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BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	Docket UE-130137
TRANSPORTATION COMMISSION,)	Docket UG-130138
Complainant,)	(Consolidated)
)	
v.)	
)	
PUGET SOUND ENERGY, INC.)	
Respondent.)	

VOLUME VI
Pages 535 through 771

9:02 A.M.
February 13, 2015

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1300 S. Evergreen Park Drive Southwest, Room 206
Olympia, Washington

REPORTED BY: KATHLEEN HAMILTON, RPR, CRR, CCR 1917

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0536

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2

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ANN E. RENDAHL, Commissioner
PHILIP B. JONES, Commissioner

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B-2

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December 7, 2011.

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PSE Response to Bench Request 2

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Regulatory Research Associates, Regulatory Focus,
Major Rate Case Decisions January-March 2013 (April
10, 2013)

10

STIPULATION EXHIBITS

11

S-1

Multiparty Settlement Re: Coal Transition PPA and
Other Pending Dockets" (Stipulation) filed on March
22, 2013

12

S-2

The Energy Project's Joinder in the Multiparty
Settlement Re: Coal Transition PPA and Other Pending
Dockets

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The Northwest Industrial Gas Users' Joinder in the
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Other Pending Dockets

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Katherine J. Barnard, Director Revenue Requirements and
Regulatory Compliance, PSE

18

KJB-1T

Prefiled Direct Testimony re calculation of
K-factors

19

KJB-2

Witness Qualifications

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KJB-3

Annual Growth Rate Based on GRC Compliance Filing
Workpapers-Electric Operations

21

KBJ-4

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KJB-5

Non-Production Plant-6/2012 Actual and Forecasts for
12/2013-12/2015

23

*Barnard Testimony for ERF Dockets (UE-130137 and UG-130138)
only

24

KJB-1T*

Prefiled Direct Testimony updating electric and
natural gas costs and describing property tax
tracker

25

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1	EXHIBIT LIST (CONTINUED)	
2	NUMBER	DESCRIPTION
3	KJB-2*	Witness Qualifications
4	KJB-3*	Electric Results of Operations Summary; Electric Revenue Requirement
5	KJB-4*	Gas Results of Operations Summary; Gas Revenue Requirement
6	KJB-5*	Electric Results of Operations Detailed Adjustments
6	KJB-6*	Gas Results of Operations Detailed Adjustments
7	KJB-11T	Prefiled Rebuttal Testimony
7	KJB-16	Puget Sound Energy K-Factor Calculation Based on Per Customer Escalation Rates
8	KJB-17	Puget Sound Energy Incremental Ratebase Supported by Customer Growth
9		Tom DeBoer, Director, Federal and State Regulatory Affairs, PSE
10	TAD-1T	Prefiled Direct Testimony providing "a high level overview" of PSE/NWEC's original decoupling proposal in these dockets
11		
12	TAD-2	Witness Qualifications
13		Daniel A. Doyle, Senior Vice President and Chief Financial Officer, PSE
14		
15	DAD-1T	Prefiled Rebuttal Testimony
15	DAD-2	Witness Qualifications
16	DAD-3	Average Authorized ROE and Equity Share in Capital Structure for the Operating Utilities In ICNU's Proposed Proxy Group
17	DAD-4T	Direct Testimony-Remand Phase
18	DAD-5	Comparison of Earnings Sharing Level and Opportunity to Earn Authorized Return on Equity
18	DAD-6	Decoupling Deferrals July 2013-June 2014
19	DAD-7	Effects of Weather on PSE Decoupling Deferrals
19	DAD-8T	Rebuttal Testimony
20	DAD-9	PSE Response to ICNU DR 027
20	DAD-10	Combined Electric and Gas Operations-Multiple Regression Analysis of Historical Net Income
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21	DAD-11	Combined Electric and Gas Operations-Multiple Regression Analysis of Historical Cash Flow
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22	DAD-12	Impact of ROE on the Lack of an Earnings Sharing Dead Band (Using Electric as an Example)
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24	CROSS-EXAMINATION EXHIBITS	
25	DAD-13 CX	PSE's Response to PC Data Request No. 119

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EXHIBIT LIST (CONTINUED)

2 NUMBER

DESCRIPTION

3 DAD-14 CX PSE's Response to PC Data Request No. 120 (Without
Attachment A)

4

Jeffrey A. Dubin, Consultant

5

JAD-1T Remand Rebuttal Testimony responding to Public
Counsel and ICNU Witness Adolph

6

JAD-2 Qualifications

7

CROSS-EXAMINATION EXHIBITS

8

JAD-3 CX PSE's Response to PC Data Request 095

9

Kenneth S. Johnson, Director, Rates and Regulatory Affairs, PSE

10

KSJ-1T Prefiled Rebuttal Testimony

11

KSJ-2 Witness Qualifications

12

Brandon J. Lohse, Treasurer, PSE

13

BJL-1T Prefiled Direct Testimony describing PSE's existing
capital structure and overall rate of return as of
12 months ended March 31, 2013

14

BJL-2 Professional Qualifications

15

BJL-3 Utility Capital Structure Cost of Capital and Rates
of Return for Rate Year, May 2012-April 2013

16

BJL-4 Utility Capital Structure Cost of Capital and Rates
of Return for 12 Months Ended March 31, 2013

17

BJL-5 Utility Capital Structure Cost of Capital and Rates
of Return for 12 Months Ended September 30, 2014

18

BJL-6 Rate Case History-Nationwide Rate Cases 2013 and
2014

19

BJL-7 PSE Bonds Maturing

20

Roger A. Morin, Consultant

21

RAM-1T Remand Direct Testimony re cost of capital

22

RAM-2 Professional Qualifications

23

RAM-3 CAPM, Empirical CAPM Discussion Paper

24

RAM-4 DCF Analysis Using Value Line Growth Rates (First
Half of 2013)

25

RAM-5 DCF Analysis Using Analysts' Growth Forecasts (First
Half of 2013)

26

RAM-6 Beta Estimates, Combination Electric and Gas
Utilities (First Half of 2013)

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1 EXHIBIT LIST (CONTINUED)

2	NUMBER	DESCRIPTION
3	RAM-7	MRP Calculations Using Value Line Database (First Half of 2013)
4	RAM-8	Utility Industry Historical Risk Premium (First Half of 2013)
5	RAM-9	Allowed Risk Premium, Electric Utility Industry (First Half of 2013)
6	RAM-10	Combination Electric and Gas Utilities DCF Analysis Using Value Line Growth Rates (Second Half of 2014)
7	RAM-11	Combination Electric and Gas Utilities DCF Analysis Using Analysts' Growth Rates (Second Half of 2014)
8	RAM-12	Beta Estimates, Combination Electric and Gas Utilities (Second Half of 2014)
9	RAM-13	MRP Calculations Market Index(Second Half of 2014)
10	RAM-14	Utility Industry Historical Risk Premium (Second Half of 2014)
11	RAM-15	Allowed Risk Premium, Electric Utility Industry (Second Half of 2014)
12	RAM-16T	Remand Rebuttal Testimony
12	RAM-17	Gross Domestic Product 1984-2013

13 CROSS-EXAMINATION EXHIBITS

14	RAM-18 CX	Rebuttal Testimony of Roger A. Morin, Ph.D. on behalf Hawaiian Electric Company, Inc., HECO-No. 2008-0083
15		
16	RAM-19 CX	Morin update to Cost of Capital Testimony, Exhibit 7 HECO No. 2008-0083 (Schedules not included)
17	RAM-20 CX	PSE's Response to PC Data Request No. 084
17	RAM-21 CX	PSE's Response to PC Data Request No. 085
18	RAM-22 CX	PSE's Response to PC Data Request No. 089 (Attachment A Included)
19	RAM-23 CX	Direct and Rebuttal Testimony, Cascade GRC 2006, Docket UG-060256 (Attachments Omitted)
20	RAM-24 CX	Excerpt of Order No. 15556 in DC Pepco Rate Case, Docket No. 1053 (Sept. 28, 2009)
21	RAM-25 CX	Excerpt of Dr. Morin Direct Testimony in DC Pepco Rate Case, Docket No. 1053
22	RAM-26 CX	Excerpt of Dr. Morin Rebuttal Testimony in DC Pepco Rate Case, Docket No. 1053
23	RAM-27 CX	NV Energy-MidAmerican Merger Announcement

24 Jon A. Piliaris, Manager of Pricing and Cost of Service, PSE

25

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1	EXHIBIT LIST (CONTINUED)	
2	NUMBER	DESCRIPTION
3	JAP-1T	Prefiled Direct Testimony presenting details of
4		proposed decoupling mechanisms, as filed October 26,
		2012
	JAP-2	Witness Qualifications
5	JAP-8T	Prefiled Supplemental Direct Testimony presenting
6		proposed changes to the joint decoupling proposal
		originally filed in October 2012
	JAP-9	Detailed Description of Electric Revenue Decoupling
7		Mechanism
	JAP-10	Detailed Description of Gas Revenue Decoupling
8		Mechanism
	JAP-13	Electric Earnings Test
9	JAP-14	Development of Annual Allowed Delivery Revenue Per
10		Customer-Electric (Exclusive of Related Property
		Taxes)
	JAP-15	Development of Annual Allowed Delivery Revenue Per
11		Customer-Natural Gas (Exclusive of Related Property
		Taxes)
12	JAP-16	Development of Monthly Allowed Delivery Revenue Per
		Customer-Electric
13	JAP-17	Development of Annual Allowed Delivery Revenue Per
		Customer-Natural Gas
14	JAP-18	Development of Delivery Cost Energy Rate and
15		Schedule 139 Rate-Electric Rate Year May 1, 2013
		April 30,2014
	JAP-19	Development of Delivery Cost Energy Rate and
16		Schedule 139 Rate-Natural Gas Rate Year May 1, 2013
		April 30,2014
17	JAP-24T	Prefiled Rebuttal Testimony
	JAP-26 X	PSE's Response to Public Counsel Data Request No. 22
18		(Including Attachments A and B)
19	Michael J. Vilbert, Consultant	
20	MJV-1T	Remand Direct Testimony re empirical evidence of
		decoupling vis-à-vis cost of capital
21	MJV-2	Professional Qualifications
	MJV-3	Decoupling Decisions and the Reduction in the
22		Allowed Return on Equity Gas and Electric
	MJV-4	Time Pattern of Deductions in Electric Decoupling
23		Decisions
	MJV-5	Time Pattern of Deductions in Gas Decoupling
24		Decisions

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1 EXHIBIT LIST (CONTINUED)

2	NUMBER	DESCRIPTION
3	MJV-6	Trends in the Annual Growth Rate of Total
4		Electricity Use by U.S. Residential and Commercial
		Customers, 1950 - 2010
5	MJV-7	Trends in the Annual Growth Rate of Total Natural
		Gas Use by U.S. Residential and Commercial
		Customers, 1950 - 2010
6	MJV-8	Range of States with Decoupling Policies for the Gas
		LDCs
7	MJV-9	Trend in the Decoupling Indexes of the Gas Holding
		Companies
8	MJV-10	Statistical Results of the Gas LDC Decoupling Model
	MJV-11	Range of States with Decoupling Policies for
9		Electric Industry
	MJV-12	Statistical Results of the Electric Decoupling Model
10	MJV-13	Statistical Results of the Electric Decoupling Model
		for Period Ended 4Q2012
11	MJV-14	Three Groups of Innovative Ratemaking Policies
	MJV-15	True-up Decoupling and Fixed Variable Rates in the
12		Sample
	MJV-16	Frequency of Second Group of Innovative Rate
13		Policies
	MJV-17	Fuel and Purchased Power Adjustment Clauses in the
14		Sample
	MJV-18T	Remand Rebuttal Testimony
15	MJV-19	The Brattle Group Development of Decoupling Impact
		Studies for the Natural Gas LDC and Electric Utility
16		Industries
	MJV-20	The Brattle Group Development of Decoupling Studies
17		for the Natural Gas LDC and Electric Utility
		Industries
18	MJV-21	Gas LDC Sample Percentage of Regulated Assets
19	CROSS-EXAMINATION EXHIBITS	
20	MJV-22 CX	PSE's Response to PC Data Request No. 049
		(Attachment B Excerpt)
21	MJV-23 CX	PSE's Response to PC Data Request No. 052
	MJV-24 CX	PSE's Response to PC Data Request No. 055
22	MJV-25 CX	PSE's Response to PC Data Request No. 056
	MJV-26 CX	PSE's Response to PC Data Request No. 057
23		(Attachments A and B Included)
	MJV-27 CX	PSE's Response to PC Data Request No. 059
24	MJV-28 CX	PSE's Response to PC Data Request No. 060
	MJV-29 CX	PSE's Response to PC Data Request No. 061
25	MJV-30 CX	PSE's Revised Response to PC Data Request No. 063

1 EXHIBIT LIST (CONTINUED)

2	NUMBER	DESCRIPTION
3	MJV-31 CX	PSE's Response to PC Data Request No. 066
4	MJV-32 CX	PSE's Response to PC Data Request No. 067
5	MJV-33C CX	PSE's Response to PC Data Request No. 70 CONFIDENTIAL Attachment B Excerpts: Battle Sample Selection Electric Study March 2014 Non-Protected, Tab ROE and Electric Battle Sample Section Protected 2014, Tab ROE Multistage Matrix
6	MJV-34 CX	PSE's Response to PC Data Request No. 096
7	MJV-35 CX	PSE's Response to PC Data Request No. 107 (Attachment A Omitted)
8	MJV-36 CX	PSE's Response to PC Data Request No. 108
9	MJV-37 CX	PSE's Response to PC Data Request No. 110 (Attachment A Omitted)
10	MJV-38 CX	Vilbert Direct Workpapers Gas Brattle Sample Selection (PSE) (11.05/2014).xlsx, tab MS__ROE
11	MJV-39 CX	Brattle Group/Vilbert Decoupling Studies
12	MJV-40 CX	Excerpt of Avista 2014 Rate Case Order 05, Docket Nos. UE-140188 / UG-140189
13	MJV-41 CX	Excerpt of Minnesota PUC Order in CenterPoint Rate Case, Docket Nos. G-008/GR-13-316 (June 9, 2014)
14	MJV-42 CX	Excerpt of Indiana Utility Regulatory Commission Order in Vectren Rate Case, Cause No. 43839 (Apr. 27, 2011)
15	MJV-43 CX	Excerpt of Wisconsin PSC Order, Docket No. 6690-UR-122 (Dec. 18, 2013)
16	MJV-44 CX	Excerpt of Duke Energy 2013 Form 10-K
17	MJV-45 CX	Excerpt of Northeast Utilities 2013 Form 10-K
18	MJV-46 CX	PSE Responses to ICNU Data Request Nos. 2.19 2.22
19	MJV-47 CX	PSE Revised Response to ICNU Data Request No. 2.23 and excerpt of Attachment A.
20	MJV-48 CX	PSE Responses to ICNU Data Request Nos. 28 29 and Excerpt of Attachment A to DR 29.
21	MJV-49 CX	PSE Response to ICNU Data Request No. 26
22	MJV-50 CX	PSE Response to Public Counsel Data Request No. 69 and Attachment A

22 NWEC WITNESSES

23 Ralph Cavanagh, Natural Resources Defense Council

24 RCC-1T Prefiled Direct Testimony supporting petition
(focusing on changes from NWEC proposal in Dockets
25 UE-111048 and UG-111049)

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1 EXHIBIT LIST (CONTINUED)

2 NUMBER DESCRIPTION

3 RCC-2T Prefiled Direct Testimony in Dockets UE-111048 and
UG-111049

4 RCC-3T Prefiled Supplemental Direct Testimony supporting
5 revised petition (filed March 4, 2013) (focusing on
changes from PSE/NWEC initial proposal in this
proceeding)

6 RCC-4T Prefiled Rebuttal Testimony
RCC-5 Morgan, Pamela, A Decade of Decoupling for US Energy
7 Utilities: Rate Impacts, Designs, and Observations
RCC-6T Remand Rebuttal Testimony

8
9 Nancy Hirsch, Policy Director, NWEC

10 NH-1T Prefiled Direct Testimony supporting multiparty
settlement re decoupling and Coal Transition PPA

11 NH-2T Prefiled Rebuttal Testimony

12 COMMISSION STAFF WITNESSES

13 David C. Parcell, Consultant

14 DCP-1T Remand Response Testimony
15 DCP-2 Qualifications
16 DCP-3 PSE History of Credit Ratings
17 DCP-4 PSE Capital Structure Ratios
18 DCP-5 AUS Utility Reports Electric Utility Groups Average
19 Common Equity Ratios
20 DCP-6 Proxy Companies Basis for Selection
21 DCP-7 Proxy Companies DCF Cost Rate
22 DCP-8 Standard & Poor's 500 Composite Risk Premiums
23 DCP-9 Proxy Companies CAPM Cost Rates
24 DCP-10 Proxy Companies Rates of Return on Average Common
25 Equity and Market-to-Book Ratios
DCP-11 Standard & Poor's 500 Composite Returns on Equity
and Market-to-Book Ratios
DCP-12 Risk Indicators
DCP-13 Allowed Return on Equity and Common Equity Ratios
for Electric Utilities in 2012 and 2013

26 CROSS-EXAMINATION EXHIBITS

27 DCP-14 CX Staff's Response to PC Data Request No. 2
(Attachment Included)

28 DCP-15 CX Staff's Supplemental Response to PC Data Request No.
2 (Excerpt of Attachments)

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1 EXHIBIT LIST (CONTINUED)

2 NUMBER DESCRIPTION

3 DCP-16 CX 2006 Cascade GRC UG-060256 Testimony of Staff
Witness David Parcell
4 DCP-17 CX 2014 PacifiCorp GRC UE-140762 Testimony of Staff
Witness David Parcell
5 DCP-18 CX Moody's Report on Puget Energy and Puget Sound
Energy (Jan. 30, 2014)
6 DCP-19 CX Excerpt of Hearing Transcript in 2014 PacifiCorp
General Rate Case, Docket Nos. UE-140762 et al.
7 (Dec. 16, 2014)
8 DCP-20 CX Excerpt of Parcell Direct Testimony in Delmarva Rate
Case, Delaware PSC, Docket No. 12-546 (June 3, 2013)
9 DCP-21 CX Excerpt of Direct Testimony in PacifiCorp General
Rate Case, Docket Nos. UE-140762 et al. (Oct. 10,
2014)

10

11 Deborah J. Reynolds, Assistant Director of Conservation and
Energy Planning in the Regulatory Services Division, UTC

12 DJR-1T Prefiled Direct Testimony Supporting PSE/NWEC
Petition for Decoupling

13

14 Thomas E. Schooley, Assistant Director - Energy Regulation,
Regulatory Services Division, UTC

15 TES-1T Prefiled Direct Testimony in support of Multiparty
Settlement

16 TES-2 Correspondence Between Governor's Office and UTC
Chairman

17 TES-3 Comparison of Rate Changes to Earned Returns at PSE
for 2005 through 2011

18 TES-4T Prefiled Rebuttal Testimony

19 TES-5 Comparison of Rate Changes to Earned Returns at PSE

20 TES-6T Remand Response Testimony

21 TES-7 Thurston County Superior Court Transcript of Oral
Argument on Petitions for Judicial Review of Order
07

22 TES-8 Comparison of Rate Changes to Earned Returns at PSE
for 2005 - 2013

23

CROSS-EXAMINATION EXHIBITS

24

25 TES-6 X Excerpt from the Deposition of Thomas Schooley, pp.
59-61

26

27 TES-7 X Excerpt from the Deposition of Thomas Schooley, pp.
45-47

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1 EXHIBIT LIST (CONTINUED)

2	NUMBER	DESCRIPTION
3	TES-8 X	Puget Sound Energy, Inc.'s Annual "Commission Basis"
4		Results of Operations for the 12-month period ended
		December 31, 2012
	TES-9 CX	Staff's Response to PC Data Request No. 14
5	TES-10 CX	Staff's Response to PC Data Request No. 15
	TES-11 CX	2014 Avista Rate Case UE-140188 Testimony of Staff
6		Witness Kenneth L. Elgin

7 PUBLIC COUNSEL and ICNU

8 Christopher A. Adolph, Consultant

9	CAA-1T	Remand Response Testimony
	CAA-2	Qualifications

10

PUBLIC COUNSEL

11

James R. Dittmer, Consultant

12

JRD-1T Prefiled Response Testimony re ERF, Decoupling and Rate Plan (K-factor), and alternative proposal re Rate Plan

13

14 JRD-2 Witness Qualifications

JRD-3 PSE Projected Schedule 139 Decoupling with K-Factor Revenues

15

JRD-4 Comparison of PSE and Public Counsel ERF Revenue Requirement Deficiency (Electric)

16

JRD-5 Comparison of PSE and Public Counsel ERF Revenue Requirement Deficiency (Gas)

17

JRD-6C PSE Response to Public Counsel DR 032(Dockets UE-130137 & UG-130138) (Confidential) and Public Counsel Calculated Growth in Regulatory ADIT)

18

19

Stephen G. Hill, Consultant

20

SGH-1T Prefiled Response Testimony proposing 50 basis point risk adjustment to return on equity and an additional 30 basis point reduction to reflect changes in capital market since May 2012 conclusion of Dockets UE-111048/UG-111049

21

SHG-2Tr Remand Response Testimony-Estimating PSE Cost of Equity during the first half of 2013, prior to 6/25/2013; responding to PSE Direct Testimony-Remand Phase (Revised 12/9/14)

23

24

25 SGH-3 Sustainable Growth

1	EXHIBIT LIST (CONTINUED)	
2	NUMBER	DESCRIPTION
3	SGH-4	PSE Electric Utility Sample Group Selection
	SGH-5	PSE DCF Growth Rate Parameters
4	SGH-6	PSE DCF Growth Rates
	SGH-7r	Individual Sample Company Growth Rate Analyses
5		(Revised 12/9/14)
	SGH-8	PSE Stock Price, Dividends, Yields
6	SGH-9	PSE DCF Cost of Equity Capital
	SGH-10	PSE Mechanical DCF Cost of Equity Capital
7	SGH-11	PSE CAPM Cost of Equity Capital
	SGH-12	PSE Earnings-Price Ratio Proof
8	SGH-13	PSE Modified Earnings-Price Analysis
	SGH-14	PSE Market-To-Book Ratio Analysis
9	SGH-15	PSE Dr. Morin's 2013 DCF Analyses
	SGH-16	The Brattle Group Report (March 20, 2014)
10	SGH-17	PSE Cost of Equity Impact of a 41 to 49 Basis Point
		Reduction in After-tax weighted average cost of
11		capital
	SGH-18	CA/HECO-IR-57, Docket No. 2013-0141
12	SGH-19	PSE Combined Electric and Gas Operations
		Multiple Regression Analysis of Historical Net
13		Revenues
	SGH-20	Qualifications of Stephen G. Hill
14	SGH-21T	Cross-Answering Testimony to Staff Witness Parcell
		and ICNU witness Gorman
15	SGH-22	Parcell Selected DCF Range
16	CROSS-EXAMINATION EXHIBITS	
17	SGH-23 CX	Staff Response to Public Counsel Data Request 2 (24
		pages)
18	SGH-24 CX	Staff Response to Public Counsel Data Request 4 (1
		page)
19	SGH-25 CX	Excerpt from Response of Public Counsel to PSE Data
		Request No. 002 (149 pages)
20	SGH-26 CX	Excerpt from workpapers to Exhibit No. ____ (SGH-19)
		(3 pages)
21	ICNU and NWIGU	
22		
	Michael C. Deen, Consultant	
23		
	MCD-1T	Prefiled Response Testimony addressing overall
24		merits of Multiparty Settlement and aspects of the
		underlying proposals (i.e., ERF, Decoupling and Rate
25		Plan K-factor).

