurate to say that the
 19 chronology that you represent here is that Pacific Power
 20 first represented an inability to negotiate with CREA,
 21 and then about a decade later, CREA reached out to
 22 Pacific Power and has received no response?
 23 **A. That's apparently what you're showing me, yes.**
 24 Q. And these are in your exhibits, correct?
 25 **A. Yes.**

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CROSS-EXAMINATION BY MR. COWELL / KELLY 331

1 Q. Let's turn, please, to your testimony, page 53.
 2 **A. May I add a comment to that last question?**
 3 Q. Sure.
 4 **A. It is apparent it's been a long-term discussion.**
 5 **There have been a lot of the back and forth relative to**
 6 **how this has gone forward. But it's difficult for an**
 7 **outsider to understand --**
 8 Q. Sure.
 9 **A. -- kind of what's going on behind the scenes and**
 10 **how much give and take and how much negotiation has**
 11 **taken place, so --**
 12 Q. Sure.
 13 **A. -- trying to get your arms around this situation**
 14 **in a very short time frame is pretty difficult.**
 15 Q. Right.
 16 But -- and I'm just trying to clarify here, you
 17 did represent, to the best of your ability, the
 18 depiction of the negotiations, right?
 19 **A. I did try.**
 20 Q. And it wasn't an explicit chronology in your
 21 testimony, right?
 22 **A. Not accurate enough, apparently, but intended to**
 23 **get the flavor across.**
 24 Q. So if you could turn, please, to page 53 of your
 25 testimony.

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CROSS-EXAMINATION BY MR. COWELL / KELLY 332

1 **A. Um-hmm.**
 2 Q. And I'm looking at lines 2 and 3.
 3 What's the basis for your conclusion that
 4 neighboring non-jurisdictional providers continue to
 5 have access to cheaper sources of wholesale electric
 6 power?
 7 **A. That was based on the -- some of the testimony I**
 8 **was reading and some of the response to the questions**
 9 **that the -- the thought was that CREA was able to get**
 10 **access to less-expensive power.**
 11 Q. Were there -- were any of the providers of that
 12 information you reviewed anyone besides the Company?
 13 **A. I don't recall that.**
 14 Q. Please turn to page 57, and looking at lines 18
 15 through 22.
 16 And my question is what the basis is of your
 17 testimony concerning safety and operational concerns
 18 related to duplication of facilities here.
 19 **A. I believe that came from the Company's testimony**
 20 **and responses to comments, and also due to a technical**
 21 **conference call that we had with the Company.**
 22 Q. "We," do you mean Public Counsel?
 23 **A. Yes.**
 24 Q. Okay.
 25 If you could turn to page 58, please. I'm

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CROSS-EXAMINATION BY MR. COWELL / KELLY 333

1 looking at lines 2 and 3. You testify to the primary
 2 safety concern, which is the construction of redundant
 3 facilities. What's the basis for this statement?
 4 **A. Can you ask that question a different way,
 5 restate it?**
 6 Q. Sure, I can try.
 7 Your testimony and statement in the second
 8 sentence of this paragraph, what's the basis for that
 9 statement?
 10 **A. It has to do with the process for notification
 11 by customers to Pacific Power of its change, and the
 12 process between the notification of disconnection and
 13 the actual institution of new connection by the new
 14 provider.**
 15 **I was concerned that there needs to be a process
 16 by which both parties, both utility parties are ensuring
 17 that the facilities are not redundant. So I'm looking
 18 in this at the process of notification and the process
 19 of instituting the new -- the new service.**
 20 Q. And when you use the phrase here "redundant
 21 facilities," is this synonymous with duplicative
 22 facilities?
 23 **A. No.**
 24 Q. No?
 25 **A. It is for redundant.**

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CROSS-EXAMINATION BY MR. COWELL / KELLY 334

1 Q. Okay.
 2 And just taking this term "redundant
 3 facilities," would you agree that Mr. Bolton testified
 4 to only two specific instances of redundant facilities?
 5 MR. GREENFIELD: Same objection, your Honor.
 6 We're conflating the two, redundant service and
 7 duplicative facilities.
 8 MR. COWELL: Your Honor, I'm just speaking
 9 to the testimony right here, which plainly says
 10 "redundant facilities."
 11 JUDGE PEARSON: I do believe that Ms. Kelly
 12 was using the term "redundant" when she meant
 13 "duplicative." Was that accurate?
 14 THE WITNESS: I was using redundant as
 15 redundant facilities, and duplicative as duplicative.
 16 JUDGE PEARSON: Oh, okay.
 17 So can you -- can you repeat your question?
 18 BY MR. COWELL:
 19 Q. So my question is, since you're confirming that
 20 you did use "redundant" and you meant to use "redundant"
 21 facilities, do you agree that Mr. Bolton testified
 22 yesterday that there's only been two specific instances
 23 of redundant facilities over the last 17 years?
 24 **A. Subject to check, yes.**
 25 Q. So same page, Ms. Kelly, line 9, you -- I'm

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CROSS-EXAMINATION BY MR. PEPPLER / KELLY 335

1 quoting here -- you agree with the Company that the
 2 redundant facilities are a problem. And again, I want
 3 to confirm here, do you mean to use the word
 4 "redundant"?
 5 **A. I appreciate you finding that. No, that really
 6 should be "duplicative."**
 7 Q. Okay.
 8 And I'm now looking at lines 17 through 20 you
 9 address safety and NESC policy issues here, right?
 10 **A. Yes.**
 11 Q. Are you familiar with the safety and NEC [sic]
 12 discussions in the Walla Walla Country Club case?
 13 **A. No.**
 14 MR. COWELL: All right. Thank you,
 15 Ms. Kelly.
 16 No further questions, your Honor.
 17 JUDGE PEARSON: Thank you.
 18 Mr. Pepple?
 19 CROSS-EXAMINATION
 20 BY MR. PEPPLER:
 21 Q. Good afternoon, Ms. Kelly.
 22 **A. Good afternoon.**
 23 Q. Can you turn to page 10 of your testimony,
 24 please?
 25 MR. TILL: Which page?

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CROSS-EXAMINATION BY MR. PEPPLER / KELLY 336

1 MR. PEPPLER: Page 10.
 2 //^
 3 BY MR. PEPPLER:
 4 Q. A few questions for you about fair market value.
 5 And I'm looking at -- starting on line 19 there.
 6 And just for clarity, you've defined Option 2 as the
 7 customer's option to purchase facilities at fair market
 8 value, correct?
 9 **A. Yes.**
 10 Q. Okay.
 11 So you say that this Option 2 is, quote, "a
 12 valid approach for establishing a cost of permanent
 13 customer departure rather than recovering that cost from
 14 its remaining customers."
 15 Do you see that?
 16 **A. Yes.**
 17 Q. Okay.
 18 So can you explain why using fair market value
 19 is a, quote, "valid approach"?
 20 **A. Fair market value is a standard means in
 21 establishing the stranded cost of facilities in the US.
 22 The fair market value is essentially, if we did a sale
 23 of all the facilities, you essentially establish what
 24 the real value is of those facilities by selling them,
 25 so that you can then at that point understand what they**

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1 are.

2 By having an independent appraisal performed of

3 those facilities, by someone who understands what the

4 value has been and can research what the value has been

5 established as in other jurisdictions, or in this same

6 jurisdiction, you're essentially saying, okay, this is

7 what it is now worth to someone who is going to purchase

8 it and put it in.

9 Q. So are you aware of any other circumstance in

10 which a customer is required to pay fair market value

11 for dedicated facilities when that customer leaves the

12 system?

13 **A. In the circumstance of municipalization, that**

14 **has been one of the approaches taken.**

15 Q. Wouldn't that be a condemnation circumstance?

16 **A. Not necessarily. It's typically a negotiated**

17 **settlement in the case of municipalization.**

18 Q. Well, would the negotiated settlement be in lieu

19 of condemnation?

