Overview

» Background
» Methodology
» Proposed Rate
» Considerations Applied to Calculation
» Calculation Feedback
» Rate Alternative
» Progression of Rate Development
Background

State law governs pole attachment regulations for public utility districts in Washington State.

Rates must be periodically updated to ensure:

» Calculation methodology aligns with State statute
» Rate inputs reflect up-to-date information
» Discretionary elements correspond with current practices

Rate compilation was a collaborative effort with various District subject matter experts and management including:

» Customer Utilities
» Accounting
» Strategic Financial Planning
» Legal

Rate last updated in 1999
Rate Methodology
Per RCW 54.04.045(3)

» Subsections 3(a) and 3(b) both allocate costs associated with actual pole space occupied by attachments.

» These subsections differ in the cost allocation of the support and clearance space.

Subsection 3(a) – allocates support & clearance space costs in proportion to the space occupied on the pole.

Subsection 3(b) - allocates support & clearance space costs equally to all attaching parties.

» Subsection 3(c) instructs the average of 3(a) and 3(b) yields a “just and reasonable” pole attachment rate.
Chelan PUD’s Proposed Rate
(Calculated Per RCW 54.04.045)

≈ $29.89

Rate Frontier Charges Chelan PUD for attachments

$45.84
Proposed Rate is a Fair Rate

$29.89 is not the maximum or minimum rate allowed per RCW, it is a fair rate

Each element and input utilized in the calculation was carefully considered and analyzed to ensure the final calculated rate is:

» Compliant with the methodology specified by statute

» Adherent to the legislatures stated intent

» Reflective of associated District costs & practices

Many discretionary components of the District’s proposed rate calculation resulted in a rate lower than the maximum allowed by statute, for example:

- No ROR Included in Calculation
  - Many PUDs in WA include a rate of return in their calculation
  - FCC’s default ROR has been 11.25% for several years

- Discounted Total Pole Investment by 15%
  - State law does not require the District to discount total pole investment by any amount
  - The District applied the deduction in the rate calculation because the underlying concept aligns with communication attachers’ typical usage of District poles

- Used Taller Avg. Pole Height in Calculation
  - Using an average pole height of 37.5’ for rate calculations is a commonly accepted industry practice
  - District used an average pole height of 48.19’ in the calculation which effectively lowered the calculated rate by 31%.
Calculation Feedback

The District received feedback on 6 components of the calculation

- Feedback comments relate to issues still pending in Pacific PUD v. Comcast, CenturyTel, Charter
- Feedback comments are not currently in litigation and the District satisfies the current standard set by the Courts
Rate Alternative

» After review of the feedback received, the District believes the formula and inputs used in the initial calculated rate of $29.89 are reasonable.

» However, staff recommends the District adopt an interim rate of $23.14 to account for the two feedback comments that relate to issues still pending in the Pacific PUD appeal. Once the Court of Appeals rules on these issues, the rate calculation will be re-evaluated.
## Progression of Rate Development

### PROCESS TO DATE

- Analysis of rate components & calculation of updated rate
- Stakeholder outreach for calculation review
  - Provided attaching parties calculation support in June 2018 asking for their review and feedback
  - Notified attaching entities of the opportunity to provide additional comment on the calculation at the August 20th Board meeting

### CURRENT EFFORTS

- Received feedback on six components of the rate calculation
- Feedback from attaching parties has been evaluated and corresponding responses are being drafted
- Incorporate Board feedback between now and October 31st

### NEXT STEPS

- Include rate in the annual Board of Commissioners Fees & Charges update to occur in November
- Implement updated pole attachment rate on January 1, 2019

* The pole attachment rate would normally be termed a charge per District classifications. The term rate is used for consistency with industry vernacular.
QUESTIONS?
APPENDIX

» Overview of Calculation Process

» WA Public Utilities Pole Attachment Rate Chart

» Financial Impact of Rate Increase
Calculation Process

Interpreted Statue Language into Mathematical Formula as follows:

\[ 3(a) = (\text{Avg Pole Cost})(\text{Carrying Costs}) \]
\[ = \left( \frac{\text{Occupied Space}}{\text{Usable Space}} \right) + \left( \frac{\text{Occupied Space}}{\text{Usable Space}} \right) \]
\[ \times \left( \frac{\text{Support & Clearance Space}}{\text{Pole Height}} \right) \]
\[ 3(b) = (\text{Avg Pole Cost})(\text{Carrying Costs}) \]
\[ = \left( \frac{\text{Support & Clearance Space}}{\text{Avg. Number of Attachers}} \right) + \left( \frac{\text{Occupied Space}}{\text{Pole Height}} \right) \]

Analyzed inputs and data to be used with the statutory formula, including:

- Calculated average pole cost
- Determined average pole height
- Calculated average number of attachers per pole
- Determined expected pole life
- Use of Gross figures vs. Net figures
- Analysis of direct and indirect pole related costs (carrying costs)

Reviewed above formulas, inputs, and data with:

- Various District Subject Matter Experts
- Accounting
- Strategic Financial Planning
- Legal
- District Management
Pole Attachment Rates of other Washington Public Utilities

- Benton: $19.62
- Clallam: $18.44
- Clark: $17.97
- Cowlitz: $17.55
- Douglas: $21.65
- Ferry: $17.05
- Franklin: $19.70
- Grant: $14.64
- Grays Harbor: $15.42
- Jefferson: $22.00
- Klickitat: $23.14
- Lewis: $25.03
- Mason: $17.31
- Okanogan: $19.06
- Pacific: $16.88
- Seattle City Light: $26.49
- Skamania: $21.65
- Snohomish: $28.55
- Tacoma Power: $15.00
- Wapakoneta: $11.80
- Chelan - Current: $29.89
- Chelan - Interim: $23.14
- Chelan Recommended: $23.14
## Financial Impact by Attachment Type

<table>
<thead>
<tr>
<th>Communications Attachment Type</th>
<th># of Attachments</th>
<th>Current Rate $11.80</th>
<th>Interim Rate $23.14</th>
<th>Proposed Rate $29.89*</th>
<th>Total Increase</th>
</tr>
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<tbody>
<tr>
<td>Third Party Communication Attachments</td>
<td>14,923</td>
<td>$ 176,091</td>
<td>$ 345,318</td>
<td>$ 446,049</td>
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<td>Chelan PUD Communication Attachments</td>
<td>12,631</td>
<td>$ 149,046</td>
<td>$ 292,281</td>
<td>$ 377,541</td>
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<tr>
<td><strong>Total Impact:</strong></td>
<td></td>
<td><strong>$ 325,137</strong></td>
<td><strong>$ 637,599</strong></td>
<td><strong>$ 823,590</strong></td>
<td><strong>$ 498,451</strong></td>
</tr>
</tbody>
</table>

*Subject to change pending outcome of Court of Appeals ruling