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1

EXHIBIT LIST (CONTINUED)

2 NUMBER

DESCRIPTION

3 MCD-2

Witness Qualifications

MCD-3

Excerpt of D. Reynolds Deposition Transcript

4 MCD-4

Excerpt of T. Schooley Deposition Transcript

MCD-5

Regulatory Assistance Project, Revenue Regulation
and Decoupling-A Guide to Theory and Application
(June 2011)

6 MCD-6

Lesh, Pamela G., Rate Impacts and Key Design
Elements of Gas and Electric Utility Decoupling: A
Comprehensive Review (Excerpt) (October 2009)

7 MCD-7

Staff's Response to ICNU DRs 4.6 and 4.23 in Docket
UE-121697, and PSE's Responses to ICNU DRs 2.4 and
3.10 in Docket UE-130137

9 MCD-8T

Prefiled Response Testimony Testimony addressing
overall merits of Multiparty Settlement vis-à-vis
natural gas customers

10

MCD-9

Witness Qualifications

11

ICNU

12

Michael P. Gorman, Consultant

13

MPG-1T

Prefiled Response Testimony proposing adjustments to
return on equity (50 basis point reduction), cost of
debt and equity share in capital structure (to
~46%); revenue requirement adjustments for pension
expense federal income tax and incentive
compensation based on financial goals; opposing
decoupling

14

17 MPG-2

Witness Qualifications

18 MPG-3

Return on Equity Study

19 MPG-4

Rate of Return Impact

20 MPG-5

Historical Capital Structure

21 MPG-6

Common Equity

22 MPG-7

Rate of Return

23 MPG-8

Proxy Group

24 MPG-9

Consensus Analysis Growth Rates

25 MPG-10

Constant Growth DCF Model

MPG-11

Payout Ratios

MPG-12

Sustainable Growth Rate

MPG-13

Constant Growth DCF Model

MPG-14

Electricity Sales Linked to Economic Growth

MPG-15

Multi-Stage Growth DCF Model

MPG-16

Common Stock Market/Book Ratio

MPG-17

Equity Premium Risk-Treasury Bond

MPG-18

Equity Risk Premium-Utility Bond

1		EXHIBIT LIST (CONTINUED)
2	NUMBER	DESCRIPTION
3	MPG-19	Bond Yield Spreads
	MPG-20	Treasury and Utility Bond Yields
4	MPG-21	Value Line Beta
	MPG-22	CAPM Return
5	MPG-23T	Supplemental Testimony May 7, 2013
	MPG-24	Rate of Return December 31, 2012
6	MPG-25T	Remand Testimony December 3, 2014
	MPG-26	Rate of Return December 3, 2014
7	MPG-27	Proxy Group
	MPG-28	Consensus Analysts' Growth Rates
8	MPG-29	Constant Growth DCF Model (Consensus Analysts' Growth Rates)
9	MPG-30	Payout Ratios.
	MPG-31	Sustainable Growth Rate
10	MPG-32	Constant Growth DCF Model (Sustainable Growth Rate)
	MPG-33	Electricity Sales Are Linked to U.S. Economic Growth
11	MPG-34	Multi-Stage Growth DCF Model
	MPG-35	Common Stock Market/Book Ratio
12	MPG-36	Equity Risk Premium Treasury Bond
	MPG-37	Equity Risk Premium Utility Bond
13	MPG-38	Bond Yield Spreads
	MPG-39	Treasury and Utility Bond Yields
14	MPG-40	Value Line Beta
	MPG-41	CAPM Return
15	MPG-42	Standard & Poor's Credit Metrics
	MPG-43	Combination Elec & Gas Utilities DCF Analysis
16	MPG-44T	Remand Cross-Answering Testimony responding to Staff Witnesses Parcell and Schooley
17		
		CROSS-EXAMINATION EXHIBITS
18		
	MPG-45 CX	Moody's Investors Service "Credit Opinion Puget Sound Energy, Inc., dated July 31, 2014 (7 pages)
19		
	MPG-46C CX	Value Line Reports (from workpapers supporting Exhibit No. ____ (MPG-23T)) (20 pages)
20		
	MPG-47C CX	AUS Reports (from workpapers supporting Exhibit No. ____ (MPG-23T)) (28 pages)
21		
22		Edward A. Finklea, Executive Director of the Northwest Industrial Gas Users
23		
	EAF-1T	Prefiled Response Testimony re decoupling, proposing exclusion of gas transportation customers and consideration of cost of capital
24		
	EAF-2	Witness Qualifications
25		

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EXHIBIT LIST (CONTINUED)

NUMBER	DESCRIPTION
EAF-3 EAF-3T	PSE Response to NWIGU Data Request No. 011 Supplemental Testimony of Edward A. Finklea
	KROGER and NUCOR STEEL
	Kevin C. Higgins, Consultant
KCH-1T	Prefiled Response Testimony recommending adjusting ROE, rejecting K-factors and decoupling (but, if allowed, 25 basis point ROE adjustment, found margin, exclude largest customers or remove some demand-billed delivery component, rate redesign for Schedule 139)
KCH-2	Electric K-Factor Calculation Using 2007 to 2011 Escalation Factors With Adjustment for NOL Carry-Forward Impact
KCH-3	Kroger ROE Adjustment for Revenue Decoupling Adjustment to Electric ERF
KCH-4	Found Revenue: Accrual of PSE Delivery Revenues with Growing Customer Counts (Electric Example)
KCH-5T	Prefiled Response Testimony with similar recommendations for gas book, plus do not apply decoupling to transportation customers and remove 100% of contract firm revenues from decoupling.

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OLYMPIA, WASHINGTON; FEBRUARY 13, 2015

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9:02 A.M.

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JUDGE MOSS: Okay. Counsel, I'll ask that you prepare yourselves. Be ready. All right. Good morning, everybody.

7

My name is Dennis Moss. I'm an administrative law judge with the Washington Utilities and Transportation Commission.

9

We are convened today in two cases, actually. The first is styled in the matter of the petition of Puget Sound Energy and Northwest Energy Coalition for an order authorizing PSE to implement electric and natural gas decoupling mechanisms and to record accounting entries associated with the mechanisms, dockets UE-121697 and UG-121705. Those dockets are consolidated.

16

They are being heard jointly with Washington Utilities and Transportation Commission against Puget Sound Energy, docket UE-130137 and UG-130138, and those two dockets are consolidated.

20

We are currently in the remand phase of these proceedings following remand from the Superior Court, Thurston County, State of Washington, and we are anticipating having a one-day hearing today.

24

I have a few words to say about that in just a moment, but let's go ahead and take our appearances. First start with

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1 the company. Short form.

2 MS. CARSON: Good morning, Judge Moss. Sheree Strom
3 Carson representing Puget Sound Energy.

4 JUDGE MOSS: Thank you.

5 MR. KUZMA: And Jason Kuzma representing Puget Sound
6 Energy.

7 JUDGE MOSS: Welcome.

8 MS. DAVISON: Good morning, your Honor. Melinda
9 Davison for ICNU, and also with me is Tyler Pepple.

10 JUDGE MOSS: Welcome.

11 MR. FFITCH: Good morning, your Honor. Simon ffitich,
12 Assistant Attorney General with the Public Counsel Office of
13 the Washington State Attorney General.

14 JUDGE MOSS: All right.

15 MS. CAMERON-RULKOWSKI: Good morning, Judge Moss.
16 Jennifer Cameron-Rulkowski, Assistant Attorney General
17 appearing on behalf of staff.

18 JUDGE MOSS: And while I anticipate that these will be
19 the only parties active in today's proceedings, there may be
20 other party representatives on the phone who wish to enter an
21 appearance, so I would invite you to do so. Anyone? Oh, I'm
22 sorry. I missed you.

23 MR. BROOKS: Good morning, Judge Moss. Tommy Brooks,
24 Cable Houston, on behalf of the Northwest Industrial Gas Users.

25 JUDGE MOSS: You even spoke to me beforehand, and I

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1 still failed to see you there. All right. Anybody on the
2 phone then?

3 MS. MOSS: Judge Moss, this is Amanda Goodin on behalf
4 of the Northwest Energy Coalition.

5 JUDGE MOSS: Thank you. Okay. All right. I suppose
6 that must be it, then. That's just fine. We have the
7 appearances. The plan for the hearing today, you all have
8 provided me with a proposed order of witnesses, which I am
9 going to follow.

10 I believe the commissioners are interested in taking
11 the panelist approach with their questions, so we'll have the
12 individual cost of capital witnesses first starting with
13 Dr. Morin, then followed by Mr. Parcell, Mr. Hill, Mr. Gorman,
14 and then we'll have those four empaneled for purposes of
15 questions from the bench.

16 There is some additional cross-examination indicated
17 for Dr. Vilbert, Mr. Doyle and Mr. Schooley, and so we'll have
18 them individually following the panel. I suppose this is an
19 appropriate time to comment on the -- on the process for today.

20 We do have just one day. You've designated nearly six
21 hours of cross-examination. While I expect those estimates as
22 usual will be somewhat overestimated, it's going to be a tight
23 day or a very long day. So I want to encourage you all to help
24 me keep things moving along as crisply as we can.

25 And in that regard, I'm not sure what you all are

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1 thinking in terms of disputes over the evidence, but I'm going
2 to right up-front discourage those. Speaking objections in
3 particular take a lot of time and, frankly, do not contribute
4 to the record. Plus they kind of irritate me and you don't
5 want me irritated after all.

6 But any event, try to -- if you -- if you have -- if
7 you have an objection that you think is an important point,
8 sufficiently important that it might be a point on appeal,
9 certainly I don't want you to not make your objection.
10 Otherwise, though, if it's just a tactical point, you might
11 consider just skipping over it for purposes of today.

12 Now, and having said all that, maybe this would be a
13 good time to ask. If we are going to be able to stipulate into
14 the record the pre-filed testimonies and exhibits including the
15 cross exhibits or whether there are some disputes. Parties?

16 MR. FFITCH: Your Honor, public counsel will stipulate
17 to all of the pre-filed testimony and exhibits for all of the
18 parties in the case, including cross-examination exhibits.

19 JUDGE MOSS: All right. Thank you, Mr. ffitich.

20 MS. CAMERON-RULKOWSKI: Your Honor, staff stipulates
21 to all of the pre-filed exhibits and testimony. Staff does,
22 however, have some concerns about some of the cross exhibits,
23 and I can go into that right now.

24 Specifically this is the cross exhibits directed at
25 Mr. Parcell. And that's number 14 CX, number 15 CX, number 16

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1 CX, and number 18 CX. The -- it's -- it's possible that they
2 are irrelevant. And we -- at this point what I think they're
3 going to be used for, I don't know yet, so I can't tell you
4 that.

5 However, to the extent that the parties are attempting
6 to use these exhibits to cross-examine Mr. Parcell on the issue
7 of the effect of decoupling on ROE, I will object, because this
8 issue is simply outside the scope of Mr. Parcell's direct
9 testimony.

10 JUDGE MOSS: All right. Thanks. We will get to that
11 when we get to that. Anything else? Ms. Davison, I'll go with
12 you first. We'll take the company last on this one since we
13 started with others.

14 MS. DAVISON: Like public counsel, we have no
15 objection to any pre-filed testimony or cross-examination
16 exhibits.

17 JUDGE MOSS: Thank you, Ms. Davison. Now the company.

18 MS. CARSON: Yes. Puget Sound Energy will stipulate
19 to the pre-filed direct testimony and exhibits. We do -- we
20 will stipulate to most of the cross-exam exhibits, but there
21 are a few where we are not sure the purpose that they are being
22 used for, and so we're not -- we may have an objection, and so
23 we're not willing to stipulate to them in at this point in
24 time. And we can talk about the objections now or later, I
25 guess.

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1 JUDGE MOSS: I think if -- we'll talk about them with
2 the individual witnesses on the stand will probably be the best
3 way to proceed on these cross-examination exhibits.

4 MS. CARSON: Okay.

5 JUDGE MOSS: And I assume that's what they are. You
6 set you stipulate to the direct, so yeah, we'll take those up
7 individually at the time. And again, if we can move through
8 the objections quickly when we get to them, that will be --
9 that will be good.

10 All right. Enough said about that. Are there any
11 preliminary motions, other business we need to take care of
12 before we launch into the hearing proper, other than getting
13 the commissioners in here?

14 MS. CAMERON-RULKOWSKI: Your Honor, from staff, I do
15 have one --

16 JUDGE MOSS: Okay.

17 MS. CAMERON-RULKOWSKI: -- further concern. And
18 that's related to what I just said earlier. And that is that
19 Mr. Parcell has -- does not have any direct testimony about the
20 effect of decoupling on ROE, yet he is on a panel in which two
21 of -- half the panel has testified on that.

22 So I'm a little bit concerned about what we do about
23 that. Staff does have a witness, which is Tom Schooley, who
24 can address questions about -- about staff's position on that
25 issue. And so I raise that.

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1 JUDGE MOSS: In my experience and so far as the panel
2 is concerned, the commissioners will ask what the commissioners
3 wish to ask. And if we need Mr. Schooley to come forward to
4 respond to some of those questions and Mr. Parcell says, "I'm
5 not the witness for that," then we'll handle it that way.

6 MS. CAMERON-RULKOWSKI: Thank you, your Honor.

7 JUDGE MOSS: That's fine. The witness -- these
8 witnesses -- I will comment further. These witnesses are all
9 very capable. I've seen them all before. And so you --
10 counsel can be confident in their abilities to comport
11 themselves on the stand in an appropriate fashion. So let's
12 keep that in mind as well as we go forward.

13 Again, I'm not suggesting that I would cut off any
14 party's right to make an objection or interpose a comment if
15 they feel it's appropriate to do so. Anything else? All
16 right.

17 MS. CARSON: Judge Moss.

18 JUDGE MOSS: Yes, ma'am.

19 MS. CARSON: Will Mr. Cavanagh be going first? I
20 think he is listed first in the order.

21 JUDGE MOSS: Well, there's no cross indicated for
22 Mr. Cavanagh, and so far as I know the commissioners don't have
23 questions.

24 MS. CARSON: Okay.

25 JUDGE MOSS: But we'll check with them quickly when

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1 they get here.

2 MS. CARSON: Great.

3 JUDGE MOSS: And in terms of our hearing room
4 organization, why doesn't Dr. Morin go ahead and take the
5 stand. Where is he? There he is. We'll get to you more
6 quickly this way, Dr. Morin.

7 While we're waiting for Commissioner Jones, I'll go
8 back -- be on the record here momentarily long enough to say
9 that the parties have, by and large, stipulated to the
10 admission of the exhibits as indicated on the exhibit list that
11 I have previously furnished. I -- I distributed the latest
12 version of it this morning.

13 If anybody didn't get a copy, they can get one from me
14 later today. And of course it will be finalized either late
15 today or next -- early next week and I'll redistribute at that
16 time.

17 We will have some objections, apparently. We may have
18 objections to a few of Mr. Parcell's cross-examination
19 exhibits. PSE's indicated it may have a few objections or at
20 least questions concerning the use of certain exhibits
21 indicated for cross-examination. So we'll deal with those
22 individually as we get to them. But with that done, then all
23 the other exhibits will be admitted as previously marked.

24 All right. All right. Bench ready? All right.
25 Mr. Cavanagh, you are indicated as our first witness. However,

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1 I have confirmed with the commissioners that they do not have
2 questions for you this morning, and no one has indicated
3 cross-examination, so you are welcome to -- to stay with us and
4 listen to the proceedings, but we won't need to have you
5 sworn -- well, I suppose we need to swear you at least to the
6 extent of your pre-file -- you pre-filed testimony, as I
7 recall.

8 MR. CAVANAGH: Yes, Judge Moss.

9 JUDGE MOSS: All right. Well, let me just swear you
10 in quickly so that that testimony will be appropriately sworn
11 and then we'll move on to Dr. Morin. Mr. Cavanagh, would you
12 please raise your right hand.

13

14 RALPH CAVANAGH witness herein, having been
15 first duly sworn on oath,
16 was examined and testified
17 as follows:

18

19 JUDGE MOSS: Thank you very much. Dr. Morin, will you
20 please rise and raise your right hand.

21

22 ROGER MORIN witness herein, having been
23 first duly sworn on oath,
24 was examined and testified
25 as follows:

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1 JUDGE MOSS: Thank you so much. Please be seated.

2 All right. Ms. Carson. Or Mr. Kuzma. I'm sorry.

3

4 E X A M I N A T I O N

5 BY MR. KUZMA:

6 Q. Good morning, Dr. Morin.

7 A. Good morning.

8 Q. Could you please state your name, occupation and title
9 for the court reporter.

10 A. My name is Roger Morin. My title is emeritus
11 professor of finance at the Robinson College of Business,
12 Georgia State University, and also distinguished professor of
13 finance for regulated industry, also the Robinson College in
14 Atlanta, Georgia. Zip code 30303.

15 Q. Dr. Morin, do you have before you what has been marked
16 for identification as your pre-filed direct testimony RAM-1T,
17 and supporting exhibits RAM-2 through RAM-15, and your
18 pre-filed rebuttal testimony, RAM-16T, and supporting exhibits
19 RAM-17?

20 A. I do.

21 Q. Do these exhibits constitute your pre-filed and
22 rebuttal testimony and related exhibits in this proceeding?

23 A. Yes, sir, they do.

24 Q. Were these exhibits prepared under your supervision
25 and direction?

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1 A. Yes, they were.

2 Q. Do you have any corrections to any of your exhibits at
3 this time?

4 A. No corrections.

5 Q. Thank you.

6 MR. KUZMA: Your Honor, PSE offers Dr. Morin for
7 cross-examination.

8 JUDGE MOSS: Thank you very much. And, Mr. ffitch,
9 you have indicated that you have some cross-examination for
10 Dr. Morin, and you're first on my list, so I'll ask you to go
11 first.

12 MR. FFITCH: Thank you, your Honor.

13

14 E X A M I N A T I O N

15 BY MR. FFITCH:

16 Q. Good morning, commissioners. And good morning,
17 Dr. Morin.

18 A. Good morning.

19 Q. I'm Simon ffitch with the Public Counsel Office, State
20 of Washington. And I believe we've encountered each other a
21 time or two before in the hearing room.

22 A. Yes, we have. And it's a good thing to see you again,
23 I think.

24 Q. Thank you.

25 JUDGE MOSS: Always best to reserve judgment.

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1 BY MR. FFITCH:

2 Q. Dr. Morin, in your DCF estimate of the cost of equity
3 capital for PSE in the early part of 2013, the only growth rate
4 you used was projected earnings growth; correct?

5 A. That's correct.

6 Q. Could I please ask you to turn to the cross exhibit
7 that's marked RAM-21 CX. That is the response to public
8 counsel data request 85. Just let me know when you have that.

9 A. I have it.

10 Q. Thank you. And in that request, public counsel asked
11 you to cite any studies of which you were aware that show
12 analysts earnings growth projections are the only growth rate
13 on which investors rely.

14 And you responded that you are unaware of such a
15 study; correct?

16 A. That's correct.

17 Q. Okay. Now, sometimes projected earnings growth rates
18 are zero or negative; correct?

19 A. Sometimes.

20 Q. And in fact, projected earnings growth rate was
21 negative for three of the companies in your sample group, but
22 you simply ignored those companies in calculating your DCF
23 result; is that right?

24 A. That is correct, because the end result of the DCF
25 computation would be a number that is less than a cost of debt,

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1 which is economically, financially and legally nonsense.

2 Q. All right. But what do investors do when determining
3 if they want to invest in a utility that has negative earnings
4 growth projection? Is it reasonable to believe that in that
5 case they rely on other growth rate indications?

6 A. No, they simply don't invest in the company. Would
7 you invest in a company with a zero growth projection? Perhaps
8 not.

9 Q. One of the projected earnings growth rates you use is
10 published by Value Line; correct?

11 A. Yes, sir.

12 Q. It's true, is it not, that on each Value Line page for
13 each utility which they cover, right next to the projected
14 earnings growth is -- growth rate is Value Line's projected
15 dividend growth and Value Line's projected book value growth?

16 A. That is indeed correct. And of course the driver of
17 dividend growth is earnings, and the driver of book value
18 growth is earnings. So the big motor here behind the growth
19 rate is earnings growth.

20 Q. Okay. Value Line has done it this way for a very long
21 time; correct?

22 A. A very long time, yes, sir.

23 Q. And your position is it's reasonable to believe that
24 an investor would pick one growth rate projection off an
25 investor service publication and ignore the others right next

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1 to it?

2 A. That is incorrect. I do select Value Line as one
3 source of growth rate, because Value Line is the most widely
4 circulated investment information service available. But I
5 also examine the consensus of analyst growth forecasts as well
6 as a compliment to Value Line.

7 Q. So you're saying it's not reasonable to believe that
8 the investor would just pick that one growth rate projection to
9 rely on?

10 A. They're likely to look at both, the consensus forecast
11 and the Value Line forecast.

12 Q. Thank you. I'd like to turn to a new topic. In your
13 rebuttal testimony -- I don't know -- I can give you a cite, if
14 you need it.

15 But in your rebuttal testimony, you cite a study by
16 Harrison Marston (phonetic) regarding the historical market
17 risk premium; correct?

18 A. Yes, I do.

19 Q. And could you please turn to Public Counsel Cross
20 Exhibit Number 22. That's the next one in sequence.

21 A. I have it.

22 Q. RAM-22 CX. And that's your response to public counsel
23 89, is it not?

24 A. Yes, sir.

25 Q. And there we asked you to provide the risk premium for

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1 utilities estimated in the Harris Marston study that you cite.

2 A. Correct.

3 Q. And if we look down at your answer, what you provided
4 there was an overall risk premium of 7.2 percent, and that is
5 in the indented quotation; correct?

6 A. That's correct. And on the following page of your
7 exhibit, there's a Table 1, table of numbers.

8 Q. Yes.

9 A. In the third column, at the very bottom there's an
10 average risk premium of .072.

11 Q. Yes.

12 A. That is the origin of the 7.2 percent market risk
13 premium.

14 Q. I see that. And that is on page 4 of the exhibit
15 under the column marked "ex-ante"; correct?

16 A. Yes, sir.

17 Q. It's true, is it not, that that's an overall market
18 risk premium number?

19 A. Yes, for the overall market.

20 Q. I'm correct, am I not, though, that the risk premium
21 for utilities found in the Harris Marston study is 4.15
22 percent?

23 A. Yes, you are correct, at that time.

24 Q. All right.

25 A. In 2003.

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1 Q. You use a projected risk-free rate of return for
2 Treasury bonds in your CAPM of 4.6 percent; right?

3 A. Yes, because the whole discipline of finance is
4 forward-looking, and investors make decisions today on the
5 basis of what they expect to happen. So it behooves us to try
6 to be as ex-ante, as prospective as possible.

7 Q. If we added the Harris Marston utility risk premium,
8 which you just agreed was 4.5 percent -- excuse me -- 4.15
9 percent, to your risk-free rate, we get a cost of equity
10 indication of 8.75 percent; correct?

11 A. As a matter of pure arithmetic, yes, you are correct.
12 But this particular public utility risk premium is drawn from a
13 study that's dated, quite dated, actually. The date of the
14 study is 2003. That's what, 11, 12 years ago. And of course,
15 that's one estimate of the utility risk premium, not mine.

16 Q. But this is a study that you cited in your response to
17 the data request?

18 A. That's correct.

19 Q. And your testimony; correct?

20 A. Yes; correct.

21 Q. By the way, Dr. Morin, have long-term Treasury yields
22 increased or declined since you prepared your direct testimony
23 in this case?