20 **A. Condemnation is an approach to try and get the**

21 **municipalization to occur.**

22 Q. Let me ask it a different way.

23 Are you aware of any way for a municipalization

24 to occur without at least the threat of condemnation?

25 **A. I can't agree to that. I think that there have**

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1 been municipalizations where the parties have come to

2 the table and agreed to move forward without

3 condemnation. There may have been a threat, but I don't

4 know enough about all the possible condemn- --

5 municipalizations to accept that.

6 Q. Do you have a specific example to give me?

7 **A. Pardon me?**

8 Q. Do you have a specific example to give me?

9 **A. I'm sorry. I can't remember one right off the**

10 **top of my head. I can go back to my office and go**

11 **through some of my records and get back to you on that,**

12 **but I --**

13 Q. Okay.

14 **A. -- don't have one off the top of my head.**

15 Q. Now, looking at the same sentence that we were

16 just talking about, you say that fair market value is a

17 valid approach rather than recovering, quote, "that

18 cost" from remaining customers.

19 What cost are you referring to?

20 **A. That would be the costs of the facility that are**

21 **no longer going to be recovered from a departing**

22 **customer. That would be that cost, the stranded cost.**

23 Q. And would that not be recovered if the customer

24 paid the Company net book value?

25 **A. Not necessarily, because a net book value is**

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1 calculated a different way.

2 Q. Can you explain that, please?

3 **A. The net book value is essentially the book cost**

4 **less the depreciation. So it ends up -- typically, it**

5 **could be a lower value than the fair market value, but**

6 **not in all cases. The fair market value could also come**

7 **in less.**

8 Q. I guess my question is, if the customer stayed

9 with the Company, would it pay fair market value for the

10 services that it is receiving, or would it pay net book

11 value for the services it is receiving?

12 **A. In the long term, it would pay the net book.**

13 Q. Okay.

14 Can you turn to page -- pages 13 [sic] of your

15 testimony. And on this page, and going on to page 15,

16 you identify circumstances that can give rise to

17 stranded costs; is that correct? Specifically, you have

18 four examples.

19 **A. Yes, that's correct.**

20 Q. And then if you turn to page 15, starting at the

21 Q and A on line 14, you identify two minimum conditions

22 that can give rise to stranded costs.

23 And just to summarize those, those would be:

24 Costs will not be avoided when a customer leaves the

25 system, and the second factor is that additional market

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1 revenues caused by the customer's departure will not

2 offset the costs that cannot be avoided; is that

3 correct?

4 **A. Yes.**

5 Q. Okay.

6 Is it your position that, whenever stranded

7 costs as you have defined them exist, that utilities

8 should receive recovery of them?

9 **A. I'm sorry. Can you say that again?**

10 Q. Yes.

11 Is it your position that, whenever stranded

12 costs exist, as you have defined "stranded costs," the

13 utility should receive recovery of them?

14 **A. No, I don't think I can say that across the**

15 **board.**

16 Q. Would you agree that, under your definition of

17 "stranded costs," stranded costs could be created by a

18 customer going out of business or moving its operations

19 to another jurisdiction?

20 **A. For a company that's going out of business or a**

21 **customer who's going out of business that leaves, there**

22 **is an opportunity to have another customer move into**

23 **those same facilities. So there might be a short-term**

24 **period where the utility would not collect the revenues.**

25 Q. And there could also be a long-term period?

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1 **A. There could also be a long-term period.**

2 Q. So there could, in fact, be stranded costs in

3 that circumstance?

4 **A. There could, in fact, be costs that have to be**

5 **recovered from the remaining customers.**

6 Q. And are those stranded costs under your

7 definition?

8 **A. Yes.**

9 Q. Okay.

10 So turning to page 16, lines 14 through 19, you

11 say that the situation in this case is an example of

12 stranded costs arising in the absence of a franchise

13 agreement, correct?

14 **A. Yes.**

15 Q. And that would be the same as example No. 4 on

16 page 15 of your list?

17 **A. When you say "the same as" --**

18 Q. I mean, so you have four examples of

19 circumstances that can create stranded costs. The

20 example that this one fits, at least the best in, is in

21 example No. 4.

22 Would you agree with that?

23 **A. As the best fit, yes.**

24 Q. Okay.

25 And then on page 15, lines 6 through 10, you

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1 cite two prior examples of this type of stranded cost,

2 correct?

3 **A. What page?**

4 Q. Page 15, lines 6 through 10, speaking of the

5 example No. 4.

6 **A. Yes. Thank you.**

7 Q. So can you turn to cross-exhibit KAK-20X now?

8 Would you agree that this is a printout of the

9 link that you have identified on footnote 27 on page 15;

10 this is the farm taps example?

11 **A. Yes, it is.**

12 Q. Okay.

13 Now, I've read this a couple of times and I

14 haven't seen any discussion of stranded costs. Did I

15 miss something there?

16 **A. I would have to review the report again with**

17 **that in mind.**

18 Q. Okay.

19 Well, can you -- would you accept, subject to

20 check, that there is no mention of stranded costs in

21 this document?

22 **A. If you give me one second. What page were we**

23 **on?**

24 Q. Well, I'm looking at Exhibit KAK-20X.

25 **A. Right. Yep. I was looking to go back to the**

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1 footnote.

2 Q. And the citation for this exhibit is footnote 27

3 on page 15 of your testimony.

4 **A. Yes, I'll accept that, subject to check.**

5 Q. Okay.

6 Now, can you turn to Exhibit KAK-21X? And I

7 will represent to you that this is the case that you

8 have cited as the other example on page 15 at footnote

9 26 of your testimony.

10 Do you agree to that?

11 **A. Yes.**

12 Q. Okay.

13 Can you turn to page 9 of this exhibit? Let me

14 know when you're there. Are you there?

15 **A. Yes, I am.**

16 Q. Okay.

17 Now, toward the bottom of this exhibit, this

18 page, there's an indented quote where the court here is

19 quoting a Pennsylvania Public Utility Commission. Can

20 you read that indent in quotes, starting with "Regarding

21 Peoples' argument"?

22 **A. "Regarding Peoples' argument that if Phillips is**

23 **permitted to provide gas service to IU and McCreary**

24 **under the competitive policy that Peoples will lose**

25 **other industrial loads to the ultimate rate disadvantage**

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1 of residential and industrial customers, Peoples

2 overlooks the fact that the Commission has authorized

3 flexible rates to meet gas-to-gas competition, as well

4 as competition from alternate fuels, and that such rates

5 can be found in Peoples' tariff. Peoples, as well as

6 other jurisdictional gas utilities, has been confronted

7 with customers who have, or have threatened to switch to

8 alternate fuels, self-help gas and to transportation

9 gas. In light of this situation, the Commission, as it

10 is authorized to do, has concluded that it is in public

11 interest to spur the efficiencies that are created by

12 competition by permitting customers to choose among

13 suppliers in overlapping service territories. By making

14 gas utilities more efficient, losses to competing fuels

15 and unregulated sources of gas will be minimized."

16 Q. Okay.

17 And then the sentence right after that says,

18 "Our examination of the record leads us to a conclusion

19 that no abuse of discretion has been shown," right?

20 **A. That's correct.**

21 Q. Okay.

22 Now, you would agree with me, then, that in this

23 case, no stranded costs were authorized?