24 A. They have declined slightly.

25 Q. You used 4.6 percent. What are they now?

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1 A. The -- let me correct what I just said. The current
2 yields indeed have come down. But the prospective forecasts
3 have not changed. Value Line, Global Insight, Blue Chip and
4 others still maintain a 4, 5, to 5 percent forecast in
5 long-term Treasury bonds. So, yes, the current yields have
6 come down a little bit. The forecasts haven't changed.

7 Q. And what are the current yields? They're down around
8 2.5 percent, are they not?

9 A. You're correct. The prospective yields are around
10 4 point -- 4.5 to 5 percent.

11 Q. Okay. Dr. Morin, is it true that, in prior cost of
12 capital testimony, you have recommended a 25 basis point
13 reduction in the allowed ROE to account for the lower risk
14 impaired by -- imparted by decoupling?

15 A. A long, long time ago. I used to recommend a
16 decrement of 25 basis points, because at that time revenue
17 decoupling was singular, innovative, sort of a one-shot deal at
18 one particular commission or two.

19 And of course, since 2008, 2009, I have never
20 recommended a decrement, because utilities, the whole industry
21 as we speak today is undergoing a massive, massive change, what
22 I refer to as a sea change. It's a new paradigm, basically.
23 Why? Because demand has come down.

24 Q. Excuse me, Dr. Morin. You're going beyond my
25 question. I just asked if you had made that recommendation.

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1 And I believe you answered the question, so --

2 A. In the past I have, but in the recent past I have not.

3 Q. Okay. And could you please turn to what's been marked
4 Cross Exhibit RAM-18 CX. This is your 2009, May 2009 Hawaii
5 testimony.

6 A. I have it.

7 Q. And if you turn to page 6 -- pardon me -- page 73 of
8 that exhibit. Could you do that, please?

9 A. I have it.

10 Q. And this is your cost of capital testimony in this
11 2009 Hawaii Electric Company rate case; correct?

12 A. Yes, sir.

13 Q. And at line 8 on page 67, you are asked if you agree
14 with Dr. Parcell's downward risk adjustment for RDM. And
15 that's -- RDM is revenue decoupling mechanism; is that right?

16 A. Yes.

17 Q. And in your answer you say you disagree with the
18 magnitude of the adjustment, but at line 13 you say, "While
19 I" -- that you agree with the notion of the downward risk
20 adjustment, you just disagree with the magnitude; right, in
21 that case?

22 A. At that time, yes.

23 Q. At that time. And if we turn to the next page, page
24 74, starting at line 10, that's where you explain your 25 basis
25 point reduction?

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1 A. Correct, at that time.

2 Q. Okay. Could you please turn to Cross Exhibit RAM-19
3 CX.

4 A. Is that the Potomac Electric?

5 Q. That is another Hawaii Electric case. It's actually
6 the same case from -- I'll wait till you get there. It's
7 November 2009 update testimony. It's RAM-19 CX.

8 A. I have it.

9 Q. And could you please turn to page 2 of that exhibit.

10 A. I have it.

11 Q. And as I was starting to indicate, this is an update
12 of your ROE testimony in that same case; correct?

13 A. Yes, sir.

14 Q. And towards the bottom of that paragraph, you testify
15 that if the RDM rider mechanisms -- again, that's the --
16 they're actually spelled out just above in the paragraph, but
17 that includes the revenue decoupling mechanism, does it not?

18 A. Yes, sir.

19 Q. If they're approved by the commission, the company's
20 risk is reduced and the cost of common equity capital declines
21 by some 25 basis points; is that right?

22 A. That's correct, at that time.

23 Q. And if we turn to the next page of the exhibit, which
24 is page 3 of the exhibit, at the top of the page you explain
25 what the basis, what the analytical methodology you used to

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1 calculate the 25 basis points was; correct?

2 A. Yes, sir.

3 Q. And that includes looking at utility bond yield
4 spreads, observed beta differentials, differential common
5 equity requirements, and application of your informed judgment;
6 right?

7 A. Yes, sir.

8 Q. And Dr. Morin, you've also previously testified in
9 Washington that decoupling is a risk-mitigating mechanism that
10 has to be reflected in setting ROE; correct?

11 A. It's a mechanism that had to be reflected six, seven
12 years ago, but no longer is the case, because it's already
13 embedded in the peer group company data.

14 Q. Okay.

15 A. You don't want to double count the effect.

16 Q. So let's turn, if you will, to Cross Exhibit 23 CX.

17 A. I am.

18 Q. And that is actually a combination exhibit with both
19 your direct and your rebuttal testimony from the Cascade
20 general rate case in 2006; is that right?

21 A. Yes, sir. I have it.

22 Q. And can you please turn to page 53, line 13.

23 Actually --

24 A. I have it.

25 Q. Okay. Starting at line 13, you recommend an 11.15

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1 percent ROE. And then at line -- excuse me. At line 15 you
2 say, "Rejection of this proposed mechanism," meaning the
3 decoupling mechanism, "would increase the risk profile and
4 would therefore require an upward adjustment to this ROE
5 recommendation."

6 Is that right?

7 A. Yeah. In 2006 that would have been the case, but no
8 longer today; correct.

9 JUDGE MOSS: Just to correct you, Mr. ffitch, that's
10 page 54 of the exhibit, not page 53.

11 MR. FFITCH: I'm sorry, your Honor. I tried really
12 hard to --

13 JUDGE MOSS: We lost you up here momentarily.

14 MR. FFITCH: You are correct. That's page 54 of the
15 exhibit. I apologize.

16 THE WITNESS: Yes, I have it in front of me.

17 BY MR. FFITCH:

18 Q. Did you in that testimony calculate a specific rate of
19 return in the event that decoupling was not adopted, do you
20 recall?

21 A. I think I recall 25 basis points reduction in 2006.

22 Q. Okay. Thank you.

23 A. But I did not make that recommendation today, because
24 again it's already in the data of the peer companies, so I
25 don't want to double count its impact.

0574

1 Q. And I understand that's your testimony. How many
2 companies in your sample group have full true-up decoupling
3 like Puget Sound Energy in your sample group today --

4 A. I don't know.

5 Q. -- in this case?

6 A. I will defer that to Mr. Vilbert's testimony who has
7 compiled a list of all the risk-mitigating mechanisms in the
8 peer group companies. And the vast majority of them have risk
9 mitigators, including revenue decoupling, but I don't know the
10 exact number of revenue decoupling. Investors look at the
11 totality of risk mitigators rather than any one individual one.

12 Q. It's true, isn't it, that Dr. Vilbert's study only
13 includes 12 companies through -- that have true-up decoupling
14 in the United States through 2014; correct?

15 A. That is correct, but investors look at the totality,
16 the portfolio of supportive techniques by regulators when it
17 comes down to risk mitigators. And variable rate design,
18 formula rates, depreciation trackers, and the list goes on and
19 on, are very similar in their impact on risk as revenue
20 decoupling, so I felt pretty comfortable that my peer group
21 reflects the impact of risk mitigators on the cost of capital.

22 Q. But you don't know how many companies in your group
23 have full true-up decoupling?

24 A. No, but I do know that most of them have
25 risk-mitigating mechanisms instituted by regulators in response

0575

1 to the intensifying risk of the industry.

2 Q. What risk-mitigating mechanisms does Puget Sound
3 Energy have?

4 A. Well, risk-sharing mechanism, and they're asking for
5 revenue decoupling.

6 Q. So that's a risk-mitigating mechanism, is it not?

7 A. Yes. It's --

8 Q. Is that it or all they have?

9 A. They may have others. And I think this commission has
10 been supportive and has responded to the intensification of
11 risks and lower demand, for example, and large capital
12 investment programs with the fact that business risk has
13 increased because customers are using less energy, the
14 difficulties in tying other renewables and all of that.

15 And the RDM's or revenue decoupling is one response to
16 these intensifying business risks. And most regulators,
17 including this commission, have supported this idea of
18 offsetting the risks that I've just talked about with revenue
19 decoupling and other similar mechanisms.

20 Q. And do you know what other risk-mitigating mechanisms
21 Puget Sound Energy has besides?

22 A. Not offhand, no.

23 Q. And your testimony doesn't address the impact of any
24 risk-mitigating mechanisms that Puget Sound Energy has, does
25 it?

0576

1 A. It does not, because the peer group companies have a
2 variety of similar risk mitigators, so I don't want to double
3 count its impact on the cost of equity. And there's also
4 pretty convincing empirical evidence that the impact on cost of
5 capital is virtually zero.

6 Q. There's nothing in your testimony about that last --
7 to support that last statement that you just made, is there?

8 A. Which statement are you referring to? I've made quite
9 a few.

10 Q. Your testimony does not address the risk-mitigating
11 impact of decoupling on cost of capital, does it?

12 A. It does not, because --

13 Q. All right. Thank you.

14 A. -- there is no impact for reasons I've stated.

15 Q. Your testimony does not provide any analysis to
16 support that conclusion that you've just given from the stand,
17 does it?

18 MR. KUZMA: Your Honor, I'm going to object. He's
19 asked this question several times. Dr. Morin said that
20 Dr. Vilbert addressed many of these issues in his testimony
21 and, therefore, has not addressed them in his own. And then
22 he's asked him questions on it, doesn't like the answer, and is
23 now trying to discredit what Dr. Morin has just testified to.

24 JUDGE MOSS: Mr. ffitich, do you have what you need
25 here?

0577

1 MR. FFITCH: I do, your Honor. Thank you. I have no
2 further questions for the witness.

3 JUDGE MOSS: All right. Very well. Ms. Davison, you
4 may proceed.

5 MR. FFITCH: Thank you, Dr. Morin.

6 THE WITNESS: Thank you, sir.

7

8 E X A M I N A T I O N

9 BY MS. DAVISON:

10 Q. Good morning, Dr. Morin. I'm Linda Davison.

11 A. Good to meet you.

12 Q. Is it correct, Dr. Morin, that you performed two
13 separate cost of capital analyses for PSE in this case, one
14 that covers the first half of 2013, and a second that covers
15 the second half of 2014?

16 A. That's correct. I went back to the future in 2013.

17 Q. Okay.

18 A. And did that and did also 2014, yes.

19 Q. Thank you. Focusing on your 2013 studies. Could you
20 turn to page 2 of your Exhibit RAM-4.

21 JUDGE MOSS: And what was the page again?

22 MS. DAVISON: It's page 2 of the Exhibit RAM-4.

23 JUDGE MOSS: Thank you.

24 THE WITNESS: I have it.

25 BY MS. DAVISON:

0578

1 Q. And this gives your DCF estimate of 10.4 percent for
2 the first half of 2013 based on Value Line growth rates; is
3 that correct?

4 A. Yes, ma'am.

5 Q. And on page 2 of your Exhibit RAM-5 -- give you a
6 minute to turn to that.

7 COMMISSIONER JONES: Page 2?

8 MS. DAVISON: Page 2, yes.

9 BY MS. DAVISON:

10 Q. You have a DCF estimate of 9.84 percent based on
11 analysis consensus growth rates; is that correct?

12 A. Yes, ma'am.

13 Q. And in your proxy group that you used for 2013 DCF
14 estimates, you included NV Energy; is that correct?

15 A. That's correct.

16 Q. And if you could look at RAM-27 Cross Exhibit. Do you
17 agree that NV Energy announced that it intended to merge with
18 MidAmerican Energy on May 29th, 2013?

19 A. Yes, that was after the current in which I prepared
20 these exhibits. The hearings took place in the spring 2013,
21 and to present testimony at that particular hearing, that would
22 be based on data earlier than that, presumably in January or
23 even December '12. So that announcement came much later in
24 May, so it was no need to exclude NV Energy on the grounds of
25 undergoing a merger.

0579

1 Q. But you did not in fact submit testimony in the first
2 phase of this or the original phase of this proceeding; is that
3 correct?

4 A. No, my mandate is to simulate what would have been the
5 cost of equity in early 2013, and I did that by going back to
6 the future, so to speak. And at that time the NV Energy merger
7 was not announced. It only was announced in May.

8 Q. But isn't it correct that you can't really go back to
9 the future, that you have to -- you know, you may look at that
10 time period, but you need to rely on data that you know to be
11 accurate today?

12 A. No, I have to go back to the future and simulate the
13 conditions that were prevailing at the time of presenting
14 testimony in early 2013, just like the commission did.

15 MS. DAVISON: I'd like to move the admission of RAM-27
16 CX, please.

17 JUDGE MOSS: Well, unless there's an objection, we're
18 going to deem things to be admitted today.

19 MS. DAVISON: Oh, okay.

20 JUDGE MOSS: All right. We don't need to do that.

21 MS. DAVISON: Thank you.

22 BY MS. DAVISON:

23 Q. If in fact you had omitted NV Energy, is it correct
24 that their EPS growth rate is -- was 11 percent at that time?

25 A. Yes, it was.

0580

1 Q. And that's three percent higher than any other company
2 in this group that you analyzed; is that correct?

3 A. That's correct. There's some that are below average
4 and some that are above around. That's the nature of an
5 average.

6 Q. And also if you look at RAM-5, page 2, the EPS
7 projected growth rate for NV Energy was 15.1 percent; is that
8 correct?

9 A. That's correct.

10 Q. And that's more than double the next highest growth
11 rate of your group, which is Northeast Utilities at 7.2
12 percent; correct?

13 A. That's correct. But then offsetting that is the 1.8
14 percent for SECO and the 2 percent for PG&E, so that's the
15 nature of an average. You have some that are higher than the
16 average, some that are lower.

17 Q. And then turning to your direct testimony, page 68.

18 A. I have it.

19 Q. Okay. You discussed, line 6 through 10, that you did
20 not adjust PSE's ROE to reflect decoupling; is that correct?

21 A. Yes, because it's already embedded in the market data
22 of the peer group, so I didn't want to double count its impact,
23 if any.

24 Q. Do you know how many utilities in the country have
25 decoupling mechanisms?

0581

1 A. No, not exactly. I would defer that to Mr. Vilbert's
2 testimony.

3 Q. Okay.

4 A. But I know that most utilities have some kind of
5 risk-mitigating mechanisms in response to this new environment
6 that has come forth in the last six or seven years. And I do
7 know that in the hundred and five decisions on decoupling, only
8 maybe 15, 20 percent have made an allowance, and that's way
9 before 2011.

10 Since 2011 there's been no adjustment by any
11 commission for the impact of decoupling on the cost of equity
12 for the reasons that I've invoked.

13 Q. Okay. So you state that this is a market-driven cost
14 of common equity for other utilities that already incorporates
15 the impacts, and you've said that repeatedly this morning.

16 A. Yes.

17 Q. But how do you know that? I mean, what empirical
18 evidence do you have that actually demonstrates that?

19 A. Well, investors have a variety of information sources
20 to consult, Value Line reports, equity research reports, bond
21 rating credit agency reports. There's a variety of sources of
22 information, and they're well aware that the quality of
23 regulation varies from commission to commission, and they're
24 well aware that most commissions, including this one, have
25 responded very, very well to this new environment that I

0582

1 discussed earlier by allowing utilities to mitigate those new
2 risks that have appeared on the scene.

3 So revenue decoupling is really a policy response to
4 these new risks that have appeared, like compliance with
5 renewable portfolio standards, for example, or declining demand
6 use. And so that's the answer. They've -- it's a variety of
7 information available to investors to make decisions on
8 investment, particularly institutional investors.

9 Q. So how many companies in your peer group have a
10 situation similarly situated to PSE in which you have a full
11 decoupling mechanism, you've got a power cost adjustment
12 mechanism, you've got a four year rate plan that has automatic
13 rate increases.

14 Are you aware of anyone else in the peer group that
15 has that set of circumstances?

16 A. All of these risk-mitigating mechanisms, including the
17 ones you have mentioned, have become mainstream. They have
18 become almost universal, according to the evidence that I've
19 seen.

20 Q. Really? A four year rate plan with automatic rate
21 increases?

22 A. Similar risk-mitigating mechanism that accomplished
23 the same thing.

24 Q. But I was trying to get you to respond to my question
25 of whether you know of anyone else in the peer group that has

0583

1 those exact same risk-mitigation mechanisms.

2 A. Probably not an exact similarly, but they're similar
3 in that their intention, they tend to accomplish the same
4 thing, that is to reduce risk.

5 Q. Isn't it true that most decoupling mechanisms that
6 have been approved by the various commissions across the United
7 States pertain to gas and not electricity?

8 A. That used to be true, but it's becoming less so,
9 because now in the electric utility industry it is slowly
10 becoming mainstream as well.

11 Q. So you've talked a lot about the new risks that PSE is
12 facing. What are the regulatory risks that PSE specifically is
13 facing?

14 A. Approval of a fair and reasonable ROE, for example,
15 such as the 9.8 approval by the commission, which was fair and
16 reasonable and still is. And what about the compliance, their
17 renewable portfolio standards.

18 What about the capital investments to repair aging
19 infrastructure, will the commission approve those, will they
20 put construction work in progress in the rate base, will they
21 go to complete future test year. These are some of the
22 challenges faced by the commission and other commissions to
23 respond to these new risks that I described earlier.

24 Q. Well, how can that be a risk if those things were
25 approved in the last proceeding?

0584

1 A. They were, but will the commission continue to be
2 supportive in the future. Will the quality of regulation be
3 consistent in the future from case to case and company to
4 company. I think this commission is very supportive of -- of
5 the utilities in the state.

6 Q. I'd like to turn to cross exhibits 25 and 26, which
7 are excerpts from your testimony in a Pepco rate case before
8 the Washington, D.C. Public Service Commission.

9 A. I have it.

10 Q. And do you recognize these excerpts as being -- well,
11 I guess I'll start with -- actually, I didn't mention RAM-24.

12 Do you see -- do you recognize that as being an
13 excerpt of the final order for the case that I just mentioned?

14 A. Yes, I do. I have it.

15 Q. And I understand that in that particular case, like
16 the case involving Hawaii Electric, at that time you
17 recommended a reduction due to decoupling; is that correct?

18 A. Yes. Six, seven years ago I used to recommend an
19 adjustment, but I have not since -- since then, because of the
20 reasons that I've already described.

21 MS. DAVISON: I'd like to move the admission of cross
22 exhibits 24, 25 and 26.

23 JUDGE MOSS: Again, unless you hear an objection, you
24 may assume that they are admitted as marked.

25 MS. DAVISON: Oh, okay. I don't have to --

0585

1 JUDGE MOSS: I realize it's a little different
2 protocol than what we sometimes follow. Just I'll give you
3 that reassurance and you may rely on it.

4 MS. DAVISON: Okay. Thank you. I have no further
5 questions for Dr. Morin. Thank you.

6 THE WITNESS: Thank you.

7 JUDGE MOSS: All right. Thank you, Dr. Morin. All
8 right. That completes the cross-examination of Dr. Morin
9 indicated by the parties and so, Dr. Morin, we'll let you step
10 down subject to recall to the panel here momentarily, and we'll
11 have you, Mr. Parcell, next.

12 MR. KUZMA: Your Honor, when will the opportunity for
13 redirect --

14 JUDGE MOSS: I wanted to wait until the commission had
15 their questions so you'll be able to do it all at once. Is
16 that agreeable?

17 MR. KUZMA: Yes. Thank you.

18 JUDGE MOSS: That was my thought.

19

20 DAVID PARCELL witness herein, having been
21 first duly sworn on oath,
22 was examined and testified
23 as follows:

24

25 JUDGE MOSS: Thank you. Please be seated.

0586

1 E X A M I N A T I O N

2 BY MS. CAMERON-RULKOWSKI:

3 Q. Good morning, Mr. Parcell.

4 A. Good morning.

5 Q. Could you please state and spell your full name for
6 the record.

7 A. David C. Parcell, P-a-r-c-e-l-l.

8 Q. Please direct your attention to Exhibit DCP-1T. Is
9 this the testimony that you prepared on behalf of Staff in
10 response to PSE's pre-filed direct testimony?

11 A. Yes.

12 Q. Are there any corrections that need to be made to this
13 exhibit?

14 A. I have one. On page 17, page 17, line 15, the line
15 labeled "Gorman Group," on the column mean high, the number
16 stated there is 9.1 percent. That should be 9.3 percent.

17 Q. Thank you, Mr. Parcell.

18 A. That's it.

19 Q. And in the course of your direct testimony, you refer
20 to exhibits DCP-2 through DCP-13. Are there any corrections
21 that need to be made to these exhibits?

22 A. No.

23 Q. Thank you, Mr. Parcell.

24 MR. FFITCH: Your Honor, I'm sorry.

25 MS. CAMERON-RULKOWSKI: Judge, commissioners,

0587

1 Mr. Parcell is available for cross-examination and to respond
2 to questions from the bench, ultimately.

3 JUDGE MOSS: All right. Thank you. Mr. ffitch, you
4 had something for us.

5 MR. FFITCH: Yes. I apologize for jumping the gun.
6 Your Honor, I've conferred with the ICNU and offer to let them
7 go first on their questioning. I think they have a bit more
8 than we do, and then that may streamline our cross.

9 JUDGE MOSS: All right. That works for me. Go ahead.

10

11 E X A M I N A T I O N

12 BY MR. PEPPLER:

13 Q. Good morning, Mr. Parcell.

14 A. Good morning.

15 Q. So your recommended ROE range for PSE is 9.0 to 10.0
16 percent.

17 THE REPORTER: I'm sorry. I can't hear you.

18 JUDGE MOSS: Is your microphone on? And maybe pull it
19 a little closer to your face.

20 MR. PEPPLER: Sorry. Can you hear me? Okay.

21 BY MR. PEPPLER:

22 Q. So your ROE range for PSE in this case is 9.0 to 10.0
23 percent with an ROE recommendation of 9.5 percent; correct?

24 A. Yes.

25 Q. And this is based on your high end DCF and comparable

0588

1 earnings analyses; is that right?

2 A. Yes.

3 Q. Although, as you testify, returns below 9.0 percent
4 are sufficient to maintain market-to-book ratios well above a
5 hundred percent; is that right?

6 A. Repeat that, please.

7 Q. You testify -- and I can give you a cite, if you
8 want -- that returns below 9.0 percent are sufficient to
9 maintain market-to-book ratios well above a hundred percent?

10 A. I thought I said returns below ten percent.

11 Q. Okay. Well, let me point you to the right page, then.
12 If you could go to page 26 of DCP-1T.

13 A. Sure.

14 Q. Starting on line 21.

15 A. Right.

16 Q. You say,

17 "Prospective returns of 8.7 percent to 10.4 percent
18 have been accompanied by most recent market-to-book
19 ratios over a hundred and thirty-six percent. As a
20 result it is apparent that authorized returns below this
21 level would continue to result in market-to-book ratios
22 of well above a hundred percent."

23 Do you see that?

24 A. Yes.

25 Q. Okay. Just want to turn to your DCF analysis for a

0589

1 minute. If you turn to page 16 of your testimony.

2 A. 16 you said?

3 Q. Yes.

4 A. Sure. I have that.

5 Q. So in this -- on this page you list 5 different growth
6 rates that you use; is that right?

7 A. Yes.

8 Q. Okay. And on line 7 through 9 you testify, "It is
9 evident that no single indicator of growth is always used by
10 all investors. It therefore is necessary to consider
11 alternative indicators of dividend growth in deriving the
12 growth component of DCF model."

13 Do you see that?

14 A. Yes.

15 Q. I guess to sort of unartfully summarize that, the more
16 growth indicators you look at, the more likely it's -- you are
17 to develop a DCF result that's accurate. Would that be --

18 A. Well, I wouldn't put it quite that way. I think it's
19 important to look at more than one growth indicator in doing a
20 DCF analysis. You wouldn't necessarily put equal weight or
21 even any weight on all of them. But I think it's important to
22 look at more than one, and that's what I've done here.