24 **A. No stranded costs were authorized, but there**

25 **was -- this is essentially documenting the fact that, in**

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1 a competitive situation such as this, the decision was
 2 made that it is an alternative fuels competition.
 3 Q. Well -- okay.
 4 Are you aware of any circumstance in which a
 5 utility was awarded stranded costs simply because it
 6 operated without a franchise agreement?
 7 **A. No. As I said, this is a unique situation here**
 8 **in the state of Washington.**
 9 Q. Okay.
 10 Can you turn to page 19 of your testimony? On
 11 this page and going on to the next, you identify four
 12 ways of identifying fixed costs, which are an
 13 engineering analysis, direct categorization, planning
 14 and financial models and cost allocation, correct?
 15 **A. That's correct.**
 16 Q. Okay.
 17 Now, can you turn to page 24, please? Now, here
 18 at lines 16 to 17, you note that Pacific Power shows the
 19 direct categorization method for identifying fixed
 20 costs, correct?
 21 **A. Correct.**
 22 Q. And you agree with this decision; is that right?
 23 **A. To use that approach?**
 24 Q. Yes.
 25 **A. Yes, to the extent that I recognize how**

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1 difficult it is to do some of the preferred approaches,
 2 which would be the full planning and financial model.
 3 Q. Right. Okay. Okay.
 4 So can you turn to page 36 of your testimony?
 5 And I'm looking at line 16 here. And here in this
 6 section, we're talking about the other side of the
 7 stranded costs methodology, which is determining
 8 additional market revenues, correct?
 9 **A. Correct.**
 10 Q. Okay.
 11 And you -- with respect to determining these
 12 additional market revenues, you note that the only
 13 acceptable method of determining these revenues, that
 14 you're aware of, is to use a planning and financial
 15 model; isn't that right?
 16 **A. It is the most accurate method, yes.**
 17 Q. Well, you say that this is the only one that
 18 you're aware of that can be used; isn't that right?
 19 **A. Yes.**
 20 Q. Okay.
 21 But ultimately, you reject using this approach
 22 because it would yield an insignificant amount of
 23 revenue; isn't that right?
 24 **A. Because it yields an insignificant --**
 25 Q. Amount of revenues, of market revenues.

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1 **A. I don't believe that's quite accurate.**
 2 Q. Well, how about if you look up at line 7? It
 3 says, "The model would have difficulty detecting any
 4 difference with and without a typical Walla Walla
 5 customer included in total load to be served."
 6 Do you see that?
 7 **A. Yes, I do.**
 8 Q. Okay.
 9 And then down on line 12, you say, "running such
 10 models for each departing customer would be
 11 time-consuming and costly for a utility to perform, and
 12 not easily understood by departing customers."
 13 So --
 14 **A. That's correct.**
 15 Q. -- those would be your -- those would be your
 16 rationales for -- for not using a planning and financial
 17 model in this circumstance?
 18 **A. If I could state my own opinion, I think that**
 19 **the difficulty in using these models is the reason that**
 20 **I rejected using them. It is because these models are**
 21 **very expensive, they require a lot of data, it is very**
 22 **difficult to see a change, and typically what you do**
 23 **with these models is you do a change case. You do a**
 24 **base case with all the customers in place and a change**
 25 **case with the departed customers.**

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1 Unless that number is sufficiently large, it is
 2 very difficult to see the differences in the costs
 3 associated with those customers that are no longer
 4 there. So while it is the most appropriate and the most
 5 correct way to get at the cost, it is very difficult to
 6 do.
 7 So one has to make assumptions of large enough
 8 load sizes leaving the system to ensure that you're
 9 going to be able to get data that, then, says, here are
 10 what the stranded costs are. It is a preferred
 11 approach, by all means --
 12 Q. Okay.
 13 **A. -- it's the most accurate.**
 14 Q. I guess just to cut to the chase, in your
 15 stranded cost analysis, you ignore additional market
 16 revenues?
 17 **A. Can you restate that?**
 18 Q. In your stranded cost analysis that you did in
 19 this case, you ignore additional market revenues?
 20 **A. No, we don't. We basically -- it's suggested**
 21 **that the Company needs to include that consideration,**
 22 **but we did not do the stranded cost calculation work --**
 23 Q. But you do not include any additional market
 24 revenues in the stranded cost analysis?
 25 **A. We recommend that they should be considered. I**

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1 recommend that they should be considered, yes.

2 Q. But I guess, did you do a stranded cost analysis

3 in this case?

4 **A. I did not do the stranded cost calculation. I**

5 **spoke to the method for doing stranded cost, but I did**

6 **not calculate them.**

7 Q. Okay.

8 Now, why, in your opinion, would it be

9 appropriate to calculate fixed costs using one method,

10 but to calculate additional market revenues using

11 another method?

12 **A. The fixed costs are not easily attributed by**

13 **this method, and it is more appropriate to use a direct**

14 **categorization or the cost-of-service approach to do**

15 **that.**

16 Q. Well, didn't you just say that additional market

17 revenues are also not easily attributable, or that

18 this -- using a planning and financial model for

19 additional market revenues in this case is not easily

20 used in either?

21 **A. That's correct. But if you go back to the**

22 **direct categorization method, you can allocate -- you**

23 **can just -- you can set up what the fixed costs are in**

24 **that case.**

25 Q. So why would it be inappropriate to use a

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1 planning and financial model simply because the results

2 are small?

3 **A. It is difficult to develop what the actual value**

4 **is for the small customer using a model that's trying to**

5 **model a system that's a thousand megawatts in size. So**

6 **on a relative basis, it's very difficult to get the**

7 **results from that model, because, as I said, you're**

8 **typically using a change case. And in that change case,**

9 **there are, within the error of the model, that number**

10 **could fall within that range of error that is always in**

11 **some of those planning models.**

12 Q. Okay. All right.

13 So turning to the time period, I think we've

14 established that PacifiCorp originally proposed a

15 ten-year period over to calculate the stranded costs,

16 and you proposed a six-year period --

17 **A. That's correct.**

18 Q. -- which PacifiCorp accepted on rebuttal. Okay?

19 Can you turn to page 41 of your testimony,

20 please? And if you're at line 8 through 12, you

21 recommend a six-year period because it is consistent

22 with three IRP planning cycles; is that right?

23 **A. That's correct.**

24 Q. Okay.

25 So can you -- I asked the same question of

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1 Mr. Meredith -- can you explain to me the relationship

2 between an IRP and stranded costs?

3 **A. The IRP establishes how the utility will acquire**

4 **the appropriate resources to serve their load.**

5 Q. So how does an IRP help a utility avoid costs it

6 has already incurred?

7 **A. It's actually avoiding costs that are variable**

8 **costs over time. So they're avoiding some of the**

9 **variable costs, and they're also not making decisions to**

10 **acquire new facilities or to enter into contracts --**

11 Q. And I guess --

12 **A. -- so that will help in that case.**

13 Q. -- if -- if a customer leaves and the utility

14 decides not to acquire a new resource as a consequence,

15 that would seem to me to represent an avoided cost to

16 the utility.

17 **A. Avoided cost can be similar to a stranded cost.**

18 Q. How so?

19 **A. Primarily what you're looking at is, in an IRP,**

20 **you're essentially establishing what the cost to serve**

21 **the customer will be for the next -- we'll use five**

22 **years, so the IRP establishes that. If the Company goes**

23 **out and sits there and looks at its IRP and says, okay,**

24 **I'm not going to enter into that agreement now, so now**

25 **the -- the level of standard costs is lower, because**

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1 they've just made a decision not to do something.

2 Q. But how is that cost stranded at all since they

3 never incurred that cost?

4 **A. It's included in the power costs going forward.**

5 Q. It's included in the power costs when the

6 customer leaves?

7 **A. No, it's included in the power costs that the**

8 **customer would have paid over time. Now, I understand**

9 **that the stranded cost analysis excludes the net power**

10 **costs, but it does not exclude the fixed power costs**

11 **associated with that. So if they make some decisions**

12 **over time, that -- that may help.**

13 Q. Okay.

14 And to your knowledge, does an IRP address every

15 fixed cost a utility has?

16 **A. No.**

17 Q. Okay.

18 Now, why would three IRP cycles be necessary

19 rather than just one?

20 **A. It gives the Company time to make some changes**

21 **in its acquisition. It gives the Company time to make**

22 **some changes in its operations and planning.**

23 Q. Can you turn to page 47, please?

24 **A. Okay.**

25 Q. Line 16, you recommend that the Company shorten

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1 the time period for the analysis from ten to no more
 2 than six years.
 3 Do you see that?
 4 **A. Yes, I do.**
 5 Q. Does that mean that one year would be
 6 sufficient?
 7 **A. No, it does not.**
 8 Q. Does that mean any period less than six years
 9 would be sufficient?
 10 **A. No, that's not what it says.**
 11 Q. Well, it says no more than, so does that mean
 12 just six?
 13 **A. We recommended six.**
 14 Q. Okay.
 15 Did you do any analysis to determine that a
 16 six-year period accurately captures Pacific Power's
 17 stranded costs from a customer departure other than what
 18 is presented in your testimony?
 19 **A. I recommended the six-year period because, in my**
 20 **opinion, it was more reflective of the time when the**
 21 **Company would be able to adjust its operations, as**
 22 **opposed to ten years, balancing that with the thought**
 23 **that the current situation in Washington encourages**
 24 **competition. So wanting to protect the customers who**
 25 **remain, and yet trying to keep the costs of the stranded**

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1 costs for customers who are choosing to depart
 2 relatively low on that basis.
 3 It was a balancing act, a balancing
 4 recommendation to try and take the perspectives of both
 5 parties into play, as opposed to erring on the side of
 6 giving the Company as much stranded costs as you can
 7 get, or allowing the customer not to contribute at all
 8 to the remaining customers who are non-participants.
 9 Q. So in other words, your recommendation is not
 10 intended to determine stranded costs as accurately as
 11 they could be determined?
 12 **A. I don't think I'd agree with that statement.**
 13 Q. Well, you said that it was a balancing between
 14 the interests of departing customers and the interests
 15 of remaining customers.
 16 **A. I understand what you're saying. I recommend**
 17 **that we -- that the Commission ensure that the Company**
 18 **calculates stranded costs as accurately as it can. But**
 19 **what the Commission is going to decide is, what is the**
 20 **appropriate time frame? And that time frame is going to**
 21 **have to be balanced based on what the impact is on the**
 22 **remaining customers versus the impact on the departing**
 23 **customers.**
 24 **And that's a balance point that a decision has**
 25 **to be made, and my recommendation was made for six years**

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1 to try and balance that. Six years appears to include
 2 sufficient time for the Company to make modifications
 3 and allow other customers to understand -- to get some
 4 support for the costs that they weren't paying before.
 5 Q. Okay. Thank you, Ms. Kelly.
 6 Can you turn to page 48, lines 14 through 18?
 7 You state here that Pacific Power has sustained revenue
 8 loss because Columbia REA has offered rates to large
 9 customers that are locked in for five years, among other
 10 incentives. Do you see that?
 11 **A. I don't -- what line?**
 12 Q. Lines 14 through 18. I'm sorry. I'm on the
 13 wrong page.
 14 **A. Thank you.**
 15 Q. No, sorry. It's lines 15 through 18, "The
 16 Company has sustained gradual" --
 17 **A. Are we on page 48?**
 18 Q. Page 48, at the end of line 15, you say the
 19 Company has, quote, "sustained gradual revenue loss due
 20 to several large customers requesting disconnection from
 21 Pacific Power in favor of being served by CREA, who has
 22 offered rates that are locked in for five years, among
 23 other incentives."
 24 Do you see that?
 25 **A. Okay. Now I see it. Thank you.**

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1 Q. Okay.
 2 Is this statement based exclusively on the
 3 testimony of Mr. Dalley?
 4 **A. Yes, it is.**
 5 Q. So you have no personal knowledge of Columbia
 6 REA locking rates in for five years?
 7 **A. No, I don't.**
 8 Q. What incentives has Columbia REA offered
 9 Pacific Power's customers that you have personal
 10 knowledge of?
 11 **A. I don't have any personal knowledge of it.**
 12 Q. Okay.
 13 Can we turn to page 53, please? At line 11, you
 14 state, "I have specific knowledge from responses to
 15 discovery in this proceeding that CREA does not offer
 16 such programs," and here I'll represent to you that
 17 we're talking about energy efficiency and low-income
 18 programs, correct?
 19 **A. That's correct.**
 20 Q. Okay.
 21 "But customers are able to obtain similar
 22 assistance and benefits through other organizations."
 23 And let's see -- so can you turn to your Exhibit
 24 KAK-15?
 25 **A. I have it.**

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1 Q. Okay.

2 And in subsection A of this response, Columbia

3 REA notes that its low-income members receive assistance

4 from Blue Mountain Action Council.

5 Do you see that?

6 **A. Correct.**

7 Q. Okay.

8 Now, can you turn the page? And at the top

9 there, it says, "In addition to support through BMAC,

10 CREA provides assistance to its low-income members

11 through rate reductions for these members. During the

12 period requested, CREA provided \$10,873 in rate

13 assistance for its low-income members."

14 Do you see that?

15 **A. I see that, yes.**

16 Q. Okay.

17 Now, can you turn to KAK-18, please?

18 **A. KAK --**

19 Q. 18.

20 **A. -- 18.**

21 Q. Now, here, in the response in the second

22 paragraph, it states that "Over the past five years,

23 CREA has paid out an annual average of \$288,820 for

24 energy efficiency."

25 Do you see that?

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1 **A. That's correct.**

2 Q. Okay.

3 Now, can you go back to your testimony, page 53?

4 You would agree that the passage we were just discussing

5 is not accurate, correct, based on -- based on those

6 exhibits where you say that you have specific knowledge

7 that CREA does not offer its own low-income and

8 energy-efficiency programs?

9 **A. Yes.**

10 Q. All right. Just a couple more questions,

11 Ms. Kelly.

12 Page 56. I'm looking at lines 10 through 12.

13 You say, "Since publicly owned utility energy ^ -

14 efficiency programs receive limited oversight, it is

15 difficult to be assured that CREA will continue to offer

16 the same or a larger size energy ^ - efficiency program

17 going forward."

18 Do you see that?

19 **A. Yes.**

20 Q. How do you know that Columbia REA's

21 energy-efficiency programs receive limited oversight?

22 **A. I don't know what oversight beyond your board of**

23 **directors they get.**

24 Q. So do you have any personal knowledge -- you

25 don't have any personal knowledge of the oversight --

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1 **A. No, I don't.**

2 Q. -- that -- okay.

3 So I guess by saying that these programs is

4 limited [sic] the oversight, you simply mean that it's

5 different than the oversight the Commission provides

6 Pacific Power's programs?

7 **A. Yes. My conclusion is that it's different**

8 **oversight. It doesn't receive the same scrutiny or**

9 **oversight that the Commission provides to --**

10 Q. So this --

11 **A. -- Pacific Power's programs.**

12 Q. This oversight could be greater or it could be

13 less, as far as you know?

14 **A. I don't know.**

15 Q. Okay.

16 Then moving down to line 12, you note that you

17 "do not know from CREA's response to discovery whether

18 the savings ramp up or down over time, and we do not

19 have a comparison of budget to actual spending and

20 savings to evaluate whether CREA's program design is

21 effective. As an example, CREA states that over the

22 past five years it has, quote, paid out an annual

23 average of 288,820 for energy efficiency. It is not

24 clear whether these expenditures were cost-effective or

25 related to a specified conservation target."

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1 Do you see that?

2 **A. Yes, I do.**

3 Q. Did you ask for any of that information in

4 discovery?

5 **A. Subject to check, I believe we did ask for**

6 **information about that. I do know that we went to your**

7 **website -- I went to your website and tried to find**

8 **information about the programs, and there was very**

9 **little information there.**

10 Q. Okay.

11 Did you ask for Columbia REA's budgeted energy

12 efficiencies?

13 **A. I don't remember.**

14 Q. Did you ask for whether there was a conservation

15 target that CREA has to meet?

16 **A. I don't recall.**

17 Q. Okay.

18 If you could turn back to page 45. Now, my

19 understanding is that, by reducing the stranded cost

20 recovery fee period from ten years to six years, you

21 reduced the revenue multiplier for residential

22 customers, but you kept the revenue multiplier for

23 nonresidential customers at the same as what

24 Pacific Power had proposed in its -- using a ten-year

25 period; is that correct?