23 Q. Okay. So could you turn to DCP-7, please.

24 A. Sure. Which page would you like?

25 Q. Could you look at 4 and 5.

0590

1 A. Sure.

2 Q. Now, your -- your ultimate DCF recommended range is
3 9.1 to 9.7 percent; correct?

4 A. That is correct.

5 Q. Okay. Now, can you show me, on pages 4 and 5, which
6 growth rates produce those DCF results?

7 A. Okay. Be glad to. If you don't -- I'll do that,
8 answer your question. And also, in conjunction with answering
9 your question, I'm going to be referring to page 17, because I
10 do both at the same time is what I'm saying.

11 Q. You're saying page 17 of your testimony?

12 A. Yes. I'll refer to both to answer your question, if
13 that's okay.

14 Q. Sure.

15 A. Now, on page 17, the -- I focus on the DCF results
16 using the highest growth rates, not for each company, but for
17 each group. And that information is taken, of course from
18 pages 4 and 5 of DCP-7.

19 And in the case of the highest growth rate, for at
20 least six highest growth rates, because mean and median for
21 each of the three proxy groups. In all six instances, the
22 highest growth rate is the first column, earnings growth rate.

23 Q. Correct. So -- so your entire recommended range of
24 9.1 to 9.7 is based almost exclusively on the first column, DPS
25 growth rate; is that correct?

0591

1 A. For recommendation purposes; that is correct, yes.

2 Q. Okay. Thank you. Okay. So in addition to your DCF
3 and your CE analysis, you also did a CAPM analysis; correct?

4 A. Yes.

5 Q. And that produced a range of 6.5 to 6.8 percent; is
6 that right?

7 A. That is correct.

8 Q. Okay. Now, as I understand it, you ignored those
9 results in developing your recommended range in this case; is
10 that right?

11 A. Well, I didn't give a weight in my recommendation of 9
12 to 10 percent, but I gave consideration to it in terms of how
13 current capital market conditions impact certain methodologies
14 such as CAPM, but I did not give a weight in my recommendation,
15 if that's your question.

16 Q. Okay.

17 A. If that's your question, the answer's no.

18 Q. Okay. So can you turn to DCP-19 CX, please.

19 A. 19?

20 Q. Yes. This is a -- an excerpt of the transcript --

21 A. Oh, yes, yes.

22 Q. -- PacifiCorp general rate case hearing.

23 A. Cross exhibits; right?

24 Q. Yes. And specifically I'm looking at page 285 of the
25 transcript, which is page 16 of the exhibit.

0592

1 A. I am there.

2 Q. Okay.

3 A. I'm sorry. I missed a page.

4 Q. Page 16 of the exhibit, which is 285 of the
5 transcript.

6 A. Yes, I'm there.

7 Q. Okay. So starting on line 16, there's a Q&A regarding
8 your CAPM results in this case. Do you see that?

9 A. Yes, uh-huh.

10 Q. And let's see. So you -- you state that you didn't
11 consider your CAPM results in this case, because it would be
12 more confusing in a historic sense than it would be as opposed
13 to being clear in a present sense.

14 Do you see that?

15 A. Yes.

16 Q. Okay. Now, could you please turn to DCP-20 CX.

17 A. Yes, uh-huh.

18 Q. Okay. Now, do you recognize this as an excerpt of
19 testimony you filed in a Delmarva rate case before the Delaware
20 Public Service Commission on June 3rd?

21 A. That is correct.

22 Q. Okay. And if you would look at pages 7 and 8 of the
23 exhibit, which is pages -- or I'm looking at the --

24 A. Pages 15 and 18 of the testimony.

25 Q. Right. 15 and 18. Do you see there on line 28 of

0593

1 both of those pages, you're looking at the period between
2 February and April of 2013?

3 A. That is correct.

4 Q. Okay. Now, that's roughly equivalent to the period
5 you're examining here; isn't that right?

6 A. Very similar, yes.

7 Q. (Cross-talk.)

8 THE REPORTER: I'm sorry.

9 THE WITNESS: Off by one month.

10 BY MR. PEPPLER:

11 Q. Excuse me? Yeah.

12 A. Yes.

13 Q. Okay. Now, can you turn to the last page of this
14 exhibit.

15 A. Sure.

16 Q. And --

17 A. It'd be -- this is page 25 of my testimony?

18 Q. (Cross-talk.)

19 THE REPORTER: I'm sorry.

20 JUDGE MOSS: Y'all can't talk at the same time,
21 please.

22 BY MR. PEPPLER:

23 Q. The top of the page, there's a Q&A regarding your CAPM
24 analysis in this case. Do you see that?

25 A. Yes.

0594

1 Q. Okay. Now, to paraphrase this response, you testified
2 that CAPM results demonstrate that risk premiums are lower than
3 in previous years, which reflects a decline in investor
4 expectations of equity returns. And you note that the CAPM
5 results reflect lower interest rates which have proven to be
6 more long-lasting than investors originally anticipated.

7 Is that a fair characterization?

8 A. Yes. That was true in 2013, and it's true today.

9 Q. Okay. So -- and these are not Delmarva-specific
10 observations; correct? These are general economic
11 observations?

12 A. That is correct.

13 Q. Okay. All right. So as a consequence, on line 17 of
14 this page, you testify that the CAPM results should be
15 considered as one factor in determining the cost of capital or
16 the cost of equities for Delmarva. At the very least, the CAPM
17 results indicate the capital costs continue at historically low
18 levels and that Delmarva's cost of equity is less than in prior
19 years.

20 You see that?

21 A. Yes.

22 Q. Okay. So as you just said, these general economic
23 conditions have persisted through the time that you filed your
24 PacifiCorp testimony as well before the commission?

25 A. Correct.

0595

1 Q. Okay.

2 A. You're referring to 2014 PacifiCorp testimony?

3 Q. Yes.

4 A. Yes.

5 Q. Can you turn to DCP-21 CX.

6 A. Certainly. I'm there.

7 Q. Okay. Now, I'm looking at the page 12 of the exhibit,
8 which is page 38 of the testimony.

9 A. I have that.

10 Q. Okay. And at the bottom there, you've developed an
11 ROE range for PacifiCorp of 9.0 to 9.5 percent which is based
12 on the midpoints of your DCF and CE analyses; correct?

13 A. Correct.

14 Q. Now, flipping one page, looking at the top there. You
15 recommend the low end of this range, 9.0 percent, and you give
16 three justifications for doing so.

17 Do you see that?

18 A. Yes.

19 Q. Okay. The first is that PacifiCorp has above-average
20 debt ratings; right? Now, can you just turn -- just keep your
21 finger on that page, but turn to page 10 of your testimony in
22 this case.

23 A. You said 10; right?

24 Q. Page 10, yes.

25 A. Sure. Almost there. I am there.

0596

1 Q. Okay. Lines 1 to 2, you testify, "PSE's ratings were
2 at or above the most common rating categories of most electric
3 utilities in early 2013"?

4 A. Right. Right. Similar to, in other words.

5 Q. Right; okay. And then turning back to page 39 of the
6 PacifiCorp testimony.

7 A. Yes.

8 Q. The second reason you give for setting PacifiCorp's
9 ROE at the low end of your range is that your DCF and CE
10 conclusions focus on the highest results.

11 Do you see that?

12 A. Yes.

13 Q. And that's also true here; is that right?

14 A. Yes.

15 Q. Okay. And finally, the third reason you give for
16 setting PacifiCorp's ROE at the lowest recommended level is the
17 possible implementation of a power cost adjustment.

18 Do you see that?

19 A. Yes.

20 Q. Okay. Now, can you turn back to the transcript of
21 your testimony in the PacifiCorp hearing, which is 19 CX.

22 A. Sure. Okay.

23 Q. Looking at page 291 of the transcript.

24 A. 291, sure.

25 Q. Which is page 22 of the exhibit.

0597

1 A. I have that.

2 Q. Okay. Now, starting on line 2, PacifiCorp's attorneys
3 are questioning you about this mechanism on -- starting on line
4 2 there.

5 You see that?

6 A. Yes.

7 Q. Okay. And you note that the possible implementation
8 of a PCAM as a factor in terms of where to set the ROE within
9 your recommended range, because it is quote, "something new for
10 the company"?

11 A. I'm sorry. I missed the last few words.

12 Q. It's something new for the company, if you see that on
13 line 7.

14 A. Yes.

15 Q. Okay. Now, are you aware in this proceeding that's on
16 remand now that the commission adopted full electric and gas
17 decoupling and a multiyear rate plan fixed on rate increases
18 for PSE?

19 A. Yes, but not in the context of a general rate case,
20 but they did adopt that, yes.

21 Q. Now, do you agree that those would be something new
22 for the company, also?

23 A. It would be new, yes.

24 Q. Okay. If you look down at line 16 through 21 of the
25 transcript, you testify that the rating agents have commented

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1 on the company's lack of a PCAM in Washington, so it's a factor
2 to help determine where within the range to set PacifiCorp's
3 cost of equity.

4 Do you see that?

5 A. Yes, I do.

6 Q. Okay. Can you turn to 18 CX.

7 A. I'm sorry. 18?

8 Q. Yes.

9 A. I have that.

10 Q. And this is a Moody's upgrade of PSE, January 30th,
11 2014, that upgrades PSE's long-term issuer rating to Baa1 from
12 Baa2.

13 Do you see that?

14 A. You said 2, 1 from 2, to Baa -- yeah.

15 Q. Up to Baa1 from Baa2.

16 A. That is correct.

17 Q. Yes. Okay. If you can look at the second paragraph
18 under the heading "Ratings Rationale," it starts, "The rating
19 upgrades for Puget and PSE."

20 A. Yes.

21 Q. Okay. Moody's cites the decoupling mechanism and the
22 rate plan this commission awarded PSE in its original final
23 order in this proceeding is factors contributing to the
24 upgrade.

25 Do you agree with that description?

0599

1 A. Yes.

2 Q. Okay. So based on your testimony at the PacifiCorp
3 hearing, wouldn't it -- wouldn't you agree these new mechanisms
4 for PSE should be a factor in where you set the company's cost
5 of equity?

6 MS. CAMERON-RULKOWSKI: Objection. Your Honor, we
7 have -- this is outside the scope of Mr. Parcell's direct.
8 Mr. Parcell has not testified on the effect of decoupling on
9 ROE. We have another witness for -- on behalf of Staff in this
10 case, who is Mr. Tom Schooley, who has testified on Staff's
11 position on this particular issue.

12 JUDGE MOSS: All right. Your objection is overruled.
13 You may answer the question, Mr. Parcell, if you can.

14 THE WITNESS: Sure. Do you mind repeating it, please.

15 BY MR. PEPPLER:

16 Q. Yeah. I said, so based on your testimony at the
17 Pacific hearing, wouldn't you agree these new mechanisms for
18 PSE should be a factor in where you set the company's cost of
19 equity, at least within your recommended range?

20 A. I don't know. And here's why I don't know, and I'm
21 going to keep it short, because we have a lot to do today.
22 I've been in several cases where decoupling was -- several
23 general rate cases where decoupling was being requested.

24 In some of those I proposed a specific downward
25 adjustment in ROE and some I did not. The ones I did not

0600

1 generally pertain to cases where there was this either staff or
2 the commission had a policy of putting decoupling in, looking
3 at it for two or three years and seeing how -- how it affected
4 things.

5 But there are always different kinds of a general rate
6 case. The problem I have, you know, and it's not a general
7 rate case, is you don't get to see the whole pie at one time.
8 It's just one factor, i.e. decoupling being considered. And
9 that complicates things, and that's why I think I don't know,
10 because I've never encountered that before.

11 Q. All right. But in -- in cases where you have
12 considered decoupling, in a rate case, for instance, would you
13 agree that in general you have recommended a reduction or that
14 is at least downwardly impacted your -- your recommended range?

15 A. In some I have and some I have not. And I told you a
16 moment ago about the ones why -- why where I did not.

17 Q. Yeah. Okay.

18 A. But I have in some cases, yes. In several cases, yes.

19 Q. Okay. Flipping back to the PacifiCorp hearing for a
20 second. Do you remember being questioned about why you had a
21 broader ROE range in this case than you did in that case?

22 A. Yes.

23 Q. Okay. So can you go back to the transcript again.
24 And go back to page 276 of the transcript, which is page 7 of
25 the exhibit.

0601

1 A. Yeah, I would note both 276 and 282 --

2 Q. Uh-huh.

3 A. -- is where I discussed it. At least those two
4 places, yes.

5 Q. Right. So I guess in both of those, since you've
6 pointed to both of those pages, on line 6 through 8 of 276 you
7 state, "In the PSE case I'm using the broader range based upon
8 my understanding of the directives of that case."

9 A. Yes.

10 Q. And in 282 you say, "I took the broader range approach
11 in that case because that was my interpretation of what was
12 being desired." That's 20 through 22, lines 20 through 22.
13 Sorry.

14 A. Correct.

15 Q. Okay. So when you say "the directives of the case"
16 and "what was being desired," do you mean that your ROE
17 analysis in this case was designed to create a range that
18 includes 9.8 percent?

19 A. No.

20 Q. Can you explain to me what you do mean by that?

21 A. Sure. I'm going to be as brief as I can be on this
22 answer; okay. I won't be brief, but brief as I can be. When I
23 got requested by the staff in this case to file cost of capital
24 testimony, as of early 2013, the first thing I was told and
25 first things I asked myself was how does this fit into the

0602

1 context of a remand proceeding.

2 And to answer that question in my own mind, I went to
3 Commission's Order 10 dated October 8th, 2014. And I read that
4 order as it pertained to how this case is being set up and what
5 was expected of witnesses.

6 And I've got -- I've got seven factors that I've
7 identified on my cheat sheet here, so to speak, or fact sheet
8 as to information that the commission stated in Order 10 that
9 leads me to believe that there's several things they want here,
10 one of which is development of a -- of a range, and -- and
11 where within the range should the cost of equity be set as of
12 2013.

13 And among the things the commission stated in Order 10
14 was that the -- even citing to you and your client is saying
15 it's difficult to do a cost of cap analysis. I think we
16 referred a few minutes ago to back to the future.

17 For example, paragraph 14 it cites ICNU concerns that
18 it might be difficult or impossible for cost of capital
19 witnesses to analyze meaningful, meaningfully ROE for a period
20 of time more than a year ago.

21 So that and other factors led me to -- led me to the
22 conclusion that it's useful to develop a broader range in this
23 context than in the context of say PacifiCorp where it was
24 current rate case going-forward basis at the current time.

25 Also reading this information, I mean, the commission

0603

1 said in paragraph 24, "It may be that other relevant evidence
2 will be pre-filed for consideration." Paragraph 23, "We do not
3 wish to prescribe narrow boundaries that would limit the
4 parties' ability to present evidence."

5 And as a Staff witness, I perceive that I have two
6 functions here. I have a expert witness function whereas I
7 provide what I believe is early 2013 cost of equity for PSE,
8 which is 9.5 percent.

9 I also believe that I have an obligation as a Staff
10 witness, almost in a policy context, to tell the commission
11 what their options would be at that point in time. And within
12 that context, that's why I acknowledged that I'm not
13 recommending 9.8, but it did fall within my zone of
14 reasonableness.

15 And I also took it upon myself to tell the commission
16 what other authorized returns of equity were in 2013. So
17 that's what I had in mind when I answered the questions to the
18 PacifiCorp attorney in December. And that's why I'm doing
19 things a little bit different in this case and that case. And
20 I'm sorry it's a speech, but I --

21 Q. So it sounds like there -- you were maybe a little
22 less certain about --

23 A. Pardon?

24 Q. It sounds like you were a little less certain about
25 how to undertake a retrospective ROE analysis.

0604

1 A. I wouldn't say a little less certain. I would say I
2 think you need a broader approach. I'm a little less focused
3 on a more narrow range.

4 Q. Although I -- I do note, you did note in your
5 testimony the cost of equity was going down between 2012 and
6 2013.

7 A. I did say it, yes. And I believe that, yes.

8 Q. So one more question, Mr. Parcell. Why didn't your
9 testimony respond to the company in this case?

10 A. Well, we -- we, meaning myself and the Staff, gave
11 some consideration. We took the position or I take the
12 position that the Staff testimony stands on its own.

13 Q. I've looked at a lot of your testimony and it usually
14 responds to the company, the utility. Why didn't you do that
15 here?

16 A. In general rate cases, I -- general rate proceedings I
17 have -- general rate increase proceedings I have. But I
18 never -- I've never done a remand case before. If I have, I've
19 forgotten about it. So it's just a different animal, so to
20 speak.

21 There's several parts of my PacifiCorp testimony that
22 do not appear here, for example, and (unintelligible), which is
23 why I go back to the future. That paragraph on why CAPM is not
24 as relevant, I didn't put that in here, because it is a
25 different context.

0605

1 Q. You did attempt to undertake a full ROE analysis the
2 way you would in a general rate case; isn't that right?

3 A. Yes, sir.

4 Q. Okay. No more questions.

5 A. Thank you.

6 JUDGE MOSS: Thank you. Mr. ffitch, hopefully that
7 did shorten your examination, but you're slated here for up to
8 30 minutes.

9 MR. FFITCH: I think -- I hate to gamble on this, but
10 I think I may be less, your Honor. Try to --

11 JUDGE MOSS: Willing to lay odds.

12 MR. FFITCH: -- be more efficient.

13

14 E X A M I N A T I O N

15 BY MR. FFITCH:

16 Q. Could you please turn to -- pardon me. First I'll say
17 good morning.

18 A. Good morning.

19 Q. And could you please turn to Cross Exhibit DCP-4 X.
20 That is Staff's response to Public Counsel's request number 2.

21 Do you have that?

22 A. Yes, sir. I do.

23 Q. Now, you've -- you've alluded in previous questioning
24 to the fact that you testified on decoupling in a number of
25 previous cases, and what we -- I believe just in response to

0606

1 ICNU's questions.

2 And in this DR, we asked you to provide all electric
3 utility rate case testimony -- excuse me -- rate case cost of
4 capital testimony submitted by Mr. Parcell in which decoupling
5 was considered and accounted for in his estimate of the cost of
6 capital; correct?

7 A. Yes, sir.

8 Q. And so what we have here attached to this is excerpts
9 of all those pieces of testimony; correct?

10 A. Yes.

11 Q. And those are testimony from Maryland, Arizona, Hawaii
12 and Delaware?

13 A. That is correct.

14 Q. Is that right? And in each of those cases, you
15 testified that decoupling has the effect of reducing the common
16 equity risk; correct?

17 A. Yes.

18 Q. Could you please turn to the next exhibit, which is
19 marked 15 CX.

20 A. 15?

21 Q. Yes, Exhibit 15.

22 A. Yes.

23 Q. The next one in sequence. Now, do you have that?

24 A. I do.

25 Q. That's a supplemental response to number 2. It's

0607

1 provided without the standard DR cover sheet, but it's
2 identified as the supplemental response. And there we had
3 asked the Staff to actually provide full copies of all the
4 testimony, and they did so.

5 And in addition, two additional pieces of your
6 testimony on this issue were provided; isn't that correct?

7 A. Apparently so. I don't recall how it happened, but
8 apparently so.

9 Q. Okay.

10 A. If I missed it the first time around, I apologize.

11 Q. And if we turn to those -- and this is an excerpt of
12 the response. It does not contain the full copies of all the
13 previous testimonies.

14 It contains excerpts from the two new testimonies that
15 were provided in the supplement; is that fair to say?

16 A. Yes.

17 Q. All right. And if we turn to page 9 of that exhibit.

18 MS. CAMERON-RULKOWSKI: Which exhibit are you in?

19 BY MR. FFITCH:

20 Q. We're in Exhibit 15. And this is the testimony in the
21 2009 Hawaii rate case. This is I think Maui Electric?

22 A. That's correct.

23 Q. That's where we all wish we were doing rate cases
24 right now.

25 A. Especially in February.

0608

1 Q. On page 9 of that exhibit, starting at line 5, you
2 testified that their decoupling mechanism would reduce the cost
3 of common equity 50 basis points; right?

4 MS. CAMERON-RULKOWSKI: Objection. I renew my
5 objection, your Honor. Mr. Parcell does not testify on this
6 issue in his direct testimony. It is outside the scope.
7 Furthermore, Staff believes that it is not relevant.

8 Staff's position in this case was presented by Mr. Tom
9 Schooley on this issue, and Staff's position is that, during
10 the remand phase, the issue of the effect of decoupling on ROE
11 is not within the scope of the remand. And so I have several
12 objections, two objections there.

13 JUDGE MOSS: All right, Ms. Rulkowski. Perhaps the --
14 perhaps it will forestall future objections of this nature if I
15 simply point out that Mr. Parcell is a well-recognized expert
16 of long-standing on this subject matter, and it's fair game to
17 question him as to what factors he did and did not take into
18 account in coming up with his estimate in this case.

19 Despite the fact that Mr. Schooley testified
20 specifically on that point does not mean it's excluded from
21 Mr. Parcell to the extent it's relevant to what he did. So
22 Mr. ffitch is on fair ground here to examine that issue, and I
23 will let him ask his question and your objection is overruled
24 or your objections.

25 MR. FFITCH: Thank you, your Honor.

0609

1 BY MR. FFITCH:

2 Q. Perhaps I can just summarize these questions,
3 Mr. Parcell. In Exhibit 15, there are two pieces of testimony
4 in the Hawaii rate cases in which you recommend specific basis
5 point reductions to reflect the risk reduction caused by
6 decoupling; isn't that correct?

7 A. Yes, the low-ended range in both cases.

8 Q. Okay. Can you please turn to Exhibit DCP-16 X,
9 please.

10 A. 16 you said?

11 Q. Yes.

12 A. Yes, sir. I have that.

13 Q. And 16 is a copy of your complete testimony in the
14 Cascade Natural Gas general rate case in Washington State in
15 2006; isn't that right?

16 A. That is correct.

17 Q. And if you could please turn to page 19 of that
18 exhibit.

19 A. I have that.

20 Q. And in that case, starting at line 5, you specifically
21 recommend a 25 basis point reduction in Cascade's cost of
22 equity if the decoupling mechanism is adopted; correct?

23 A. Yes.

24 Q. And in your next Q&A, you actually note that, as we've
25 heard earlier here today, Dr. Morin shared your view and also

0610

1 recommended a specific basis point adjustment for the same
2 reason; correct?

3 A. Indirectly, yes. He said it'd be higher in the
4 absence of one. He didn't say lower. I don't want to throw
5 Dr. Morin under the bus here, but --

6 Q. Yes.

7 A. He didn't quite say it that way you said it.

8 Q. That's a fair point. He presented it in his
9 testimony, which we have here, as he recommended it assuming
10 adoption of decoupling, and then essentially recommended that,
11 if it wasn't, the cost of capital should be adjusted upward
12 accordingly.

13 A. Yes. Correct. That's correct.

14 Q. All right. So I think to summarize, in all of the
15 cases that we've just reviewed, you recommended a downward
16 adjustment to reflect the adoption of decoupling, either a
17 specific basis point adjustment or moving to the bottom of your
18 range, with one exception, and that's the Arizona case;
19 correct?

20 A. No. I believe in the Maryland case, even though I
21 cited the risk-reducing nature of decoupling, I don't believe I
22 made a recommendation of a lower cost of equity in that case.
23 In the Arizona case, which you -- likewise, I cited
24 Commission's policy statement of decoupling there which called
25 for or indicated a desire to have a three-year examination

0611

1 period of decoupling and then reexamine the issue. So that
2 case in Arizona, again I was a Staff witness there, I did not
3 make a downward recommendation.