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CROSS-EXAMINATION BY MR. GREENFIELD / KELLY 361

1 **A. That's correct.**

2 Q. Okay.

3 And I believe Mr. Cowell quoted you here at

4 lines 16 through 18, you say, "Nonresidential customers'

5 fees should be determined by a multiplier as originally

6 proposed because these customers are likely to depart

7 upon being offered incentives from a competitive

8 supplier."

9 Do you see that?

10 **A. Yes, I do.**

11 Q. So would it be fair to say, then, that you

12 maintained a higher revenue multiplier in order to

13 prevent these customers from leaving?

14 **A. No. In fact, we left the nonresidential**

15 **multiplier primarily because we were trying to ensure**

16 **that residential customers had a cap. We just did not**

17 **address the nonresidential. There was no decision to**

18 **penalize those customers.**

19 Q. Okay.

20 MR. PEPPE: No more questions.

21 JUDGE PEARSON: Thank you.

22 Mr. Greenfield, did you have anything?

23 MR. GREENFIELD: Just two, your Honor.

24 JUDGE PEARSON: Okay.

25 CROSS-EXAMINATION

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REDIRECT EXAMINATION BY MS. GAFKEN / KELLY 363

1 analysis?

2 **A. No.**

3 Q. And in particular, what was the goal of your

4 analysis?

5 **A. The goal of the analysis was to ensure that the**

6 **remaining customers were protected from the departure of**

7 **customers going to another service -- another system.**

8 Q. And with respect to the departing customers,

9 what was the goal there?

10 **A. The goal was to try and make sure that the**

11 **decision -- decisions made relative to the Company's**

12 **proposal were such that we were not trying to deter them**

13 **from leaving, just ensure that they're paying some part**

14 **of the costs that will no longer be recovered. If I**

15 **could add to that, again, it was a balance, trying to**

16 **ensure that both sets of parties get treated fairly.**

17 Q. So there were protections on both sides of that

18 coin?

19 **A. Yes.**

20 Q. You were asked a number of questions about

21 accuracy and how important accuracy were [sic], and

22 those -- those questions came from a number of

23 questioners.

24 **A. Yes, I do [sic].**

25 Q. Is the Company's proposal in this case perfect?

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REDIRECT EXAMINATION BY MS. GAFKEN / KELLY 362

1 BY MR. GREENFIELD:

2 Q. Ms. Kelly, do you have any personal knowledge as

3 to Pacific Power's responses to the two letters from

4 Columbia REA that appear at KAK-14?

5 **A. I do not.**

6 Q. And in its modified proposal, the Company did

7 address freed-up energy, or as Mr. Pepple used the term,

8 additional market revenues, correct?

9 **A. That's correct.**

10 MR. GREENFIELD: Thank you.

11 JUDGE PEARSON: Ms. Gafken, did you have

12 any?

13 MS. GAFKEN: I just have a little bit of

14 redirect.

15 JUDGE PEARSON: Okay.

16 MS. GAFKEN: I'll try to be quick.

17 REDIRECT EXAMINATION

18 BY MS. GAFKEN:

19 Q. Ms. Kelly, Mr. Casey for Staff asked you

20 questions about erring on the side of remaining

21 customers in fairness.

22 Do you recall those questions?

23 **A. I do.**

24 Q. Do you recall whether you were instructed to

25 favor one set of customers over another in your

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REDIRECT EXAMINATION BY MS. GAFKEN / KELLY 364

1 **A. No.**

2 Q. And is its imperfection a reason to do nothing

3 in this case?

4 **A. Absolutely not. The situation is -- has been in**

5 **place for a number of years and should be addressed.**

6 Q. You were asked a number of questions about

7 stranded cost calculations and various methodologies.

8 Are stranded cost calculations cookie-cutter by

9 nature? Would the same methodology apply across all

10 cases?

11 **A. No, not likely. It's all dependent on what the**

12 **case is and what the considerations are. And each**

13 **jurisdiction does it its own way.**

14 Q. You were asked questions, I believe, by

15 Mr. Cowell with respect to the low-income and

16 energy-efficiency obligations, and including those

17 amounts in the stranded cost calculation.

18 Do you remember -- do you recall those

19 questions?

20 **A. Generally.**

21 Q. Are there particular policy reasons that you had

22 in mind when you included your recommendation to include

23 system benefit charges in the stranded cost calculation?

24 **A. To ensure that the remaining customers are not**

25 **required to pay the costs that would have been paid by**

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REDIRECT EXAMINATION BY MS. GAFKEN / KELLY 365

1 the departing customer and to ensure that the programs
 2 remain in place.
 3 Q. Do you see system benefit charges being imposed
 4 in other jurisdictions --
 5 **A. Yes.**
 6 Q. -- in your work?
 7 **A. Yes.**
 8 Q. Mr. Pepple for CREA asked you a question about,
 9 if a customer stayed on the system, would they pay net
 10 book value; do you recall that line of questioning?
 11 **A. I do.**
 12 Q. If the customer stayed on Pacific Power's
 13 system, would the costs associated with that customer
 14 shift to other customers?
 15 **A. No.**
 16 Q. With respect to the cross-exhibit -- let me get
 17 the number here -- KAK-20X, this is the one that deals
 18 with farm caps.
 19 **A. Yes.**
 20 Q. I'm going to try to clarify this a little bit
 21 for the record and see if I can refresh memory.
 22 Do you recall if this reference was to define
 23 what a "farm cap" was?
 24 **A. Can you ask that again? I'm sorry.**
 25 Q. Do you recall whether this reference was to aid

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REDIRECT EXAMINATION BY MS. GAFKEN / KELLY 366

1 in defining what a "farm cap" was versus defining a
 2 stranded cost calculation with respect to farm caps?
 3 **A. Yes, it was. Thank you.**
 4 MS. GAFKEN: Frankly, that may have been my
 5 fault because I had no idea what a farm cap was.
 6 That's all I have. Thank you.
 7 JUDGE PEARSON: Thank you.
 8 Are there any questions from the bench?
 9 Okay. So we are going to go ahead and take
 10 a ten-minute break right now and we will be off the
 11 record and reconvene at 3:10.
 12 (A break was taken from 3:01 p.m.
 13 to 3:14 p.m.)
 14 JUDGE PEARSON: Okay. We are back on the
 15 record, and Mr. Panco is on the stand.
 16 So if you would please stand and raise your
 17 right hand, I will swear you in.
 18
 19 DAVID PANCO, witness herein, having been
 20 first duly sworn on oath,
 21 was examined and testified
 22 as follows:
 23
 24 JUDGE PEARSON: Please be seated, and if you
 25 could state your full name and spell your last name for

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DIRECT EXAMINATION BY MR. CASEY / PANCO 367

1 the record, please.
 2 THE WITNESS: David Panco, P-A-N-C-O.
 3 JUDGE PEARSON: Thank you.
 4 Mr. Casey?
 5 DIRECT EXAMINATION
 6 BY MR. CASEY:
 7 Q. Mr. Panco, the parties have already stipulated
 8 to the entry of your testimony and exhibits, which are
 9 DJP-1T through DJP-14X.
 10 Mr. Panco, do you have any changes or
 11 corrections to your pre-filed testimony or exhibits?
 12 **A. No, I don't.**
 13 Q. And if I asked you the questions set forth in
 14 your pre-filed testimony and exhibits today, would your
 15 answers be the same?
 16 **A. Yes, they would be.**
 17 MR. CASEY: Mr. Panco is available for
 18 cross-examination and questions from the bench.
 19 JUDGE PEARSON: Okay. Great.
 20 Mr. Greenfield?
 21 MR. GREENFIELD: Your Honor, in reviewing
 22 the exhibits that have been admitted already, I think
 23 we'd like to take the same approach as we did with
 24 Ms. Kelly, and just reserve the opportunity at the end
 25 for questioning, but waive at this time.