4 Q. Correct. But let's stick with Arizona first and then
5 I want to get clarification on the first part of your answer.
6 But if you could turn back to Exhibit 14, we have an excerpt of
7 your Arizona testimony there. And please turn to page 5,
8 line -- at line 12.

9 Do you have that yet?

10 A. I did, but I had the wrong one. Give me a second
11 please. Thank you. Yes, I have that.

12 Q. Okay. And line 12 on page 5, there you just say, as I
13 think as you acknowledged, you state that the decoupling in
14 that case will reduce the cost of equity capital itself.

15 That's understood; correct? That's --

16 A. I'm having a problem with my page numbers matching
17 your question.

18 Q. Okay. This is exhibit --

19 A. I think -- I think I understood your quote, but I just
20 don't see the page number here.

21 Q. Well, the testimony is page 20 of your -- that's your
22 page number. The exhibit page number is page 5 at the top
23 right-hand corner. Does that help? We have this problem with
24 sort of numbering that happens.

25 A. I'm seeing my pages 16 and 17, which is pages 6 and 7

0612

1 of the DR response is where I'm seeing what you're asking
2 about.

3 Q. For Exhibit 14?

4 A. Yes.

5 Q. Okay.

6 A. I think we're on the same wavelength except for page
7 numbers.

8 Q. Do you have a page number of -- original page number
9 of page 20 at the bottom of the page? That would be the
10 original exhibit, original testimony page number, page 20.

11 A. No.

12 Q. Well, I think maybe I can shortcut this.

13 MS. DAVISON: I'll give him --

14 THE WITNESS: I may have it here. Let's see what this
15 says. No.

16 MS. DAVISON: May I?

17 JUDGE MOSS: Yes, please. Please provide it to the
18 witness.

19 THE WITNESS: Thank you. Thank you.

20 BY MR. FFITCH:

21 Q. I don't think we need to get bogged down here. I'm
22 sorry. I just want -- I don't think there's any dispute here.

23 You acknowledge that in that case you do identify that
24 the mechanism reduces Pepco's risk; correct? In that case.

25 A. Pepco is Maryland. You asked me about Arizona I

0613

1 thought. That's our problem here.

2 Q. Yeah, I see. I've got -- I've got a misplaced page in
3 my exhibit.

4 A. I know what you're saying. I'm with you.

5 Q. Yeah, you're right. Pepco is -- I know that. Let's
6 turn to your testimony, page 16. I think that's what you
7 are --

8 A. My direct testimony now?

9 Q. This is the Arizona testimony.

10 A. Oh, yes, yes. Yes, I'm with you.

11 JUDGE MOSS: What exhibit are we on now, Mr. ffitch?

12 MR. FFITCH: I apologize, your Honor. Apparently my
13 exhibit book here has a -- some paging mixups in it. But we
14 are in Exhibit 14, which is the response to Public Counsel 2.
15 And it contains excerpts from Mr. Parcell's testimony in
16 various states. We're now looking at the Arizona testimony.

17 BY MR. FFITCH:

18 Q. And I'm looking specifically at the -- it's marked
19 page 16 of your direct testimony in the left-hand side. I'm
20 not going to use my exhibit page numbers, because they're off,
21 apparently.

22 JUDGE MOSS: I have it as page 6 of the exhibit.

23 THE WITNESS: Yes.

24 BY MR. FFITCH:

25 Q. Okay. Actually, that does match mine. So you've got

0614

1 page 6 of the exhibit. Now we're back in synch.

2 A. Hallelujah.

3 Q. Okay. Bottom of the page, line 20. You point out
4 that if these mechanisms are adopted, it will reduce the
5 company's risk, normally a consideration in the cost of equity
6 estimation; correct?

7 A. Yes.

8 Q. But if we turn the page, you state that you don't
9 propose an adjustment in this case, because there is a
10 commission order in that state -- and I'm paraphrasing here --
11 that says they want to wait for a three-year period for a
12 detailed evaluation; correct?

13 A. Not a commission order, a commission policy statement.

14 Q. Policy statement; all right. So --

15 A. Yes. But yes, with that clarification.

16 Q. All right. So that's the reason why you didn't make a
17 specific adjustment, basis point adjustment to your ROE in that
18 case?

19 A. Correct.

20 Q. Right. It's not because of your own analysis of the
21 impact of decoupling on a cost of capital for Southwest?

22 A. I can't answer it yes or no, but I'll be quick. My
23 point was in Arizona and my point today is that I do believe
24 decoupling is risk-reducing. But it's more than one way to
25 recognize it.

0615

1 The most direct way to recognize it is to reduce the
2 return on equity because of the fact that you're transferring
3 some risk from rate payers, of the stock with rate payers.
4 Another way, as was done in Arizona, and I perceive to be the
5 Staff wish in this case or Staff's position in general, is that
6 input decoupling, see how it works and then revisit it later.
7 That's how I see it in Arizona. That's how I see it here.

8 Q. All right. Now, except for this Arizona case, none of
9 these pieces of testimony where you've addressed decoupling, in
10 none of those cases did you recommend to the regulatory
11 commission that it wait and see what happened with decoupling;
12 correct?

13 A. That's correct.

14 Q. All right. And you were recommending in every one of
15 those cases that the impact be recognized immediately in the
16 rates that would become effective following the completion of
17 the rate case; correct?

18 A. Right. But -- and that's a key word. Those were in
19 connection with a rate case and this is not.

20 Q. And can you explain why in those cases you recommended
21 that the adjustment be incorporated in rates and adopted
22 immediately with the effective date of the raise?

23 A. Sure. In brief words here, because decoupling was
24 being implemented in connection with a general rate proceeding
25 of the company, where all the company's rates were being

0616

1 evaluated and changed on a going-forward basis. So it was all
2 one big picture where you could get your hands around the
3 entire utility and do it all at once.

4 Q. All right. And just following up on one other point
5 that was made by Mr. Pepple. Am I correct that in every one of
6 the cases that -- for which we have testimony here in these
7 exhibits where Dr. Morin appeared, you provided testimony
8 critiquing his cost of capital analysis?

9 A. Yes, all in general -- all in general rate cases, the
10 answer is yes.

11 Q. And you did not do that in this case?

12 A. That is correct.

13 Q. And that's because of your understanding of your
14 instructions or assignment by the commission staff?

15 A. I wouldn't -- I wouldn't put it that way. It was a
16 joint decision made by me and Staff that, under these
17 circumstances, we would not file rebuttal testimony. We give
18 our view, they give their view, and go from there.

19 MR. FFITCH: All right. May I have one minute, your
20 Honor? I'm close to being done.

21 JUDGE MOSS: 30 seconds, Mr. ffitich.

22 MR. FFITCH: Thank you, your Honor. No more
23 questions. Thank you, Mr. Parcell.

24 THE WITNESS: Thank you.

25 JUDGE MOSS: All right. Thank you, Mr. ffitich. As

0617

1 before, we'll await the panelist discussion before we have
2 redirect, Ms. Rulkowski. Okay. All right. So, Mr. Parcell,
3 with that you may step down until you are recalled for the
4 purposes of the panel.

5 It being 10:30, I think this would be an opportune
6 moment for our midmorning break. And I would like to keep it
7 down, if we can possibly do so, to ten minutes. So please be
8 back at 20 minutes before the hour.

9 (A break was taken
10 from 10:29 a.m. to 10:44 a.m.)

11 JUDGE MOSS: All right, Mr. Hill. If I could ask you
12 to stand, please.

13 THE WITNESS: Yes, sir.

14

15 STEPHEN G. HILL witness herein, having been
16 first duly sworn on oath,
17 was examined and testified
18 as follows:

19

20 JUDGE MOSS: Thank you very much. Please be seated.
21 Mr. ffitch.

22 MR. FFITCH: Thank you, your Honor.

23

24 E X A M I N A T I O N

25 BY MR. FFITCH:

0618

1 Q. Good morning, Mr. Hill.

2 A. Good morning.

3 Q. Could you please state your full name and spell your
4 last name for the record.

5 A. Steven G. Hill, H-i-l-l.

6 Q. And you are retained by the Office of Public Counsel
7 to prepare testimony in this case; is that correct?

8 A. Yes.

9 Q. And your testimony has been marked for identification
10 in this docket as SGH-2 through SGH-22; is that correct?

11 A. Yes.

12 Q. And those are all prepared by you or under your
13 direction?

14 A. They were prepared by me.

15 Q. And do you have any changes or corrections to that
16 testimony?

17 A. Not that I'm aware of.

18 MR. FFITCH: Thank you, your Honor. We are tendering
19 Mr. Hill for cross-examination.

20 JUDGE MOSS: All right. Very good. And I'll note for
21 the record that we have exhibits 23 CX through 26 CX marked for
22 this witness for purposes of cross-examination. I'll ask if
23 there are any objections or going to be any objections if those
24 come up.

25 MR. FFITCH: No objections.

0619

1 JUDGE MOSS: Okay. Very good. So with that, then,
2 Mr. Hill is available for cross-examination. And let's see.
3 The company and Staff have both indicated a desire to cross.
4 Do you all have any preference as to who goes first?
5 I'll give the courtesy to the company, then.

6 MS. CARSON: Thank you, your Honor.

7

8 E X A M I N A T I O N

9 BY MS. CARSON:

10 Q. Good morning, Mr. Hill.

11 A. Morning.

12 Q. Mr. Hill, do you recall when the commission set the
13 return on equity of 9.8 for PSE, the current return on equity?

14 A. I think it was -- it was in the most recent rate case
15 before the abbreviated rate proceeding. I'm thinking it was
16 2011. That's -- that's unfortunately a guess.

17 Q. The order came out in May 2012.

18 A. Okay. The evidence was from 2011, then.

19 Q. In this case you're recommending, it's -- your
20 testimony is that the commission should approve 8.65 return on
21 equity for PSE effective June 2013; correct?

22 A. Yes, that's -- I don't know if the order from this
23 case will be retroactive. I don't know the details of that.
24 But my task, like everybody else that's a rate of return
25 witness in this case, was to estimate the cost of equity

0620

1 capital for PSE during the first half, quote-unquote, of 2013.

2 Q. So you're recommending a
3 hundred-and-fifteen-basis-point reduction in PSE's return on
4 equity over a 13-month period; correct?

5 A. I don't know what the 13-month period has to do with
6 it, but those numbers are correct.

7 Q. May 2012 to June 2013. 13 months.

8 A. Yes.

9 Q. Mr. Hill, as I understand your testimony, you have
10 kind of two parts to your cost of equity recommendations. One
11 is based on market, current market conditions or market
12 conditions in 2013; correct?

13 A. Correct.

14 Q. And the other is a separate decrement for decoupling;
15 is that right?

16 A. Correct.

17 Q. First I want to talk about your separate decrement for
18 decoupling. It's true, isn't it, that in 2013, when you
19 provided testimony in the first phase of this case, that you
20 recommended a 50-basis-point decrement if decoupling was
21 approved; correct?

22 A. Right.

23 Q. And now you're recommending a 35-basis-point decrement
24 for PSE because of decoupling; correct?

25 A. Right.

0621

1 Q. And you also provided testimony back in 2013 in
2 Wisconsin relating to a Wisconsin Public Service Company case,
3 didn't you?

4 A. Yes.

5 Q. And you recommended a 25-basis-point reduction there
6 for decoupling; correct?

7 A. Correct.

8 Q. Now I want to talk about your market conditions
9 recommendations for cost of equity. In 2013, in the first
10 phase of this proceeding, you recommended a 9.5 return on
11 equity for PSE based on market conditions, setting aside the
12 decoupling decrement; correct?

13 A. I don't recall that was my recommendation. Can you
14 point me to something?

15 Q. Sure. You can look at SGH-2T 45, page 45, 6 to 8.

16 MR. FFITCH: Page 45, your Honor?

17 JUDGE MOSS: And I don't see any numbers in the upper
18 right-hand corner of this exhibit, so I'm sure you're referring
19 to the page numbers of the original document; is that right?

20 MS. CARSON: Right. This is --

21 JUDGE MOSS: So that's at the bottom of the page.

22 BY MS. CARSON:

23 Q. And actually, probably the best place to look is at
24 SGH-1T, your testimony in the first phase of the proceeding.

25 JUDGE MOSS: 1T?

0622

1 THE WITNESS: Yes.

2 BY MS. CARSON:

3 Q. If you look at page --

4 A. I'm not sure I have a copy of that.

5 Q. You don't have your testimony from the first phase of
6 this proceeding?

7 A. I don't think I have that in this book, no.

8 MR. FFITCH: Are you able to provide your witness with
9 a copy of that?

10 JUDGE MOSS: He has one now.

11 THE WITNESS: All right. Is there a page number?

12 BY MS. CARSON:

13 Q. There is. Page 12, lines 3 through 6. You made a
14 50-basis-point decrement for decoupling; correct?

15 A. I'm sorry. I'm just trying to get the -- get this in
16 my head here what the context is. We're on page 12?

17 Q. Right. Lines 3 through -- actually through 12. You
18 made a 50-basis-point decrement for decoupling; correct, down
19 to 9.3?

20 A. Correct.

21 Q. And then you recommended a 9.0 return on equity,
22 including market conditions and a decrement for decoupling;
23 correct?

24 A. Right. And that's based on recent costs of equity
25 estimates of eight and a half to nine and a half, and those --

0623

1 and this is an estimate of the impact of decoupling without
2 doing a specific study. So the answer is "yes" to all of your
3 questions, but that's the rationale.

4 Q. Okay. So just looking at market conditions back in
5 2013 when you filed this testimony, your recommendation was for
6 ROE of 9.5; correct, and then a 50-basis-point decrement for
7 decoupling?

8 A. Well, it was -- that was really keyed off of the
9 allowed 9.8. It wasn't a -- I didn't do a detailed cost of
10 equity estimate, as I said in here, nor did I do a detailed
11 decoupling analysis. And it was keyed off of the commission's
12 9.8 and the interest rate declines that have happened since the
13 order.

14 Q. So you're correct, Mr. Hill, you didn't do a cost of
15 equity study back in 2013, did you?

16 A. I did not.

17 Q. And one factor that you based your recommendation on
18 was your testimony before the Texas PUC; correct?

19 A. I'll take your word for it. It was for other
20 testimonies I had done contemporaneously.

21 Q. The Southwestern Electric Power Company case?

22 A. That sounds familiar.

23 Q. Right. That's in your SGH-1T, you reference that.

24 A. Okay.

25 Q. In that case you recommended a range of 8.5 to 9.5

0624

1 just as you do in this case?

2 A. Yes.

3 Q. Correct? Isn't it true that the Texas commission
4 rejected your recommendation and authorized a rate of return of
5 7.77 back in 2013?

6 A. A rate of return on equity of 7.77? I doubt it.

7 Q. A rate of return, an overall rate of return of 7.77.

8 A. I'll take -- I'll take your representation. I don't
9 generally keep the utility orders from cases I'm involved in.

10 Q. You don't keep track of the orders?

11 A. No.

12 Q. Okay. And isn't it true that this commission
13 authorized a overall rate of return of 7.77 for PSE also in
14 2013?

15 A. I don't know the answer to that, but if that's your
16 representation, I'm certainly willing to accept it.

17 Q. You also testified in Wisconsin, as we mentioned
18 before, in the Wisconsin Public Service Company case back in
19 2013; correct?

20 A. Correct.

21 Q. And your recommended range for your cost of equity in
22 that case was 8.5 to 9.5, wasn't it?

23 A. That sounds familiar, yes.

24 Q. The same range that you're recommending here?

25 A. Yes.

0625

1 Q. And your point estimate for that company was 8.75;
2 correct?

3 A. Yes.

4 Q. Now, Wisconsin Public Service Company has a A issuer
5 rating, doesn't it?

6 A. Yes.

7 Q. And it has 51 percent equity?

8 A. Yes.

9 Q. So it's a less risky company than PSE, isn't it?

10 A. Yes.

11 Q. But your ultimate recommendation for that company was
12 higher than PSE; correct, and your recommendation for PSE in
13 this case?

14 A. Ultimately, yes, because I did a more detailed
15 analysis here of decoupling.

16 Q. And the Wisconsin Public Service Company rejected your
17 recommendation and authorized the 10.2 return on equity back in
18 2013, didn't it?

19 A. Wisconsin generally gives higher ROE's.

20 Q. So you were very busy in 2013, and you also testified
21 in Alabama, didn't you?

22 A. Yes. Most of the cost of capital witnesses in the
23 room today testified in Alabama in 2013.

24 Q. Now, in that case, for the Alabama -- in that
25 proceeding involving the Alabama Power Company, you made a

0626

1 recommendation for a cost of equity range from 8.0 -- 50 to
2 9.25; is that right?

3 A. Correct. That was the cost of equity that I
4 determined, but that was not the rate of return that my client,
5 which was AARP, asked for.

6 Q. Your client wanted to ask for a higher return on
7 equity than what you had recommended; correct?

8 A. That is because it was a -- it wasn't a rate case. It
9 was a -- I think the Alabama commission -- and we talked about
10 this in the recent PacifiCorp case, commissioners. It was a
11 meeting. They called it a meeting, quote-unquote.

12 And AARP was trying to be conciliatory. Alabama had
13 not changed the allowed ROE in 30 years. The allowed ROE was
14 very, very high, 14 percent. So AARP, which is seen in Alabama
15 as an extreme liberal organization, was trying to be
16 conciliatory. In fact I think I used that word "conciliatory"
17 in my testimony.

18 Were trying to get along, trying to prove to the
19 commission that they can compromise. And so, yes, they -- they
20 asked the commission to utilize a 10 percent ROE, which would
21 have saved Alabama rate payers about two hundred and fifty
22 million dollars a year if the commission had approved it. They
23 didn't approve it.

24 Q. So based on your client's recommendation, you
25 recommended a return on equity of 10.0 to the Alabama

0627

1 commission; correct?

2 A. We recommended that the commission change its allowed
3 return from 14 to 10; that's correct. We also told the
4 commission that the actual cost of capital for Alabama Power
5 was eight and a half to nine and a quarter percent.

6 Q. Isn't it true that you testified that the 10.0 return
7 on equity in July 2013 was consistent with Hope and Bluefield?

8 A. Was what?

9 Q. Consistent with the standard set in Hope and
10 Bluefield? And if you want to look at --

11 A. Okay.

12 Q. -- SGH-25 CX, page 41.

13 A. Okay.

14 CHAIRMAN DANNER: I'm sorry, Counsel. What was the
15 exhibit number?

16 MS. CARSON: It's SGH-25 CX. Page 41.

17 CHAIRMAN DANNER: Thank you.

18 MS. CARSON: Line 3. Beginning with line 3.

19 THE WITNESS: I see the -- the bottom of the page
20 informing the commission that a reduction to 10 percent would
21 save rate payers 287 million. I don't see Hope and Bluefield.

22 BY MS. CARSON:

23 Q. Are you on page 41?

24 A. Yeah.

25 Q. "An ROE" --

0628

1 A. Oh.

2 Q. "An ROE of 10.0 percent is also very similar to the
3 average return on common equity currently being allowed
4 regulated utilities in the United States as shown in Chart 3
5 below based on data published by the Edison Electric Institute.
6 Therefore, a 10.0 percent ROE also meets the Hope and Bluefield
7 requirement"; correct?

8 A. It makes a requirement that the company be allowed a
9 return of other companies of similar risk.

10 Q. Right.

11 A. It's not the cost of capital.

12 Q. So you agree with Dr. Morin on that point. He also
13 demonstrates in his testimony that 10.0 return on equity is
14 consistent with the average actual returns authorized by
15 commissions; correct?

16 A. Yeah, but it's not the cost of capital. It's way too
17 high. 9.8 is way too high.

18 Q. But consistent with Hope and Bluefield?

19 A. It's consistent in that it adheres to the Hope and
20 Bluefield standard that the returns should be similar to other
21 similar risk companies, but we've moved far beyond comparable
22 earnings in determining what the cost of equity is. 10 percent
23 is not the cost of equity.

24 Q. Mr. Hill, I'd now like to ask you about your revenue
25 volatility analysis that you undertook due to decoupling.

0629

1 A. All right.

2 Q. You talk about that in your testimony beginning on
3 page 106 and also SGH-19.

4 A. Okay.

5 COMMISSIONER RENDAHL: I'm sorry. What was the page
6 number of the testimony you're referring to?

7 MS. CARSON: 106 is where the analysis begins.

8 BY MS. CARSON:

9 Q. And my --

10 MR. FFITCH: I'm sorry. Can I inquire if we're still
11 in 25 CX?

12 MS. CARSON: No, this is Mr. Hill's testimony in the
13 remand proceeding.

14 JUDGE MOSS: 2T.

15 MS. CARSON: 2T.

16 MR. FFITCH: Thank you.

17 THE WITNESS: Do we have a specific page number?

18 BY MS. CARSON:

19 Q. Well, my understanding of this -- and again, I think
20 it's on 106. My --

21 A. Begins --

22 Q. Correct me if I'm wrong, but your attempt was to
23 analyze the reduction in revenue volatility resulting from
24 PSE's decoupling mechanism and quantify the risk reduction.

25 Is that generally what you're trying to do in this

0630

1 analysis?

2 A. Generally. I would disagree with that. I would take
3 issue with a little bit of it. But generally that's true.

4 Q. And your intent was to focus on the revenues that are
5 affected by PSE's decoupling mechanism; is that correct?

6 A. Yes, I was intended to look at the company's
7 historical results over a 15-year period, and try to assess the
8 volatility of those net revenues, the revenues that would be
9 impacted by decoupling, and then through an analysis of the
10 company's average historical rate base and capital structure
11 determine the cost of capital impact of that volatility
12 reduction.

13 Q. So I'd like you to turn to Exhibit SGH-26 CX.

14 A. I have it.

15 Q. This is a work paper that you prepared as part of your
16 SGH-19 and part of your analysis; is that correct?

17 A. That's correct.

18 Q. And it shows the different inputs that you've used for
19 your analysis; is that right?

20 A. Yes.

21 Q. And so you -- as you said, you go through a several
22 year period, 1999 to 2013. You take PSE's total electric
23 revenues, you pull out some of the power costs, and you come up
24 with PSE's electric net revenues; is that right?

25 A. Right.

0631

1 Q. And then you take the electric net revenues and
2 combine them with the gas net revenues, and that's how you come
3 up with your net revenues that you use in your analysis;
4 correct?

5 A. Correct.

6 Q. So looking at 2012, your electric net revenues. Those
7 total -- what do those total? Can you read that number?

8 A. 1.5 billion.

9 Q. Little bit over 1.5, almost 1.6; right?

10 A. Uh-huh.

11 Q. Okay. Now I'd like you to take -- to turn to JAP-18.

12 And if you don't have that, Mr. Rasmussen has it for you.

13 JAP-18 is Mr. Piliaris's exhibit in the original phase of this
14 proceeding.

15 A. I'm sorry. What proceeding?

16 Q. The original phase of this proceeding.

17 A. Okay.

18 Q. It's in the record.

19 A. I just couldn't hear what you said.

20 MS. CARSON: Do the commissioners have copies of this?

21 JUDGE MOSS: I don't think we do have Mr. Piliaris's
22 exhibits. While he's passing this out, I'll just say generally
23 that, to the extent a witness is not testifying in this
24 proceeding, we didn't include the earlier stage in the
25 testimony even though some of it was designated for reference.

0632

1 MS. CARSON: Okay.

2 JUDGE MOSS: So we're trying to keep the notebooks
3 down to manageable size.

4 MR. FFITCH: Have you got an extra copy for other
5 counsel?

6 JUDGE MOSS: Why don't you give us a page reference
7 again.

8 MS. CARSON: For JAP-18, it's page 1.

9 THE WITNESS: Okay.

10 BY MS. CARSON:

11 Q. Mr. Hill, in this exhibit, Mr. Piliaris calculated the
12 revenues that are subject to decoupling, and I'd like to call
13 your attention to line 6 of JAP-18. And you can see that the
14 residential revenue's subject to decoupling and the
15 nonresidential revenue's scheduled subject to decoupling.

16 A. "Test year volumetric delivery revenue"?

17 Q. That's correct.

18 A. Where does it say "subject to decoupling"?

19 Q. It's the volumetric delivery revenue. This is the
20 calculation of the decoupling revenues.

21 A. Okay. I've not seen this before, so --

22 Q. Okay. If we add those two together, it's a little bit
23 over 500 million; is that correct, for electric revenues
24 subject to decoupling?

25 A. Yes.

0633

1 Q. And this is for the test year, which was the year
2 ending June 30, 2013.

3 A. Okay.

4 Q. Okay. So your number is over -- your number for
5 electric net revenues for PSE that you used in your revenue
6 volatility analysis is more than three times greater than the
7 actual revenues that are electric revenues subject to
8 decoupling; correct?

9 A. Well, that's true. My -- my revenue numbers are
10 annual and these are midyear to midyear. That may have
11 something to do with it. But I believe your witness Doyle in
12 his rebuttal said that I had some trouble with my analysis
13 because I left out the net power costs in the consideration.

14 And we asked for those figures, and I looked at the
15 results with those figures, and it doesn't make much difference
16 if you put them in there.

17 Q. You don't think there's much difference between a 1.6
18 billion --

19 A. Oh, there's a lot of difference between these two
20 numbers, but I got the -- your estimates of net power costs for
21 these years and put them into my analysis and it makes a small
22 difference in the number of basis points, but not a big
23 difference.

24 Q. Okay. Thank you. I have no further questions.

25 JUDGE MOSS: Thank you, Ms. Carson. Let's see. Staff

0634

1 has indicated some cross-examination for Mr. Hill. You may go
2 ahead.

3 MS. CAMERON-RULKOWSKI: Thank you, your Honor. Our
4 time will be much reduced from our estimated time as some of
5 the prior testimony this morning has taken care of some of
6 those topics.

7

8 EXAMINATION

9 BY MS. CAMERON-RULKOWSKI:

10 Q. Good morning, Mr. Hill.

11 A. Morning.

12 Q. Mr. Hill, in how many cases have you testified in
13 which decoupling in some form was being proposed?

14 Approximately how many?

15 A. I'm say ten. That's a guess.

16 Q. And did you specifically recommend an ROE adjustment
17 in each and every one of these proceedings?

18 A. No, I didn't specifically recommend a basis point
19 reduction in every one of them, but I did say that decoupling
20 lowers the cost of equity capital and should be considered in
21 every one of them.

22 MS. CAMERON-RULKOWSKI: Thank you. I have no further
23 questions for Mr. Hill.

24 JUDGE MOSS: That was a significant reduction,
25 Ms. Rulkowski, and we do appreciate it. All right. So for now

0635

1 at least, Mr. Hill, you may step down. We'll call you back for
2 the panel shortly.

3 THE WITNESS: Thank you.

4 JUDGE MOSS: Perhaps even more shortly than I
5 anticipated the way things are going. And we'll have
6 Mr. Gorman at this point, then. And we have only 15 minutes
7 scheduled for Mr. Gorman, so looks like we're making good pace.
8 I appreciate everybody's efforts. That's all right,
9 Mr. Gorman. Don't worry.

10

11 MICHAEL GORMAN witness herein, having been
12 first duly sworn on oath,
13 was examined and testified
14 as follows:

15

16 JUDGE MOSS: Thank you. Please be seated. There you
17 are. Go ahead, Ms. Davison.

18 MS. DAVISON: Thank you, your Honor.

19

20 E X A M I N A T I O N

21 BY MS. DAVISON:

22 Q. Good morning, Mr. Gorman. Are you the same Michael
23 Gorman who has submitted written pre-filed testimony and
24 exhibits in this proceeding?

25 A. I am.

0636

1 Q. And any corrections that you had to your testimony
2 were pre-filed; is that correct?

3 A. That is correct. But there is one -- one exception to
4 that. I did not make a correction on page 35, line 14.

5 COMMISSIONER RENDAHL: Sorry. Which exhibit are you
6 looking at?

7 MS. DAVISON: His direct testimony in this docket.

8 JUDGE MOSS: In this phase?

9 MS. DAVISON: In this phase of this docket.

10 JUDGE MOSS: And I just want to -- I -- let me
11 interrupt perhaps for a second here. I'm hopeful that everyone
12 got the message that I sent out that -- and the corrected
13 exhibits, because these exhibits originally were misnumbered
14 and this was marked as Exhibit 23T, which caused me all sorts
15 of consternation when I discussed this case with the
16 commissioners the other day.

17 But we did discover the error, and ICNU did file
18 updated exhibits. So this is Exhibit 25T. And anybody who
19 didn't renumber their exhibits will need to do so by the time
20 of briefing at the very least. And we'll struggle through the
21 examination today, hopefully without incident.

22 MS. DAVISON: Thank you.

23 JUDGE MOSS: All right. Thank you.

24 BY MS. DAVISON:

25 Q. So, Mr. Gorman, you have one correction of your

0637

1 testimony on Exhibit 25T on what page?

2 A. Page 35, line 14. The number 0.76 should be 0.75.

3 That concludes the corrections.

4 Q. I'm sorry. What line was that?

5 A. 14.

6 Q. 14.

7 A. The beta of 0.76 should be beta of 0.75.

8 Q. Thank you. Do you have any other additional
9 corrections to your testimony?

10 A. I do not.

11 MS. DAVISON: Your Honor, since his testimony has
12 already been admitted.

13 JUDGE MOSS: We do have some cross exhibits for
14 Mr. Gorman. Are there going to be objections to any of these?

15 MS. DAVISON: No, your Honor.

16 JUDGE MOSS: Okay.

17 MS. DAVISON: He's available for cross-exam.

18 JUDGE MOSS: Thank you very much, Ms. Davison. And I
19 was just violating my own rule and talking over you. I
20 apologize. All right, Ms. Carson. You have indicated a few
21 minutes for Mr. Gorman. Please go ahead. Mr. Kuzma, please.

22

23 E X A M I N A T I O N

24 BY MR. KUZMA:

25 Q. Morning.

0638

1 A. Good morning.

2 Q. I'd like you to turn to cross-examination exhibit
3 number 46.

4 A. Is that the Moody's report?

5 Q. No, this would be the AUS reports.

6 A. Okay. I'm there.

7 Q. Now, this has been designated as confidential,
8 although I'd like to just go into that a little bit. I believe
9 the case being that the materials indicated on the page are not
10 confidential themselves, but that the -- it's because it's a
11 copyrighted document it's been mark confidential for that
12 reason.

13 A. That's correct.

14 Q. So we could talk about the individual numbers without
15 confidentiality problems?

16 A. Yes.

17 Q. Okay. So if we turn to that page 2 of the AUS
18 reports. Is it possible to do a market capitalization
19 calculation based upon the materials given?

20 A. It's possible to do a -- not an enterprise value
21 calculation, but you can calculate the market value, the equity
22 shares.

23 Q. And how would you do that?

24 A. By taking the market price times the number of shares
25 outstanding.

0639

1 Q. Okay. So if we -- if we did that, if we -- let's
2 start with Alliant, for example. If we took a market price of
3 -- it says as of August 20th, 2014, of 57.63 and multiplied it
4 by the number of outstanding shares of a hundred and ten
5 million, the market price -- market capitalization would be
6 approximately 6.4 million -- billion? I'm sorry.

7 A. I have haven't confirmed the calculation, but if you
8 multiplied those two numbers together, that would be the market
9 capitalization.

10 Q. Could you turn to page number 1 of Cross-Examination
11 Exhibit 47. That's the Value Line reports.

12 A. I'm there.

13 Q. And I think this has also been marked as confidential,
14 but for the same reasons of the copyright, not necessarily the
15 content?

16 A. Correct.

17 Q. And does Value Line provide a market capitalization?

18 A. Provides a total capitalization line item on the
19 sheet.

20 Q. And it does, I believe, in the far left column provide
21 a market capitalization?

22 A. And a mark cap, yeah, 6.4 billion for Alliant Energy;
23 that's correct.

24 Q. So that is similar to the calculation that you would
25 have gotten from the AUS reports of multiplying the 57.63 per

0640

1 share by the hundred and ten million?

2 A. Well, the calculation would be the same number of
3 shares outstanding, but the market price might not be exactly
4 the same.

5 Q. And that would account for the differential, if any?

6 A. I would assume so, yes.

7 Q. Okay. So --

8 COMMISSIONER RENDAHL: I'm sorry. Before you go on,
9 Judge Moss, I just want to clarify, I don't think it's just my
10 book, but I think the exhibits are reversed.

11 JUDGE MOSS: For the clarity of the record, Mr. Kuzma,
12 Exhibit MPG-46 CX is the Value Line reports, and MPG-47 C CX
13 is -- are the AUS.

14 MR. KUZMA: I apologize.

15 JUDGE MOSS: That's all right, but we just want to
16 be -- have a clear record, so Ms. Rendahl has brought that to
17 our attention and we appreciate it.

18 MR. KUZMA: Thank you.

19 BY MR. KUZMA:

20 Q. And so the materials provided in the AUS reports on
21 that page 2, those are combination utilities like Puget Sound
22 Energy in that they have electric and gas operations?

23 A. Yes.

24 Q. And many of these are also included within the Value
25 Line reports that were provided as 46, in Cross-Examination 46?

0641

1 A. Some of the companies included these combination
2 electric and gas by AUS are included in Value Line's electric
3 utilities, yes.

4 Q. All right. If you were to go to the AUS reports,
5 which is 47, and if you -- what is the price given for per
6 share for Duke Energy?

7 A. Duke Energy at page 2, the price per share is 72.76.

8 Q. And then what is the number of outstanding shares
9 provided?

10 A. Seven hundred and seven million.

11 Q. And if you were to multiply those, would you accept,
12 subject to check, the answer would be 51,441,000,000?

13 A. Yes.

14 Q. On that same page, what is the price per share
15 provided for Northwestern?

16 A. Northwestern, 45.09.

17 Q. I believe that's for Northeast.

18 A. Pardon me. 47.95.

19 Q. Oh, and the number of shares provided?

20 A. For -- it's either a 42.8 or a 47.8. I think it's
21 42.8 million.

22 Q. I believe you're right. And if you were to multiply
23 those two numbers, the market capitalization, would you accept
24 subject to check, would be 2,052,000,000?

25 A. Yes.

0642

1 Q. I'd like you to turn to the Value Line reports,
2 please.

3 A. I'm there.

4 Q. Okay. At page 12 they discuss Northwestern.

5 A. I'm there, page -- okay.

6 Q. In the narrative discussion in the bottom right
7 quadrant, do they discuss a acquisition program undertaken by
8 Northwestern?

9 A. In the narrative it does discuss a -- an acquisition
10 of hydro assets, yes.

11 Q. And then what is the dollar value that they provide
12 for the acquisition program?

13 A. 900 million.

14 Q. And that's 900 million for a company with a market
15 capital, as we discussed earlier, of 2 billion?

16 A. Yes.

17 Q. So would you -- would you accept, subject to check,
18 that's approximately a ratio of 43, 44 percent?

19 A. Yes.

20 Q. Could you turn to page 25 -- page 12 of your
21 testimony. I believe it's now 25T.

22 A. Okay. I'm sorry. Page 12?

23 Q. Page 12 of 25. It used to be 23T. Now I believe it's
24 25T.

25 A. I'm there.

0643

1 Q. And at footnote 7, you indicate that you excluded Duke
2 Energy because of an acquisition program of 4 billion?

3 A. Yes.

4 Q. That's 4 billion with -- for a company with a market
5 capital, as we discussed earlier, about 51.5 billion?

6 A. Yes.

7 Q. So that's about 7.8 percent?

8 A. Right.

9 Q. So you excluded Duke, but left Northwestern in your
10 proxy group?

11 A. I did.

12 Q. Okay. I'd now like you to turn to exhibit number --
13 let me see which one. I believe it's 43.

14 A. Exhibit MPG-43?

15 Q. I'm sorry. I've got the wrong number here. I'm
16 sorry. It was 42. I was off by one.

17 JUDGE MOSS: Is this the Standard & Poor's credit
18 metric?

19 MR. KUZMA: That is correct.

20 JUDGE MOSS: Okay. It was originally marked as
21 MPG-40. It's now 42.

22 THE WITNESS: Okay. Thank you.

23 BY MR. KUZMA:

24 Q. So on this page, on line 1 -- I'm sorry. I'm looking
25 at -- let me see. It's page 1, line 1. You list a rate base

0644

1 for Washington of 2.6 billion, essentially?

2 A. Yes.

3 Q. And then what source do you provide for that?

4 A. KJB-3.

5 Q. Okay. Could you turn to page -- could you turn to
6 page 2 of KJB-3. Maybe Mr. Rasmussen can provide it. Oh,
7 yeah. There are two KJB 3s due to the decoupling.

8 JUDGE MOSS: This is from the earlier phase of the
9 case.

10 MS. CARSON: We have -- I believe we have extra
11 copies.

12 JUDGE MOSS: Well, this will be helpful, but I think
13 just for notation, I think it is in our exhibit list, but
14 doesn't mean it's in our books.

15 BY MR. KUZMA:

16 Q. And while that's being passed around, just to clarify,
17 too, with respect to your MPG-14, you were looking solely at
18 the electric assets of Puget.

19 That was not a combination utility?

20 A. We are looking at the -- the electric retail cost of
21 service that is subject to the return on equity finding on this
22 case.

23 Q. So the electric?

24 A. Yes.

25 Q. Okay. And so you referenced on that MPG-42 the rate

0645

1 base number from KJB-3. And that -- that is shown on line 1 of
2 KJB-3, page 1? That's the same number?

3 A. Line 36 of this KJB-3.

4 Q. I believe you have the wrong KJB-3. Do you have the
5 other one, Rick? I'm sorry. Yes. It's -- I'm sorry. It's on
6 page -- line 36. Yes, you're right. And it also was on the
7 other KJB-2 as well. That's why I was a little bit confused.

8 So that -- that has the number there on line 36 on
9 page 2, and then the same number on page 1, line 2?

10 JUDGE MOSS: Of MPG-42?

11 BY MR. KUZMA:

12 Q. No, of KJB-3. It has the rate base of 2.621?

13 A. I'm lost.

14 Q. Can you turn to page --

15 A. I'm not sure where you're at.

16 JUDGE MOSS: Just to save time for this, I am looking
17 at all of it, and I can confirm that the numbers are the same.
18 So please just ask your question.

19 MR. KUZMA: Okay.

20 BY MR. KUZMA:

21 Q. When S&P does their equivalent calculations, do they
22 exclude the generation assets?

23 A. Standard & Poor's does a different type of analysis
24 than I do, and they consider the total company subject to the
25 monitoring.

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1 Q. And you excluded the generating assets?

2 A. I perform my analysis based on the rate case that my
3 return would apply to.

4 Q. And would your return apply to PSE's generating
5 assets?

6 A. Well, it was applied to the expedited rate filing rate
7 base, which was what was at issue in that case. But my
8 recommended return on equity is for PSE, and it would apply to
9 all retail cost of service assets for PSE. So it would apply
10 to the -- to the generation assets as well if those rates are
11 at issue in this case.

12 Q. So your MPG-42 does not -- the calculations provided
13 there do not reflect all of the rate base of Puget Sound
14 Energy?

15 A. Correct. It reflects the rate base noted as expedited
16 rate filing.

17 Q. Which excludes the generating assets?

18 A. It is smaller than the total company rate base and I
19 have not tracked the difference.

20 Q. Okay. Thank you. I have no further questions.

21 JUDGE MOSS: Thank you, Mr. Kuzma. All right. We
22 have -- Staff has indicated a few minutes for Mr. Gorman.
23 Please go ahead.

24 MS. CAMERON-RULKOWSKI: Thank you, your Honor.

25

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1 E X A M I N A T I O N

2 BY MS. CAMERON-RULKOWSKI:

3 Q. Good morning, Mr. Gorman.

4 A. Good morning.

5 Q. Please turn to page 5 of your rebuttal testimony.

6 This is Exhibit Number 44T.

7 JUDGE MOSS: Formerly marked as 42T.

8 THE WITNESS: I am there.

9 BY MS. CAMERON-RULKOWSKI:

10 Q. Thank you. And you state there that the comparable
11 earnings analysis should not be given any weight; correct?

12 A. I do.

13 Q. In prior testimony before this commission, you have
14 also been critical of the CE methodology; correct?

15 A. Generally, yeah, when it's presented, yes.

16 Q. Thank you. No further questions.

17 JUDGE MOSS: Thank you. All right. Given the --
18 well, first of all, Mr. Gorman, that completes your examination
19 by the parties and we will have you back this afternoon for the
20 panel discussing the matter at the bench.

21 We've decided to go ahead and take an early lunch,
22 and -- however, we -- given that counsel are doing such a good
23 job of moving things along this morning, we'll break until 1
24 o'clock. We'll see you back here promptly at 1:00, please.
25 And I think we should be able to finish up without having to

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1 run too late this evening. We'll be in recess.

2 (A luncheon recess was taken

3 from 11:27 a.m. to 1:02 p.m.)

4 JUDGE MOSS: All right. Everyone, we are back from
5 our lunch and recess and our -- our well-mannered witnesses
6 have already empaneled themselves over here, and they will
7 recall, each of them, that they are under oath.

8 And so we will begin this juncture with our questions
9 from the bench, and then we'll allow for, hopefully, brief
10 redirect, if any. So I will just turn the floor over to
11 whomever.

12 COMMISSIONER JONES: So I get the first straw, I
13 guess. Welcome everybody. It's not often you get four of you
14 in the room together. This is more of a point of personal
15 privilege. So this is -- this could be the last time I get the
16 four of you together while I am here, and so I'm going to take
17 a little -- I'm going to ask some questions, you know, to
18 explore some of these differences in your recommendations,
19 because I think we have -- we have some unusual circumstances
20 in this case.

21 So the first question is this issue of the time
22 capsule. And we've a very difficult task, I think. We have to
23 go back in time and try to figure out both what were the
24 conditions of the capital markets in early 2013 and then look
25 forward all the way into the future, but now we cannot have

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1 that benefit of hindsight. So how do we do that?

2 And you're -- because, Mr. Gorman, you were the only
3 one who submitted testimony in 2013, the first part of the
4 case; right?

5 MR. GORMAN: Yes.

6 COMMISSIONER JONES: So do you have any suggestions?
7 You have updated your runs for DCF, CAPM and risk premium to
8 reflect both 2014 today and then. And, Dr. Morin, you did the
9 same, although you did not submit testimony in the first round;
10 right?

11 DR. MORIN: Correct.

12 COMMISSIONER JONES: Okay. And, Mr. Parcell, you did
13 not submit two types of testimony, you just did one.

14 MR. PARCELL: Correct.

15 COMMISSIONER JONES: And, Mr. Hill, you didn't really
16 submit testimony the first go-round. You referenced the other
17 study, so you just did one.

18 MR. HILL: Right, for early 2013.

19 COMMISSIONER JONES: Okay. So any ideas, first of
20 all -- this is kind of a threshold question about how we should
21 kind of put ourselves in a time capsule. Weight certain
22 evidence, but not weight other evidence. Dr. Morin?

23 DR. MORIN: Yeah, let me take a crack at it here.
24 It's not as difficult as it seems to go back to the future,
25 because we do have interest rate forecast data dating from

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1 early 2013. We do have stock prices. We do have betas. We do
2 have dividend yields. And we do have analyst forecasts going
3 back in time.

4 So it's really not as difficult to replicate what
5 would have been the testimony in early 2013. And that's what I
6 tried to do. So the data is there. So it's not as formidable
7 a task as it might appear at first.

8 You have to forget, of course, take a blind eye to
9 what actually did happen and adopt a prospective attitude, but
10 the data's there.

11 COMMISSIONER JONES: And to the question of how much
12 weight we should give one or the other. I know in Order 10 we
13 opened up the Pandora's box, if you will. We said we're going
14 to -- we -- we think it's the discretion of the cost to capital
15 witness to develop evidence as he sees fit.

16 So often, in many cases each of you will make
17 recommendations at the end of your testimony. You say
18 50-percent weighting to this, 75-percent weighting to this. I
19 mean, are there any percentages or any just general descriptors
20 of how we -- how much evidence we should give to 2013 versus
21 the 2014 run of it?

22 MR. HILL: From my point of view, and I -- I was the
23 guy that only did an analysis for 2013. I think that's the --
24 that's the real focus here, because that was the decision
25 point. And when you set cost of capital, I agree with

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1 Dr. Morin, first of all, that the data is there.

2 The tricky thing is interest rate forecasts, because
3 we know what happened. They were forecast to go up, but they
4 didn't.

5 COMMISSIONER JONES: Right.

6 MR. HILL: We have to forget that that didn't and go
7 about our assumptions, like he said, forward-looking at 2013.
8 When we set cost of capital, we expect to set it for sometime
9 in the future. It's not just it's the -- it's the market data
10 now, but the market data that gives us the number now is
11 prospective market data, because expectations are built into
12 that data.

13 So the number we want from early 2013 should be
14 applicable to the company through the current time. If you --
15 if you look at the cost of capital today, it might be a little
16 lower than it was at the beginning of 2013, but I think the
17 cost of equity estimate from 2013 pretty much covers it.

18 I think Dr. Morin's two estimates are not too much
19 different from those two time periods. So from my -- for my 25
20 cents, I think the important focus for the commission is the
21 early 2013.

22 COMMISSIONER JONES: Okay. Dr. Parcell.

23 MR. PARCELL: I agree with that. Me too.

24 COMMISSIONER JONES: Dr. Gorman.

25 MR. GORMAN: I would, you know, like to remind the

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1 commission that in early 2013 I actually did offer a rate of
2 return study. I was subject -- subjected to cross-examination
3 on that based on what was known and measurable in early
4 approximate. So my rate of return was defended based on only
5 what was known at that point in time.

6 So I would encourage you to look at the record and
7 supported by the recommendation at that time to -- to be pretty
8 strong evidence of what a finding of a fair return on equity
9 would have been based on only what was known and measurable in
10 early '13.

11 My offer of testimony in this case shows the change in
12 capital market cost, and I believe substantiates my belief that
13 capital costs have not changed significantly --

14 COMMISSIONER JONES: Right.

15 MR. GORMAN: -- since that time, and that my finding
16 in early '13 is still reasonable today.

17 COMMISSIONER JONES: I understand that. And since you
18 raise that, I'm going to ask it. I had it for a later question
19 for you, but in that -- in the first round of this testimony,
20 you estimated a range, as I recall, of 8.6 or 8.8.

21 It was a wider range that had a lower bottom number;
22 correct?

23 MR. GORMAN: That's correct, yes.

24 COMMISSIONER JONES: And in this case, in the second
25 round of the case, your testimony is 9.0 to 9.6 as being a

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1 reasonable range.

2 MR. GORMAN: Correct.

3 COMMISSIONER JONES: So what are the primary drivers
4 for that? Is it expectations of future interest rates going up
5 for the DCF and the CAPM analysis or something else?