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CROSS-EXAMINATION BY MS. GAFKEN / PANCO 368

1 JUDGE PEARSON: Okay. That sounds good.
 2 Then Ms. Gafken?
 3 CROSS-EXAMINATION
 4 BY MS. GAFKEN:
 5 Q. Good afternoon.
 6 **A. Hello.**
 7 Q. Mr. Panco, would you turn to your testimony,
 8 which is Exhibit DJP-1T at page 25, lines 20 to 25?
 9 **A. Okay.**
 10 Q. There you state, "The existing tariff conditions
 11 appear to be adequate to prevent a substantial migration
 12 of customers from Pacific Power to alternate electric
 13 service providers," correct?
 14 **A. Correct.**
 15 Q. The goal of this proceeding is not to prevent
 16 the migration of customers from one provider to another,
 17 is it?
 18 **A. The goal of the proceeding is to assess whether**
 19 **the tariff proposals should be adopted.**
 20 Q. But the goal is not to prevent the migration of
 21 customers, is it?
 22 **A. No, I don't believe that it is.**
 23 **CHAIRMAN DANNER: Ms. Gafken, I'm sorry.**
 24 **That citation -- we're confused. It doesn't appear to**
 25 **line up. You said it was page 25, lines --**

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CROSS-EXAMINATION BY MS. GAFKEN / PANCO 369

1 MS. GAFKEN: 20 through 22.
 2 COMMISSIONER RENDAHL: I believe you said
 3 line 20 to 25, and now you said 22. Is that --
 4 CHAIRMAN DANNER: Oh, I see it. Okay.
 5 Thank you. We're okay.
 6 MS. GAFKEN: Okay. 20 to 22. That's what
 7 happens when I type things instead of handwrite them.
 8 BY MS. GAFKEN:
 9 Q. Are you familiar with the policy statement
 10 issued by the Commission in Docket UE-940932, in which
 11 the Commission discussed certain guiding principles for
 12 regulation in an evolving electric industry in 1995?
 13 **A. I am not familiar with that docket.**
 14 Q. Okay.
 15 Is it fair to say, then, that you did not
 16 consider the guiding principles enumerated by the
 17 Commission in the policy statement that was issued in
 18 Docket UE-940932?
 19 **A. Like I said, I'm not familiar with the docket,**
 20 **so, no, I did not.**
 21 Q. Understanding that you testified that you're not
 22 familiar with the docket, I want to explore if you're
 23 familiar with a concept.
 24 Are you familiar with the concept that remaining
 25 customers should benefit, or at least not be harmed by

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CROSS-EXAMINATION BY MS. GAFKEN / PANCO 370

1 choices made by customers who have access to competitive
 2 options?
 3 **A. Yes, I am.**
 4 Q. Did you consider that principle in developing
 5 your testimony?
 6 **A. I didn't explicitly consider the principle.**
 7 Q. Changing topics.
 8 You characterized the regulatory compact as a
 9 metaphor in Washington, correct?
 10 **A. I characterized it as a metaphor, or a shorthand**
 11 **or a figure of speech, and used as a summation of the**
 12 **various concepts, and also recognized that it finds**
 13 **expression in different jurisdictions in different ways.**
 14 Q. Do you agree that the Commission -- this
 15 Commission has an obligation to -- as a regulator, to
 16 provide a reasonable opportunity for regulated companies
 17 to earn a reasonable return?
 18 **A. Yes, I am.**
 19 Q. And do you agree that regulated utilities in
 20 Washington have an obligation to serve customers who
 21 make a reasonable demand for service within their
 22 service territories?
 23 **A. At a reasonable rate, yes.**
 24 Q. Changing topics again.
 25 Staff does not support applying a stranded cost

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CROSS-EXAMINATION BY MS. GAFKEN / PANCO 371

1 calculation in this case; is that correct?
 2 **A. That's correct. My understanding of stranded**
 3 **costs is that they are costs that occur unexpectedly due**
 4 **to changes in regulatory policy or the advent of market**
 5 **competition. And I don't think there's been an advent**
 6 **or a change in this case.**
 7 Q. So you would apply stranded costs only in
 8 circumstances where something unexpected has happened;
 9 is that -- am I understanding that correctly?
 10 **A. Not something unexpected, but a change in -- an**
 11 **unanticipated change in the regulatory process or rules**
 12 **that gave rise to those specific assets no longer being**
 13 **useful.**
 14 Q. Could a customer cause stranded costs?
 15 **A. The costs that a -- what kind of a customer?**
 16 Q. A utility customer.
 17 **A. Depending on the class of customer, it would be**
 18 **possible that they would contribute to stranding certain**
 19 **assets.**
 20 Q. And in that circumstance, in your opinion, would
 21 the utility be able to recover the stranded costs -- or
 22 let me ask it a different way.
 23 Would the utility be able to impose a stranded
 24 cost fee upon that customer? Can you think of a
 25 situation where that would be appropriate?

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CROSS-EXAMINATION BY MS. GAFKEN / PANCO 372

1 **A. I'm having a difficult time trying -- I'm trying**
 2 **to follow your line of reasoning and come up with a**
 3 **meaningful answer. Could you rephrase the question?**
 4 Q. Sure. And frankly, I was following your line of
 5 reasoning as well.
 6 So I understood your testimony to be that
 7 stranded costs would occur when there's a change in the
 8 regulatory process, and that utility customers could
 9 create a stranded cost.
 10 So my follow-up question was, could you identify
 11 a circumstance -- or in your opinion, would there be a
 12 circumstance where a utility could impose a stranded
 13 cost fee upon the customer who's creating those stranded
 14 costs?
 15 **A. It's difficult for me to imagine an individual**
 16 **customer other than a large industrial customer creating**
 17 **enough of a significant cost that it would fall outside**
 18 **of the noise of the regular cost shifting that occurs in**
 19 **the course of a utility doing business and dealing with**
 20 **variable loads.**
 21 Q. Okay. I'm going to move on.
 22 Pacific Power, in their rebuttal testimony,
 23 presented a proposal to impose a low-income assistance
 24 program and also a conservation program fee.
 25 Does Staff support or oppose those fees?

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CROSS-EXAMINATION BY MS. GAFKEN / PANCO 373

1 **A. Staff suggested rejecting the proposals and**
 2 **didn't offer any cross-answering testimony in response**
 3 **to those proposals. And that was because, in looking at**
 4 **the instances of customers leaving through time, there**
 5 **didn't appear to be a significant enough issue to**
 6 **warrant this large of a change in the tariff structure.**
 7 Q. Well, I'm actually asking about the proposals
 8 that the -- not the proposals that were presented in
 9 their direct case, but the proposals --
 10 **A. I was referring to the rebuttal proposals.**
 11 Q. And no party had an opportunity to respond to
 12 those in testimony, and so, I guess, let me ask it this
 13 way.
 14 Do I understand Staff, then, to say that you did
 15 not support the low-income fee or the conservation fee?
 16 **A. I'm sorry. The existing fees in the tariffs as**
 17 **they exist today? I'm having trouble following you.**
 18 Q. No, the proposals made by the Company in their
 19 rebuttal case.
 20 **A. I'm continuing to stand by the position that,**
 21 **given the reported trends in permanent disconnections**
 22 **being relatively insignificant in comparison to the**
 23 **overall operations, that although the -- the proposed**
 24 **revisions might have some conceptual merit, I take issue**
 25 **with their practicality and implementation**

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CROSS-EXAMINATION BY MS. GAFKEN / PANCO 374