6 MR. GORMAN: I think it largely is the change in
7 interest rates that occurred over that time period, for future
8 interest rates. But it's also important to recognize that
9 there's been a change in the stock market volume, utilities
10 securities, also. Dividend yields have come down.

11 COMMISSIONER JONES: Isn't that -- if I could
12 interrupt. Isn't that primarily due to the Dow Jones Utility
13 Index or the EI utility stock prices going up 25 percent in
14 2013?

15 MR. GORMAN: Well, yes, that's what caused the yield
16 to come down, but that's also an indication that the market is
17 willing to accept lower yields and lower returns on equity.
18 You know, because those are market-based competitive rates of
19 return.

20 COMMISSIONER JONES: So during the lunch break, I went
21 back and looked at the order. May 7th, 2012. This is in
22 dockets UE-111048 and dockets 111049. As you recall, this is
23 the last time we set the cost of capital for this company,
24 after litigation and rounds of cost of capital witnesses.

25 So just let me read for the record, because I think it

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1 would be informative and foundational as we go forward here.
2 It is in paragraph 89.

3 "Accordingly, we are forward RP," that's risk
4 premium, "and CAPM results little weight and give primary
5 weight in this case to the results of DCF analysis. In
6 this regard we find Mr. Gorman's DCF analyses, which
7 average to be 9.83 percent, to be the most comprehensive.
8 This average falls very near the midpoint of the
9 reasonableness range. Therefore, after careful
10 deliberation and weighing all results, we've determined
11 that the midpoint of this range is reasonable for PSE's
12 return on equity. PSE's authorized return on equity
13 should be 9.80 percent."

14 So a couple questions on that. Mr. Gorman, at --
15 in -- in -- in that case we afforded most of the evidence and
16 we agreed with your analysis.

17 And in terms of the analytical methodologies in that
18 case, we gave more preference to the DCF analysis; right?

19 MR. GORMAN: Yes.

20 COMMISSIONER JONES: And lastly, to risk premium and
21 CAPM. So this is for each of you. Should we do the same in
22 this case? And, for example -- and, Dr. Morin, I'd like you to
23 address this, each of you. This is mainly for Dr. Morin and
24 Dr. Gorman, but Mr. Hill -- Mr. Hill and Mr. Parcell, please
25 chip in as well.

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1 Dr. Morin, your DCF goes down from 2013 utility
2 analysts. It goes from 10.1 percent to 9.6 percent in the
3 2013, 2014. Mr. Gorman, your -- yours goes up, which I find a
4 little -- yours goes -- let's take your -- and I know there's
5 controversy over sustainable growth.

6 Let's take the -- well, let's take sustainable growth,
7 because we'll talk about it. Yours goes from 8.38 percent to
8 9.05 percent. So why is this? I -- I respect both of your
9 opinions, and let's talk the premise that the commission will
10 continue to use DCF analysis as a primary weighting. I'm not
11 saying we will, but at that time we did.

12 So what's the reason for this discrepancy or -- or --
13 or this divergence between you and Mr. Gorman?

14 DR. MORIN: My -- my DCF analysis early in 2013 went
15 down a little bit for the simple reason that the dividend
16 yields went down, because stock prices went up during that
17 period, so it's really as simple as that.

18 With regards to weighing, I've testified in two
19 hundred and forty cases, I think, in the last 30 years, and 48
20 jurisdictions. I've always, always used all the methods
21 available to me, risk premium, CAPM, and DCF.

22 Like a pilot flying on one instrument, it would be a
23 very dangerous flight to just rely on one instrument. So --
24 and you're dealing with expectations in the minds of investors,
25 I think it behooves us to look at all the evidence.

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1 Now, the 9.8 percent that you decreed in that decision
2 that you've just read was the commission's decision. And the
3 fundamental question here today, is that a fair and reasonable
4 number.

5 And to cut to the chase, Mr. Parcell has a range 9 to
6 10. I have a range of 9.6 to 10.2. Mr. Hill spoke about a 10
7 percent in Alabama. And Mr. Gorman's pretty close to 9.8. So
8 I think you've made the right decisions. That's my opinion.

9 But again, back to your initial question. I think all
10 methods should be weighted equally. They look at investor
11 expectations from a completely different perspective, and one
12 can be used to crosscheck the other, and I think look at all
13 the data.

14 COMMISSIONER JONES: Okay. Mr. Gorman. Let's just go
15 down the table here.

16 MR. GORMAN: Thank you. I generally agree with
17 Dr. Morin about you need to consider the -- the findings of
18 multiple market-based models and estimating the best estimate
19 of return on market cost of equity in each rate case.

20 I too have been in this business for over 20 years,
21 and there have been periods where cost of good DCF numbers are
22 way too high and way too low. There have been periods where
23 risk premiums are skewed one direction or another. The CAPM
24 analysis also can move around quite a bit.

25 So I think there needs to be the development of

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1 independent models and then use of sound judgment based on
2 observable market evidence and interpreting the results of
3 those models and whether or not they make sense in today's
4 marketplace.

5 That's what I did in the last case when I recommended
6 point estimate of 9.3, which was generally at the high end of
7 my range, because I wasn't very comfortable with those low-end
8 estimates. Today it's -- it's a stronger support for where I'm
9 at, because all of my models are strongly indicating the
10 current market cost of equity falls in the range of 9 to 9.6.

11 So it's pretty strong fundamentals at this point in
12 the marketplace. And that generally makes sense, because the
13 economy's improved quite a bit since -- since -- for the last
14 couple years, continues to improve. And the fundamental value
15 of -- valuation of these types of securities is becoming
16 stronger and more predictable.

17 So based on that sense of where the market cost of
18 equity has been since the beginning of this study period, I
19 would suggest that the 9.3 percent I estimated in the last
20 case, which was quite conservative based on the results of my
21 study, is equally conservative now, because the market evidence
22 showed that it was a pretty good estimate at that time and
23 remains a pretty good estimate.

24 COMMISSIONER JONES: Mr. Hill.

25 MR. HILL: I'm not going to disagree that you should

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1 use more than one model. I think the DCF is probably the most
2 reliable of all of them, but they're all helpful. I do have to
3 take issue, if I may, with Dr. Morin on his statement that the
4 primary issue in this case is whether or not 9.8 is reasonable.

5 I don't see that as the primary issue at all. In fact
6 I think that's -- it's a bit of a problem. If this were -- if
7 the commission had not had the previous, let's call it, a
8 signpost. Let's call 9.8 a signpost. Usually cost of capital
9 is, "Okay, boys, what's the number? Go out there and fish
10 around, do what you do, and find me a number and tell me what
11 the cost of capital is."

12 There's no guidepost -- "And see -- by the way, see if
13 your cost of capital can hit this post." That's very unusual.
14 I'm not aware of a situation where a prior allowed return has
15 been something to be of concern in estimating the cost of
16 capital.

17 That's basically just looking at the market, doing the
18 models we do and getting a number for what investors expect.
19 It doesn't have anything to do with what the previous award
20 was. So while agreeing with Dr. Morin, I have to take issue
21 with that one point.

22 COMMISSIONER JONES: I'm shocked that you're taking
23 that.

24 MR. HILL: It's never happened before.

25 COMMISSIONER JONES: Mr. Parcell.

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1 MR. PARCELL: Three quick points for me, please.

2 First of all, I agree with Mr. Hill that -- that the -- as I
3 read Order 10, you've asked us to give you our independent
4 analysis of what the current -- no, of what the 2013 cost of
5 equity was.

6 It just so happens (unintelligible) with the prior
7 case, but that's not a standard here. The standard is, in my
8 view, what we find to be the number from our own analyses.

9 My second point is pertaining to weights of
10 methodologies. I have for a long, long time used three
11 methodologies. And in some cases, I've used all three for my
12 recommendation.

13 COMMISSIONER JONES: Yes.

14 MR. PARCELL: But if this is an outlier, like I have
15 right now, I use two. And that's the beauty of having three,
16 to see if there is an outlier. So that's why I think it's
17 useful to have more than two, but you don't have to give equal
18 weight to all of them.

19 And I'm the only person here who uses a direct
20 comparable -- I'll let Steve use the modification of it. I
21 think her audit is a useful method, and it's not as driven by
22 changes in interest rates as the other methods, so it's more of
23 a stable method.

24 COMMISSIONER JONES: Okay.

25 MR. PARCELL: Because I used achieved returns over one

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1 or two business cycles plus projected it out three to five
2 years, so I think that's useful. That's my three points to
3 your question.

4 COMMISSIONER JONES: So, yes, you are the only one in
5 this case that does the comparable earnings analysis.

6 MR. PARCELL: Although Mr. Hill's --

7 COMMISSIONER JONES: That's true.

8 MR. PARCELL: -- market-to-book ratio method is
9 similar to that.

10 COMMISSIONER JONES: Yeah.

11 MR. PARCELL: Unless he disagrees with me.

12 COMMISSIONER JONES: Well, you've all -- several of
13 you have written books on this, so I'll -- I'll -- I'll take
14 that point. I think it's accurate. Okay. A little more
15 granular analysis now, and focused on you, Dr. Morin and
16 Mr. Gorman.

17 The -- this issue of the decoupling factor and whether
18 or not it's embedded in investor expectations when you set the
19 cost of capital or not. It's a difficult question, I think.
20 But both of you agree in your final analysis on -- on the cost
21 of equity, yours at 9.8, Dr. Morin, and yours at 9.3 percent,
22 is that the -- any adjustment for a decoupling for customer
23 revenue, decoupling mechanism is embedded in that number;
24 right?

25 DR. MORIN: Correct.

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1 COMMISSIONER JONES: Mr. Gorman, is that an accurate
2 ways of phrasing it or is there a more artful way?

3 MR. GORMAN: It's my position that at the time the 9.8
4 was measured, the decoupling risk adjustment was not embedded
5 in that number.

6 COMMISSIONER JONES: Okay.

7 MR. GORMAN: More recent data where the mechanism has
8 been in use and the market is aware of it, it's part of the
9 regulatory mechanisms recognized by credit analysts and other
10 market participants in assessing the investment of risk of PSE,
11 so it's baked into the numbers now, but it's not baked into
12 9.8.

13 COMMISSIONER JONES: But it's baked into 9.3 percent
14 is my question to you, your recommendation of 9-3.

15 MR. GORMAN: Yes.

16 COMMISSIONER JONES: Okay.

17 DR. MORIN: I totally disagree with that position. I
18 think it was embedded in the data in 9.8 percent. And if you
19 look at the proliferation of risk mitigators, that began around
20 2008, 2009, in response to all these new business risks that
21 have suddenly appeared, like demand declining, costs going up,
22 rate base having to increase and so forth. So regulators have
23 responded in a very supportive manner to these new risks.

24 COMMISSIONER JONES: Yes.

25 DR. MORIN: So it was in the data.

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1 COMMISSIONER JONES: Yeah. I'm going to get to those
2 points in a minute, because I think that's highly debatable.
3 Let's -- let's talk about the proxy route for a minute between
4 especially you, Mr. Gorman, Dr. Morin.

5 You proposed, Dr. Morin, a proxy group of 25
6 companies, and you proposed 22 companies; right?

7 DR. MORIN: Correct.

8 COMMISSIONER JONES: Mr. Gorman, why -- why do you
9 think his, Dr. Morin's, proxy group is inaccurate? Is it
10 primarily because of M&A activities related to those six
11 companies that you mention?

12 MR. GORMAN: Those were the specific reasons that I've
13 mentioned, yeah, but when I developed my proxy group, I used
14 the risk factors I felt most accurately describe PSE's risk and
15 would produce a publicly traded proxy group that -- that
16 measures, that is consistent with those risks, that can be used
17 to measure a fair return on equity.

18 At the end of the day, the group that I identified I
19 think is a little different than the group Dr. Morin
20 identified.

21 DR. MORIN: And yet our DCF results are very similar,
22 so --

23 COMMISSIONER JONES: Dr. Morin, I think this morning,
24 in response to a question -- one of these issues that we're
25 grappling with, that I'm grappling with at least, is in the

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1 proxy group -- well, let me preface my question.

2 This company is privately held. The stock is not
3 publicly traded. And, therefore, when you make comparisons in
4 a proxy group to other companies that are publicly traded with
5 market capitalizations that are liquid, easily understood, it
6 is not necessarily an apt comparison, in my view -- I don't
7 know if that's your view -- because this is a privately held
8 company.

9 But I think whatever your conclusion is on that, the
10 selection of a proxy group becomes even more important, because
11 what you're trying to simulate for this company, which is owned
12 by MacQuarie and Canadian pension funds, that may have
13 different investor expectations than a mutual fund or an
14 individual purchasing a utility stock, the selection of the
15 proxy group becomes very important, in my view.

16 So that's why I'm driving down on this a little bit.
17 And, Dr. Morin, when you said today that you are unaware, in
18 your proxy group, of all of the utilities in your proxy group
19 that don't have -- that have or don't have decoupling
20 mechanisms, that really surprised me, because I would think
21 that you would have had that knowledge before you put that
22 proxy group together.

23 DR. MORIN: If I had done that, I would have ended up
24 with a very, very small portfolio of a handful of companies.
25 And the -- statistically, from a reliability point of view, the

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1 results would not have been very satisfactory, in my view. So
2 if you just pick four or five companies that have exactly the
3 revenue decoupling, you have a statistically unreliable sample.

4 So I -- I'm a strong proponent now, in the last five,
5 six years, of larger samples, because of all the noise and the
6 data as well, mergers and acquisitions. And I've used a
7 similar network deferred, very large sample group.

8 COMMISSIONER JONES: But I -- and -- and I don't mean
9 to put you too much on the spot here, but it just gets to the
10 point of how granular we should be in our analysis of all these
11 issues. I think you used the word today innovative rate-making
12 mechanisms, supposedly innovative rate-making mechanisms, And
13 whether it's a multiyear rate plan, a CAPEX tracker, a power
14 cost adjustment mechanism, a decoupling mechanism, a power cost
15 adjustment -- a purchase gas adjustment for gas. These are all
16 risk mitigation mechanisms.

17 And so it's -- it's difficult to ascribe a value to
18 that, at least in my mind, to put a value on that as it affects
19 your proxy group. Am I off base here?

20 DR. MORIN: My point this morning was that investors
21 do not discriminate, oh, this company has revenue decoupling,
22 only covers one-third of revenue. This other company has
23 depreciation tracker.

24 They look at the degree of supportiveness of the
25 commission. They look at risk mitigators as a package deal, is

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1 this commission of the new risks that have appeared, the new
2 world order I call it.

3 And that's the spirit in which I selected the group.
4 They all had risk mitigators, 80 percent of them do. And
5 again, if I said, okay, I'm just going to pick the ones that
6 had exactly the same decoupling mechanism as PSE, I would have
7 ended up with two or three or four companies.

8 COMMISSIONER JONES: Dr. Morin, are you familiar with
9 all the risk mitigation mechanisms that PSE already has even
10 before this? And I'll just list a few for you.

11 It has a power cost adjustment mechanism with sharing
12 bands and a debt band. It has numerous deferred account --
13 deferred accounting. Last time I looked, I think it was over
14 500 million; hence, many, many deferral accounting petitions.

15 It has an automatic storm damage deferral. Recovers
16 all of its -- your point on energy efficiency, this company
17 recovers all costs associated with energy efficiency, a state
18 mandate through a rider, a tariff rider.

19 And up until the path break in 2013 case, they were
20 filing about every year or every other year to recover costs.
21 So those are all the risk-mitigation mechanisms that we already
22 had in place before 2013.

23 And so when you talk about innovative rate-making
24 mechanisms or any of you -- I think Dr. Vilbert has that in his
25 testimony as well, and I'm -- we'll talk to Mr. Vilbert --

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1 Dr. Vilbert later on this afternoon.

2 But I -- I guess my question is: After all of these
3 mechanisms have been put in place by the commission, and then
4 you put in a decoupling and K-factor and an expedited rate
5 filing, what risks -- what are the major risks left for a
6 company that really isn't constructing anything? They have no
7 major plants under construction. There's no construction risk.

8 DR. MORIN: There certainly is the band risk, business
9 risk because of a sluggish economy, which is getting better,
10 admittedly. And also because of conservation efforts and more
11 efficiency in appliances and so forth, there's definitely an
12 increase in business risk.

13 COMMISSIONER JONES: Okay.

14 DR. MORIN: And you have cataloged a series of
15 remedies to try to counter that and offset that, and so have
16 many other companies. My point is, is that these mechanisms
17 that you speak of have proliferated in recent years, and many,
18 many, many companies, the ones in my group, have similar
19 mechanisms. Maybe not all of them. Maybe even more supportive
20 than others. And I applaud the commission for that.

21 COMMISSIONER JONES: Okay. Mr. Gorman, let's go down
22 the table here.

23 MR. GORMAN: Though I agree that when actions are
24 taken place in the industry, there's heightened awareness of
25 those type of regulatory mechanisms to try to mitigate risk,

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1 but just because there's an initiative in the industry, that
2 doesn't mean that a specific company's risk has been positively
3 impacted.

4 That's a little bit like saying that the electric
5 industry has an A bond rating, but our subject company is below
6 investment grade bond rating, so it's appropriate to assume
7 that it's an A-rated bond company, because that's what all
8 other electric utilities are.

9 Investors don't do that. Regulatory commissions, in
10 my experience, don't approve proxy groups based on that
11 principle. So if Puget Sound, regardless of what was going on
12 in the industry, didn't have a decoupling mechanism at the time
13 the 9.8 percent return on equity was found to be appropriate
14 for its risk at that time, that 9.8 is -- is no longer
15 reasonable if regulatory mechanisms have reduced their
16 operating risk since that time. And that's what's happened.

17 So 9.8 percent return on equity is no longer
18 reasonable for Puget Sound Energy based on that one fact alone.
19 And identifying proxies that are similar investment risk to the
20 subject company, it's imperative that you identify companies
21 that are reasonably -- reasonably risk comparable to the proxy
22 group.

23 It requires some observable evidence, generally bond
24 rating, to help identify what other companies of comparable
25 risk are.

1 Now, the bond rating encapsulates total investment
2 risk, which includes all regulatory mechanisms. It reflects
3 the service area economic risk. It reflects the strength of
4 management effectively and efficiently operate their company,
5 and it reflects the general comparison of that company's
6 investment characteristics to corporate bonds in general.

7 So it's a good measure of identifying companies that
8 are reasonably comparable in investment risk to the subject
9 company. And that's a primary factor I relied on. The bond
10 rating's risk relates to how the utility produces cash flows
11 that are sufficient and predictable enough to make the debt
12 service payments on the utility's bonds. But those cash flows,
13 after they make the debt service payments, are the very same
14 cash flows that are available to the utility to meet the equity
15 owner's expected investment returns.

16 So it's a pool of cash flows with priority of payment,
17 but the amount and the predictability of those cash flows
18 describes investment risk for that company for both debt
19 investors and for equity investors.

20 COMMISSIONER JONES: Mr. Hill, Mr. Parcell, do you
21 have any comment on this issue of the proxy, selection of the
22 proxy group and risk mitigation factors and how we try to parse
23 through this?

24 MR. HILL: I have a couple comments. I think, unlike
25 Dr. Morin and Mr. Gorman, I try to do a more targeted proxy

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1 group. They generally have a large number of companies. My
2 company number is usually smaller.

3 I try to pick companies that have closer bond ratings
4 and size factors or other factors that are pertinent I think to
5 the risk of the operation, and so I wind up with a sample group
6 of ten to 18 companies where they may -- might use 20 or 25.
7 So rather than sort of broadcast, I try to narrowcast what my
8 sample group is.

9 I don't think that the regulatory mechanisms we're
10 talking about in general here are not ubiquitous. Decoupling
11 is certainly not ubiquitous. And I think I had to check my
12 sample group for the amount of companies that had decoupling to
13 determine to what extent I was going to make an adjustment. I
14 did that.

15 I have a discussion at pages 81 and 83 of my testimony
16 talking about Dr. Morin's sample group and Dr. Vilbert's
17 analysis of that to show what methods were, regulatory methods
18 were available. And my assessment of it is, is that far less
19 than half of those companies have the kind of mechanisms
20 they're talking about.

21 First of all, many of the companies have large
22 unregulated portions which, of course, you know, they're not
23 going to have regulatory mechanisms. That wasn't taken into
24 account in that analysis.

25 So I'm not going to discuss it. I talk about it in my

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1 testimony. But it's true generally that there has been a big
2 push for trackers, let's call them trackers. And a lot of
3 people do have them, you know. They started out as fuel cost
4 adjustments, you know. That was the first tracker that was
5 widely used.

6 Pretty much everybody has those now. So that's a
7 wash, you know, you have to say. But then -- then they begin
8 to be construction trackers and began to be quip trackers
9 and -- and there's a lot of them out there. There's no
10 question about it.

11 But are they ubiquitous? No, they're not ubiquitous.
12 They exist for some companies, but not for others. And it's
13 very difficult to get down to that. This is I think the heart
14 of your question, Commissioner.

15 It's very difficult with cost of capital analysis to
16 get to that level, that granular level of can I assign a basis
17 point impact of this company having a quip tracker and this
18 company not. And I think the answer to that is "no." It's
19 just not that accurate. Can't do it.

20 COMMISSIONER JONES: Yeah, that's -- that's the thrust
21 of my question, I think. Mr. Parcell.

22 MR. PARCELL: Saying about the same thing in different
23 words. There's two ways to look at risk, a micro sense and a
24 macro sense. A micro sense you say, well, how much of risk is
25 reduced by decoupling, how much risk is reduced by fuel

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1 adjustment. But that's very difficult.

2 A macro assessment of risk is you look at the bond
3 ratings, because utilities you only have bond ratings, not
4 the whole companies. At least they might both have the -- you
5 only have bond ratings. And that's supposed to be like the
6 spaghetti commercial, everything's in there already.

7 So if you look at the ratings, it's -- that's should
8 be a criteria for selecting proxy companies. Because all --
9 all decoupling is not created equal. All fuel causes are not
10 created equal.

11 I'm sometimes in a hearing about where a company has a
12 lot of so-called trackers, and I'll ask a data request, "Please
13 indicate what portion of your operating expenses in a test year
14 are recovered through tariffs and trackers." But that's only
15 information the company can give you. You can't go to a source
16 and use that to select proxy companies.

17 So that I -- I think that the macro approach is
18 better. And you -- there are, for companies publicly traded,
19 you can use Value Line safety, Value Line betas. So -- plus I
20 don't like to get into a contest of who has the best proxy
21 group. When I do cost of capital testimony, I do develop my
22 own and use everybody's else's, too. I do it all the time,
23 don't find much different results.

24 COMMISSIONER JONES: Mr. Parcell, you produced a --
25 this is on to CAPM now. You produced a CAPM of 6.70 percent

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1 while Mr. -- Dr. Morin's was 9.8, Dr. Gorman's was 8.4, and,
2 Mr. Hill, I think yours was 7.42 percent.

3 So can you briefly describe, summarize the reasons why
4 your CAPM was so much lower than the other witnesses. Is it
5 due to the beta estimate? Is it due to the market risk premium
6 or what?

7 MR. PARCELL: The primary difference is I use the
8 current level of interest rates. In other words, the current
9 level of interest rates reflects what they are today. They are
10 real. And Mr. Gorman and Dr. Morin use projected levels of
11 interest rates.

12 I wish I could go into a bank with a Value Line sheet
13 and say, "Well, projected rates are four percent. Can I have a
14 CD for four?" They'll laugh me out of the place. Rates are
15 what they are. So I use -- I use actual current rates, and
16 they use projected rates. That's the main difference.