1 administration, and ultimately I think that the existing
 2 tariffs in place are sufficient.
 3 Q. In your testimony, you suggest that
 4 Pacific Power could develop banded rates to more
 5 effectively compete; is that correct? And for a
 6 citation, you can turn to your testimony at Exhibit
 7 DJP-1T, at page 25, lines 5 through 9.
 8 **A. I was pointing that out merely to illustrate the**
 9 **fact that there are options open to the Company under**
 10 **the -- under their existing tariff and under the**
 11 **existing laws. And that was to primarily address the**
 12 **Company's contention that they had no ways to be able to**
 13 **compete. I was not suggesting that they necessarily**
 14 **propose banded rates.**
 15 Q. Has Staff provided any technical assistance to
 16 Pacific Power with respect to WAC 480-80-112? And for
 17 reference, that the WAC that establishes the requirement
 18 for banded rate tariffs.
 19 **A. Which is what I was going to turn to, and, no,**
 20 **we have not -- or at least, no, I have not.**
 21 Q. And do you know if anybody on staff has provided
 22 such technical assistance?
 23 **A. Not that I'm aware of.**
 24 Q. Do you know whether Pacific Power has requested
 25 any technical assistance from Staff with respect to

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CROSS-EXAMINATION BY MR. GREENFIELD / PANCO 375

1 WAC 480-80-112?
 2 **A. Not that I'm aware of.**
 3 Q. Do you know if Staff has offered any technical
 4 assistance to Pacific Power with respect to WAC
 5 480-80-112?
 6 **A. No.**
 7 MS. GAFKEN: That's all I have. Thank you.
 8 JUDGE PEARSON: Okay. Thank you.
 9 Mr. ffitich?
 10 MR. FFITCH: Your Honor, we're not going to
 11 have any questions for the witness.
 12 JUDGE PEARSON: Okay. Thank you.
 13 Mr. Greenfield?
 14 CROSS-EXAMINATION
 15 BY MR. GREENFIELD:
 16 Q. Mr. Panco, you testified that essentially the
 17 volume of departures is such that, in your opinion,
 18 there's no need for a revision of the tariff, correct?
 19 **A. That's correct.**
 20 Q. What would your opinion be if a large industrial
 21 customer decided to permanently disconnect and move to
 22 Columbia REA leaving very significant stranded costs to
 23 be borne by the remaining customers of Pacific Power?
 24 **A. I would point out that, along with the banded**
 25 **rates, special contracts are another option that's open**

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EXAMINATION BY CHAIRMAN DANNER / PANCO 376

1 to the Company to pursue.
 2 Q. But there are no special contracts in place at
 3 this point, are there?
 4 **A. Not that I'm aware of.**
 5 Q. So this would be the means by which the
 6 Commission could address the potential significant
 7 impact of a large industrial customer leaving
 8 Pacific Power's system, correct?
 9 **A. This would also provide a significant change to**
 10 **the tariff for all the other customers in the service**
 11 **area as well.**
 12 MR. GREENFIELD: I understand. Thank you.
 13 JUDGE PEARSON: So --
 14 MR. GREENFIELD: That's all.
 15 JUDGE PEARSON: Any questions from the bench
 16 for Mr. Panco?
 17 CHAIRMAN DANNER: Yeah, I just have a
 18 couple.
 19 EXAMINATION
 20 BY CHAIRMAN DANNER:
 21 Q. So at what point, do you think, do you cross a
 22 threshold where it does become an issue? Right now
 23 you're saying there aren't enough disconnects to make
 24 this an issue that deserves our attention. Where would
 25 that threshold be? I mean, if we were to see the number

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EXAMINATION BY CHAIRMAN DANNER / PANCO 377

1 double, if there were -- if there were 100 next year or
 2 150 after that, or is it 5,000? When -- when do we know
 3 it's time?
 4 **A. I think that that's a difficult bright line for**
 5 **me to suggest in advance. I believe that when the rate**
 6 **structure starts to be affected in a meaningful way**
 7 **within the context of a rate case would be the point at**
 8 **which we would consider that.**
 9 Q. Do you dispute the \$1.8 million loss per year
 10 number that the Company put forward?
 11 **A. I did, but the Company did 340-some-million**
 12 **dollars of business in 2015 so --**
 13 Q. Okay. So this is just --
 14 **A. -- that represents about a half a percent. It**
 15 **represents about less than three-quarters of a percent**
 16 **of load so --**
 17 Q. So you also said that you would encourage the
 18 companies to get back to the table and work out a
 19 service agreement.
 20 Do you have any reason to believe that, given
 21 the past history of these companies sitting down and
 22 trying to work out an agreement, that actually something
 23 could come of it the next time they sit down?
 24 **A. I wouldn't be overly optimistic. I might be --**
 25 **along with that, I suggested consideration of the other**

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REDIRECT EXAMINATION BY MR. CASEY / PANCO 378

1 means which they have available to them to offer
 2 competition, and that would be either through banded
 3 rates or through special contracts with large customers.
 4 CHAIRMAN DANNER: Okay. All right. Thank
 5 you.
 6 JUDGE PEARSON: Thank you.
 7 Mr. Casey, did you have any redirect?
 8 MR. CASEY: One or two questions.
 9 REDIRECT EXAMINATION
 10 BY MR. CASEY:
 11 Q. Mr. Panco, was Staff proposing that banded rates
 12 should be the outcome of this proceeding?
 13 **A. No. Staff was merely suggesting, in response to**
 14 **the Company's assertion that they have no way to**
 15 **compete, that banded rates or special contracts are**
 16 **amongst the ways that are available to them to compete.**
 17 Q. And to your knowledge, has Pacific Power taken
 18 advantage of, or attempted to take advantage of the
 19 various ways that regulation provides flexibility to
 20 allow it to be more competitive?
 21 **A. Not that I am aware of.**
 22 Q. Ms. Gafken was asking you if you support the
 23 proposed low-income fees and conservation fees.
 24 Do you remember those questions?
 25 **A. Yes, I do.**

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EXAMINATION BY COMMISSIONER BALASBAS / PANCO 379

1 Q. Is it your understanding that those fees are
 2 part of the total stranded cost fee?
 3 **A. Yes, they are, but I was -- this stranded cost**
 4 **fee is -- the economist in me is sort of put off by**
 5 **calling it a stranded cost fee. I'd prefer to refer to**
 6 **it as a cost shift, but -- and it wasn't clear to me**
 7 **that the low-income and conservation issues deserved**
 8 **special mention or attention given that I was suggesting**
 9 **leaving the remaining tariffs in place.**
 10 MR. CASEY: Thank you. No further
 11 questions.
 12 JUDGE PEARSON: Okay.
 13 COMMISSIONER BALASBAS: One.
 14 EXAMINATION
 15 BY COMMISSIONER BALASBAS:
 16 Q. Mr. Panco, why did Staff not propose any
 17 cross-response testimony to any of the other parties'
 18 testimony?
 19 **A. Because I really don't feel that the issue has**
 20 **risen to the magnitude that we should be actively**
 21 **pursuing it at the level that it's been proposed to in**
 22 **terms of the magnitude of the tariff changes that are**
 23 **recommended.**
 24 Q. So just to clarify that, is it Staff's position
 25 that we actually just shouldn't be here talking about

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DIRECT EXAMINATION BY MR. COWELL / MULLINS 380

1 this issue?
 2 **A. That would certainly be possible.**
 3 **COMMISSIONER BALASBAS: Okay.**
 4 **JUDGE PEARSON: Okay. Thank you. You're**
 5 **excused, Mr. Panco.**
 6 **And we will call Mr. Mullins.**
 7
 8 BRADLEY MULLINS, witness herein, having been
 9 first duly sworn on oath,
 10 was examined and testified
 11 as follows:
 12
 13 JUDGE PEARSON: You may be seated, and if
 14 you would please state your name and spell your last
 15 name for the record.
 16 THE WITNESS: My name is Bradley Mullins.
 17 My last name is spelled M-U-L-L-I-N-S.
 18 JUDGE PEARSON: Thank you.
 19 Mr. Cowell, go ahead.
 20 DIRECT EXAMINATION
 21 BY MR. COWELL:
 22 Q. Mr. Mullins, do you have any corrections to your
 23 pre-filed testimony and exhibits which were admitted at
 24 this hearing?
 25 **A. I do not.**

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DIRECT EXAMINATION BY MR. COWELL / MULLINS 381

1 MR. COWELL: Your Honor, the witness is
 2 available for cross-examination.
 3 JUDGE PEARSON: Okay.
 4 Mr. Till?
 5 MR. TILL: Thank you, your Honor. We don't
 6 have any questions for Mr. Mullins at this time, but
 7 would like to reserve some time for follow-up questions.
 8 JUDGE PEARSON: Okay. Then I will turn to
 9 Ms. Gafken.
 10 MS. GAFKEN: I also do not have any
 11 questions for Mr. Mullins.
 12 JUDGE PEARSON: Well, okay, then.
 13 Are there any questions from the bench for
 14 Mr. Mullins?
 15 CHAIRMAN DANNER: I feel like I should ask
 16 him something.
 17 THE WITNESS: I drove all the way up here.
 18 CHAIRMAN DANNER: No, I don't have any
 19 questions for him.
 20 COMMISSIONER RENDAHL: I have a question for
 21 you so your being here will not be in vain. How about
 22 that?
 23 THE WITNESS: Okay. Great.
 24 ///
 25 ///

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EXAMINATION BY COMMISSIONER RENDAHL / MULLINS 383

1 Company?
 2 **A. I do not, and I think that would be a good bench**
 3 **request.**
 4 **COMMISSIONER RENDAHL: I agree. We will do**
 5 **so accordingly. Thank you. And that's all I have.**
 6 **So I don't know if you have your follow-up**
 7 **questions that you wanted to ask.**
 8 MR. TILL: No follow-up questions. Thank
 9 you.
 10 JUDGE PEARSON: Okay. Thank you,
 11 Mr. Mullins. You can step down.
 12 And I guess before I call Mr. Wiseman, I
 13 will ask Pacific Power if they have questions for him.
 14 MR. TILL: We do not, although we would
 15 reserve time.
 16 JUDGE PEARSON: You're the only party
 17 scheduled for cross.
 18 MR. TILL: We don't reserve time.
 19 JUDGE PEARSON: Does the bench have any
 20 questions for this witness, for Mr. Wiseman?
 21 CHAIRMAN DANNER: Actually, I did. I wanted
 22 to ask Mr. Wiseman a question about a couple of terms
 23 that he used.
 24 JUDGE PEARSON: Okay. Then Mr. Wiseman, if
 25 you could please come up and I will swear you in.

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EXAMINATION BY COMMISSIONER RENDAHL / MULLINS 382

1 EXAMINATION
 2 BY COMMISSIONER RENDAHL:
 3 Q. Okay.
 4 So in your response testimony, or your
 5 cross-answering testimony, you recommend a grandfather
 6 clause for all customers under certain rate schedules
 7 that have entered into service contracts with
 8 Pacific Power, that they be exempt from the stranded
 9 cost recovery fee.
 10 Do you recall that testimony? I can give you a
 11 cite if you'd like.
 12 **A. Yeah, I believe it's on page 34 of BJM-1T.**
 13 Q. Yes.
 14 So you say, "Under some rate schedules, a
 15 customer must execute a term contract in order to take
 16 services from the Company," and then in footnote 64, you
 17 direct us to a tariff sheet.
 18 And does the tariff language require a
 19 contract -- require a contract or does it permit the
 20 Company to require a contract?
 21 **A. I think it's the latter. I think you are**
 22 **correct.**
 23 Q. Okay.
 24 So do you know how many Pacific Power customers
 25 under Schedule 48T have current contracts with the

DIRECT EXAM BY MR. WILLIAMS/EXAM BY CHAIR DANNER / WI384AN

1
 2 RAYMOND WISEMAN, witness herein, having been
 3 first duly sworn on oath,
 4 was examined and testified
 5 as follows:
 6
 7 JUDGE PEARSON: If you could take a seat,
 8 and then please provide your full name and spell your
 9 last name for the record.
 10 THE WITNESS: My name is Raymond Wiseman.
 11 Last name is W-I-S-E-M-A-N.
 12 JUDGE PEARSON: Thank you.
 13 Mr. Williams?
 14 DIRECT EXAMINATION
 15 BY MR. WILLIAMS:
 16 Q. Mr. Wiseman, do you have any corrections to make
 17 to your exhibits or testimony that we pre-filed?
 18 **A. I do not.**
 19 MR. WILLIAMS: He's ready.
 20 JUDGE PEARSON: Okay.
 21 EXAMINATION
 22 BY CHAIRMAN DANNER:
 23 Q. All right. Thank you.
 24 So I was just hoping that you could give me a
 25 101. There's kind of some terms that you used that I

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EXAMINATION BY CHAIRMAN DANNER / WISEMAN 385

1 wasn't sure if they were general terms or specific
 2 terms.
 3 You've used the word "reservation," you've used
 4 the word "tribal lands," and you've used the word "trust
 5 lands," and I was just wondering, what are the
 6 differences, if any, among those, and what legal
 7 significance do they have?
 8 **A. Okay. On the reservation, after the General**
 9 **Allotment Act, the federal government sold off surplus**
 10 **lands, and those became deeded parcels subject to county**
 11 **jurisdiction.**
 12 **The remaining are still held in trust by the**
 13 **United States government on behalf of the land owners.**
 14 **So those are what are termed tribal or trust properties.**
 15 **You can further delineate the trust parcels by**
 16 **those that were awarded to individual allottees versus**
 17 **ones that are still held 100 percent by the tribal**
 18 **government.**
 19 Q. Okay.
 20 So the individual allottees may not be tribal
 21 members?
 22 **A. No, they would have to be tribal members.**
 23 Q. They're tribal members. Okay.
 24 And so "tribal lands" and "trust lands," you use
 25 that term interchangeably?

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EXAMINATION BY CHAIRMAN DANNER / WISEMAN 386

1 **A. We do.**
 2 Q. Okay. Okay.
 3 CHAIRMAN DANNER: That's just it. That's --
 4 when I was reading it, I just wanted to make sure I
 5 understood the terms. And I didn't have any questions
 6 with testimony you had. I just wanted to make sure I
 7 understood the terminology you were using, so thank you.
 8 JUDGE PEARSON: Thank you.
 9 There's nothing else, then you can step
 10 down, Mr. Wiseman. Thank you for coming.
 11 Okay. So that brings us to the end of the
 12 hearing today. I guess the threat of having to come
 13 back tomorrow caused everyone to speed things up quite a
 14 bit. It's funny how that happens.
 15 So as a reminder, the first round of
 16 simultaneous post-hearing briefs are due by July 28th
 17 with a reply brief deadline of August 17th. And the
 18 parties have agreed to a 25-page limit for the reply
 19 briefs.
 20 And with respect to the bench requests, we
 21 will send those out to the parties in the next day or
 22 two. Typically, there's a two-week turnaround on that,
 23 so, if you need more time, just let us know. But we
 24 will put a 14-day turnaround on responses to those bench
 25 requests.

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1 Is there anything else that we need to
 2 address today?
 3 MR. GREENFIELD: No, your Honor. On behalf
 4 of the Company, thank you.
 5 MR. PEPPLER: I would just like to say thanks
 6 for letting Mr. Gorman testify first yesterday.
 7 Appreciate that very much.
 8 JUDGE PEARSON: Sure.
 9 All right. Hearing nothing else, thank you
 10 all very much for coming here and participating, and we
 11 will adjourn and be off the record.
 12 (Hearing adjourned at 3:43 p.m.)
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1 CERTIFICATE
 2
 3 STATE OF WASHINGTON)
 4 COUNTY OF KING)
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 6
 7 I, ANITA W. SELF, a Certified Shorthand Reporter
 8 in and for the State of Washington, do hereby certify
 9 that the foregoing transcript is true and accurate to
 10 the best of my knowledge, skill and ability.
 11 IN WITNESS WHEREOF, I have hereunto set my hand
 12 and seal this 29th day of June, 2017.
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 17 ANITA W. SELF, RPR, CCR #3032
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