17 COMMISSIONER JONES: Okay.

18 MR. HILL: I agree with that.

19 COMMISSIONER JONES: Any response to that, Dr. Gorman?

20 MR. GORMAN: Well, I mean --

21 COMMISSIONER JONES: Mr. Gorman.

22 MR. GORMAN: The rate of return is designed to be --
23 to give the utility an opportunity to have fair compensation
24 when rates are in effect, not just right now. So in designing
25 that fair rate of return, you need to consider current

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1 observable interest rates, what a bank would give you right
2 now. But that same rate of return will be in effect a year
3 from now, and will that rate of return still be reasonable.

4 So that's one consideration for using both current
5 observable and projected interest rates is that there is some
6 concern for being conservative and producing a rate of return
7 that would be balanced during a rate effective period.

8 DR. MORIN: Last comment. The difference is basically
9 because of the use of current yields versus prospective yields.
10 One thing that has always bothered me in the last couple of
11 years is that I've been forecasting higher yields for several
12 years now and they haven't materialized yet.

13 But anyway, that's in the minds of investors when they
14 make an investment decisions. The problem with the T-Bond
15 yields in the last couple of years, I'm not sure they no longer
16 market rate. They're really a ministry rate, the results of
17 quantitative easing 1, quantitative easing 2, QE infinity, you
18 know. It's been going on for quite a while, so I'm not sure
19 that these current yields are market rates anymore.

20 But the prospective yields is quite consistent with
21 the notion that investors make investment decisions based on
22 expectations.

23 COMMISSIONER JONES: And just the difference between
24 the two of you on CAPM in your market-free rate, Mr. Gorman,
25 you used a risk-free rate of 4.10 percent, and you used a rate

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1 of --

2 DR. MORIN: I used 4-6, because I use all of the
3 forecasters.

4 COMMISSIONER JONES: So that's a 50 basis point --

5 DR. MORIN: I use Global Insight, Blue Chip, and Value
6 Line, and CBO.

7 COMMISSIONER JONES: And, Mr. Gorman, what did you
8 use?

9 MR. GORMAN: I used the consensus of economists
10 projected future Treasury bond yields rather than individual
11 estimates of growth that Dr. Gorman used. And doing that I
12 think is consistent with the principle Dr. Morin and I both use
13 in using consensus analyst growth rates rather than individual
14 analyst growth rates for earnings in our DCF models.

15 It captures a broader spectrum of what market
16 participants are projecting for future Treasury yields with the
17 consensus projection as opposed to individual analyst
18 projections.

19 COMMISSIONER JONES: Okay.

20 MR. HILL: One last comment. Current yields look to
21 the future. They are prospective. Everyone that buys, that's
22 buying Treasury bonds today, and they're bought by a billion
23 dollars every minute, and these are smart people. They're
24 buying long-term 30-year Treasury bonds that yield right now
25 about 2.75 percent. They know what the projections are, but

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1 they're plunking down hard money right now for those yields,
2 because they know what to expect.

3 COMMISSIONER JONES: True. And it also -- and I don't
4 want to go there with this line of questioning. I think a few
5 of you were here for Pacific Power. It also involves
6 international debt investors --

7 MR. HILL: Yes.

8 COMMISSIONER JONES: -- and them placing large amounts
9 of money in our market.

10 MR. HILL: Yes.

11 COMMISSIONER JONES: And there is a big interest rate
12 differential between those markets and our market today. But I
13 don't want to go there. We could spend at least an hour on
14 that, and my chairman is saying "no."

15 Risk premium. This is primarily for the two of you,
16 Dr. Morin and Mr. Gorman. Dr. Morin, I think in your DCF
17 analysis, you emphasize to us that it should be forward-looking
18 when we estimate g , the small g , the growth rate. And there's
19 great contention always about what the g should be.

20 Yet in the risk premium analysis, you were just -- at
21 least your model relies on historical data, going from 1931 to
22 2011 in your estimate. And, Mr. Gorman, you seem to be
23 advocating either for more forward-looking data estimates, if
24 you will, or a mix of the two.

25 So, Dr. Morin, why do you rely so much on historical

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1 data for your risk premium analysis? And just to cut to the
2 chase, your -- your analysis, coincidentally, comes out at 9.8
3 percent for risk premium, and your analysis --

4 DR. MORIN: So you were right.

5 COMMISSIONER JONES: I'm not saying that's the right
6 number, but that's what you come up with based on risk premium.
7 And, Mr. Gorman, your number is what?

8 MR. GORMAN: 9-6.

9 COMMISSIONER JONES: 9-6. So not a big difference.
10 But address that point on historical data versus a hybrid or
11 more forward-looking estimates.

12 DR. MORIN: Two points. Number one, I use both
13 prospective estimates of the market risk premium using the DCF
14 on the market index, and I use historical data as well. The
15 reason I use historical data is because, in all the textbooks
16 of finance, there's great references to the Morningstar
17 Valuation Yearbook.

18 COMMISSIONER JONES: What used to be the Ibbotson
19 Book.

20 DR. MORIN: What used to be called the Ibbotson Book.
21 And that data is prevalent in almost everywhere, in all the
22 finance textbooks and literature and credit reports and so
23 forth. So investors are very cognizant of that. So that's why
24 I give credence to it.

25 And also over very, very, very long time periods --

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1 you said 1931 to 2014 -- investor expectations do get realized
2 or else nobody would invest money otherwise. So those are the
3 two reasons. So I use both prospective and historical.

4 COMMISSIONER JONES: And just before you turn it over
5 to Mr. Gorman, again, this is 2000 -- early 2013 analysis. So
6 why -- why did your data set end in 2011?

7 DR. MORIN: Oh, because the Ibbotson yearbook doesn't
8 come out till March and April.

9 COMMISSIONER JONES: Got it. Okay. Mr. Gorman.

10 MR. GORMAN: Well, you know, I used historical data
11 for two reasons. One was to look at the historical market risk
12 premium estimates within that data, not just one estimate, but
13 all the estimates for the market risk premium.

14 I also used the historical data to produce a risk -- a
15 risk premium estimate of what a forward-looking return on the
16 market is and develop a risk premium based on that risk premium
17 market return estimate.

18 The bigger difference is between my reliance on the
19 historical data and Mr. Morin's is I look at all the point
20 estimates that the Morningstar document offers investors.
21 Dr. Morin predominantly relies on the market risk premium
22 estimate by comparing total returns on the stock versus only
23 the income returns on the bonds.

24 And the income returns on the bonds ignores capital
25 change, price changes in the bonds themselves. So it

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1 represents an investment that's truly not available to any
2 investor. So it is a risk-free rate estimate that Morningstar
3 offers, but it compares investment in -- in the stock index
4 versus investments in Treasury bond investments that are --
5 simply is not available to an investor.

6 You can't buy a 30-year Treasury bond and not have it
7 change in price from year to year. And if you have a change in
8 price in your expected return on a Treasury bond yield is going
9 to be different than the income return on that bond alone.

10 Now, there may be some risk element of that change in
11 market price of that bond, which is true. But the question
12 then is, is what is the proxy for the risk-free rate? If it's
13 a 30-year Treasury bond, then look at a true investment in a
14 30-year Treasury bond. That's the total return on it.

15 And when you compare the total return on stocks versus
16 a total return on Treasury bonds, you get a risk premium that's
17 a little bit lower than the risk premium you get by looking at
18 only the income return on the bonds. It's a relevant data
19 point and I think it's important to include it in a CAPM study.

20 COMMISSIONER JONES: Back to DCF for a minute. And
21 this is for you, Dr. Morin. You're fairly critical of
22 Mr. Gorman's use of the sustainable growth DCF method. You use
23 words like "inherent circularity," "confusion."

24 Why? Can you just summarize for me why you're -- why
25 you're critical of that.

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1 DR. MORIN: Sustainable growth drills it down to what
2 are the sources of that growth, where is that growth coming
3 from. It's coming from the retention of earnings. The
4 earnings that are not paid out as dividends are retained and
5 plowed back as increments to the rate base, basically.

6 And if you take that retention ratio and you multiply
7 by the expected profitability of those funds, you have a
8 measure of growth. That's where growth comes from, addition to
9 the rate base times the profitability of those additions.

10 Now, the reason we have a rate case is because the
11 rate of return is inadequate. That's why we're here, generally
12 in a general rate case. So you cannot use a rate of return to
13 infer another rate of return. You're really going around that
14 squirrel in the cage and circles. That's the main reason. And
15 there are other reasons as well, and I won't go into during my
16 testimony.

17 COMMISSIONER JONES: Okay.

18 DR. MORIN: It's circular. That's the quick answer.

19 COMMISSIONER JONES: Mr. Gorman, your response, sir.

20 MR. GORMAN: Well, I disagree with particularly the
21 way I've constructed my sustainable growth DCF model. I didn't
22 rely on current actual earned returns of the company. Rather,
23 I looked at Value Line's three to five year projected for the
24 basic parameters of the model.

25 So Value Line is projecting changes in the utilities

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1 earnings and cash flows and book values largely that can be
2 produced by successful operation of the company, successful
3 rate case filings, and general impacts from economic factors
4 that are outside the utility management's control.

5 So with all of those parameters in hand, I used it as
6 a method of relying on it, a market participants' forecast,
7 Value Line, to try to derive a sustainable growth rate data
8 that would be available to investors if they use calculators to
9 go -- to estimate what potential growth rates can be.

10 The idea of the circularity is -- is an illustration
11 of just how complicated it is to forecast what earnings growth
12 will be. The earned return on book equity for the publicly
13 traded company is not an estimate of the earned return on
14 equity for the regulated utility.

15 COMMISSIONER JONES: Right.

16 MR. GORMAN: There can be many differences between the
17 utility's earned return on equity and that of its publicly
18 traded parent company. So it doesn't have -- doesn't have to
19 line up what I estimate the market-required return on that
20 stock to be to apply it to the utility plant investment
21 necessarily with what Value Line is projecting the earned
22 return on book equity to be for the parent company.

23 By setting a return on equity equal to the
24 market-based return for a utility, they can receive the same
25 rate of return for incremental investment in utility plant

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1 equipment that its parent company can get by selling additional
2 shares to the market or even buying back its own shares from
3 the market. So it meets the Hope and Bluefield standards of
4 comparable return for comparable investment risk.

5 DR. MORIN: But if you set a rate of return based on
6 Value Line's expectation, let's say 12 percent, the only way
7 the company can earn 12 percent is if rates are set to get 12
8 percent. And then you can recommend 9.8. You have a
9 tremendous dislocation here. That's why it's circular.

10 MR. GORMAN: That's precisely the point of
11 disagreement is the holding company can earn 12 percent where
12 the utility company is earning 9.3 percent. That can happen
13 because the holding company has affiliates and assets in
14 addition to its regulated utility operations.

15 So that's the point of disagreement between us. I
16 look at the holding company for what it is, a holding company
17 of many companies, including regulated utility companies.

18 MR. HILL: I think it's a little simpler than that.
19 The return on book equity is not equal to the cost of capital.
20 I mean, XYZ utility can be projected by Value Line to earn a 12
21 percent on book equity, and -- and people can pay twice book
22 value for that stock, and that they're not going to get a
23 12-percent return. Their market return is going to be much,
24 much less. So it's not circular.

25 Value Line can project a 12-percent return for XYZ.

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1 The cost of XYZ capital, the return that investors require in
2 the marketplace can easily be nine percent. That's not a
3 circular problem.

4 COMMISSIONER JONES: Okay. Let's leave it there for
5 now. Mr. Gorman, and I think we have -- don't we have
6 questions for Mr. Vilbert? We have cross-examination for him
7 later. But you -- on pages 30 -- I'm in your -- what are we
8 calling this now, Judge? MPG-25T? Yes.

9 25T, pages 57 and on, you dispute Dr. Vilbert's
10 allegation that decoupling mechanisms stabilize utility's cash
11 flows in support of strong credit ratings. So could you go
12 through some of that reasoning for me again.

13 I -- I think some of it centers on revenues versus net
14 income. When we talk about stability of revenues versus
15 stability of earnings, and give me your high-level assessment
16 of that again, not from a statistical standpoint, but from a
17 cost of equity standpoint.

18 MR. GORMAN: I think the difference between me and
19 Dr. Vilbert is not on that -- is not a fact of whether
20 decoupling can help stabilize utility's bond rating. I think
21 we differ on whether or not a decoupling mechanism impacts
22 utility's cost of equity capital.

23 The -- you know, in my cross exhibit, the company
24 offered is a Moody's report that talks about the -- the
25 credit-supportive aspects of decoupling mechanisms.

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1 COMMISSIONER JONES: This is the Moody's report issued
2 31st July, 2014. I think this is after we issued our order,
3 our multiyear rate plan and decoupling order; right?

4 MR. GORMAN: That's correct.

5 COMMISSIONER JONES: No, this is in the following
6 summer.

7 MR. GORMAN: It was after the rate --

8 COMMISSIONER JONES: Yeah.

9 MR. GORMAN: -- where the decoupling mechanism was
10 approved and gave some time period to review the impacts of.
11 It was highly regarded as credit support. And the reason it's
12 credit supportive, it's because it transfers the sales risk
13 from the utility -- from the utility and its investors to
14 customers.

15 Utility no longer has a sales risk, because they're
16 able to adjust decoupling charges to customers in a way that
17 provides assurance that it will fully recover its allocated
18 revenue requirement from each customer.

19 Conversely, customers' rates will be changed based on
20 whether or not the utility's sales are in line with
21 expectations and they did or did not fully recover -- the
22 utility did or did not fully recover the cost.

23 So there is greater probability, greater assurance
24 that the utility will recover the revenue requirement that
25 provides for recovery of all operating cost, including debt

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1 interest expense and depreciation expense. And by doing that,
2 you stabilize the cash flows of the utility, which are
3 depreciation expense and internal equity returns. And if it's
4 on pre-tax basis, it would -- you stabilize the EBITDA and the
5 other financial metrics of the company. They're more stable.
6 They're more predictable.

7 COMMISSIONER JONES: Right.

8 MR. GORMAN: And when you make that happen, the risk
9 of investing in those securities is less. Again, I said this
10 before. The cash flows we're focusing on here are total
11 company operating cash flows. Those are the cash flows that
12 enable the utility to make its debt service payments, to pay
13 the debt principal, to take the debt interest on the debt
14 service obligation.

15 The cash flow that's left after that is available to
16 reinvest in plant equipment, to pay dividends, and to have some
17 level of equity earnings to plow back into the company to grow
18 its book value and grow its rate base.

19 The stability of that cash flow, the predictability of
20 that cash flow impacts the investment risk of the enterprise.
21 And if you stabilize it, you make it more predictable, the risk
22 goes down and a fair consideration of the uncertainty of those
23 cash flows would suggest a lower cost of capital.

24 COMMISSIONER JONES: Dr. Morin, just before you take
25 the microphone, one final, then I'll go to you. Mr. Gorman,

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1 could you turn to page 63 of your -- of that testimony,
2 MPG-25T, and lines 22 through 25 and on. Are you there?

3 MR. GORMAN: Yes.

4 COMMISSIONER JONES: So we had this discussion earlier
5 about using all methodologies, DCF, cap and risk premium. But
6 do you see there, you're making the assertion -- and I'll read
7 it for the record. Quote,

8 "Makes it imperative that the commission give strong
9 consideration to reasonable DCF and CAPM return estimates
10 for this proxy group," meaning Dr. Morin's proxy group,
11 "of companies in this case. There is no evidence that
12 the 9.8 percent awarded previously included a proxy group
13 with these current risk attributes," and then you go on.

14 So you appear to be saying in this sentence, before we
15 go to Dr. Morin -- and he can rebut this, if he wishes -- that
16 we should give more weight to DCF and CAPM and not so much to
17 risk premium.

18 MR. GORMAN: Well, the argument flowed specifically
19 from the proxy group companies.

20 COMMISSIONER JONES: Yeah.

21 MR. GORMAN: And the DCF and CAPM are applied
22 specifically to those proxy groups. The risk premium
23 methodology, as just about everybody did, is more of a general
24 market measure and it's not specifically tied to that proxy.

25 COMMISSIONER JONES: I understand now. Okay.

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1 Dr. Morin.

2 DR. MORIN: I was just going to say, with regards to
3 the impact of decoupling on cost of capital, you were
4 discussing a Moody's credit rating report which mentions the
5 impact of decoupling on the cost of equity.

6 Doesn't that reinforce the whole idea that the impact
7 of decoupling is already embedded in market data, like bond
8 ratings, like stock prices, like betas? I don't think there's
9 any question that decoupling reduces risk in an absolute
10 fashion. There's no question about that. I think we all agree
11 on that. But does it really reduce risk on the relative basis,
12 relative to the peer group.

13 COMMISSIONER JONES: Right.

14 DR. MORIN: And the fact that investors are aware,
15 already that's in this stock price and it's in the beta. It's
16 already in there, so you don't want to double count its impact.
17 Plus you've got the Dr. Vilbert evidence, very solid
18 statistical evidence, that shows the impact is very small.
19 It's zero.

20 COMMISSIONER JONES: Right. And just before -- I'd
21 like to hear from Mr. Hill and Mr. Parcell. Before we get
22 there, talking about Moody's.

23 Have you read Moody's analysis on the utility of the
24 future and this disruptive change that you refer to?

25 DR. MORIN: The new paradigm?

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1 COMMISSIONER JONES: Because they --

2 DR. MORIN: Yes.

3 COMMISSIONER JONES: -- they appear to be taking a
4 different argument than you. And many of us, I included, have
5 been to numerous conferences on this subject, utility of the
6 future, disruption, DG, EE, Google coming in, other companies
7 coming in. It's becoming competitive.

8 And I think it's fair to say, if you're objective on
9 this, that there's valid arguments on both sides. And I think
10 Moody's has come down on the other side saying that regulatory
11 commissions are providing good support to regulated utilities,
12 there are a number of tools in the toolbox, those tools are
13 being used, and as opposed to some other analyst, don't worry
14 so much.

15 That's -- that's a high-level summary. But you seem
16 to be arguing otherwise, at least today, that -- that there is
17 this huge disruptive change going on in the industry that
18 should be reflected in cap structures or the cost of equity.

19 DR. MORIN: No, all I'm saying is that -- I totally
20 agree with you, by the way. I think regulators have
21 overreacted by proliferating all of these mechanisms to
22 mitigate those risks that you're talking about, demand risks
23 following cost going to up, new investments, renewables,
24 compliance and all that.

25 And that's new. That's relatively -- the intensity of

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1 it is relatively new. I've never seen it before, this
2 explosion of mechanisms. And I talk about a paradigm shift in
3 my national seminars. So we're on the same page.

4 COMMISSIONER JONES: Okay.

5 MR. GORMAN: Can I respond to one thing he said.

6 COMMISSIONER JONES: Sure.

7 MR. GORMAN: Just going back to the Moody's report.

8 JUDGE MOSS: Please use the mic.

9 MR. GORMAN: Yeah. And this Moody's report --

10 COMMISSIONER JONES: And just for the record, this
11 Moody's report, at least the one I'm looking at, Mr. Gorman, is
12 MPG-45X.

13 MR. GORMAN: Yes, that's correct. This Moody's report
14 doesn't talk about the regulatory mechanisms that have -- that
15 were in effect for the entire industry. They talk about the
16 regulatory mechanisms that were approved for Puget Sound in its
17 last rate case. So those regulatory mechanisms help define the
18 risk in this report which largely followed the last rate case.

19 COMMISSIONER JONES: Okay.

20 MR. GORMAN: So again, my position isn't -- is that
21 it's not that decoupling isn't part of the risk assessment of
22 Puget Sound right now. My position is that it was not part of
23 its risk when it was awarded an 9.8 percent return on equity.

24 COMMISSIONER JONES: Mr. Hill, Mr. Parcell, do you
25 have any comments on this disruptive change in the industry and

0689

1 a paradigm shift causing all these, if I could paraphrase,
2 disruption to the traditional regulated utility business model
3 where it cannot recover its fixed costs and variable costs and
4 therefore --

5 MR. PARCELL: I do.

6 COMMISSIONER JONES: You do?

7 MR. PARCELL: Yes. Case in point is a cross exhibit
8 given to me this morning, DCP-18 CX. It's a Moody's rating
9 action on Puget Sound Energy dated January 13th, 2014.

10 COMMISSIONER JONES: Hold off for a minute.

11 MR. PARCELL: Sure.

12 COMMISSIONER JONES: Just let me get there.

13 MR. PARCELL: DCP-18 CX.

14 COMMISSIONER JONES: Okay. And that was issued
15 January 30th, 2014.

16 MR. PARCELL: That's correct.

17 COMMISSIONER JONES: And it has the header
18 "Approximately 5.2 billion of debt affected."

19 MR. PARCELL: That is correct.

20 COMMISSIONER JONES: That's PSE's debt. Okay.

21 MR. PARCELL: And in a nutshell, what Moody's is
22 saying here, on this date they raise the ratings of almost all
23 natural gas and electric utilities in the country. And the
24 rating -- rating rationale paragraph, the third paragraph down,
25 I'll read two sentences.

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1 "The primary driver of today's rating action is
2 Moody's more favorable view of the current credit
3 supportiveness of the US regulatory framework as detailed
4 in our September 23, 2013, request for comment, quote
5 proposed refinements to the regulated utilities rating
6 methodology and our evolving view of US utility
7 regulation. Factors supporting this view include better
8 cost recovery provisions, reduced regulatory lag, and
9 generally fair and open relationships between utilities
10 and regulators."

11 What they're saying there is what we discussed about
12 half an hour ago. There are so many tariffs and riders now
13 that Moody's views the collective significance of these as
14 reducing the risk of the industry as a whole. And one of
15 the -- one of these, of course, is decoupling, but not just
16 decoupling. There's a lot of factors that go into these. It's
17 the sum total.

18 And Moody's is saying whatever perceived risk of these
19 outside factors are considered, the enhanced mechanisms and
20 regulatory support not only offsets it, but offsets it and then
21 some, thus increasing all utilities' ratings.

22 And that speaks for itself. These guys don't have to
23 raise ratings. They got scored, you know, recently because of
24 what they did.

25 COMMISSIONER JONES: Yes.

0691

1 MR. PARCELL: These guys are -- you want somebody
2 negative, you find a rating guy, a bond rating guy. It's
3 raining when the sun is shining for those guys. So the fact
4 they raised everyone's ratings, because of this regulatory
5 support, tells us that, in their view, the net effect of
6 utility industry is positive.

7 COMMISSIONER JONES: Isn't that what they say about
8 the Federal Reserve as well, when there's a punch bowl in the
9 room, they're the ones who take it out of the room?

10 MR. PARCELL: That's right.

11 MR. HILL: I would just remind the commission of what
12 happened in around 2000. There was a new regulatory paradigm
13 going on then, too, remember. The deregulation was going to
14 overrun us all. And then after Enron, that train came to a
15 screeching halt and got reversed in Arizona and Illinois and
16 other places. And you don't hear so much about that anymore.

17 My expectation is that there's a lot of hue and cry
18 now about distributed generation. And it may be in the future,
19 it may be a factor. But there's -- utilities and their
20 commissions will figure it out. You know, it's not going to be
21 something I think it's going to take apart the industry, and I
22 don't think that investors, the way they're buying utility
23 stocks, I don't think they think so, either.

24 COMMISSIONER JONES: Thank you. Those right at 2
25 o'clock. Dr. Morin, do you have something else?

0692

1 DR. MORIN: No, I'm fine. I think we're all basically
2 on the same page.

3 COMMISSIONER JONES: Well, I don't know about that. I
4 think he's at 9-3 and you're still at 9-8.

5 DR. MORIN: That was your number, too.

6 COMMISSIONER JONES: You seem to be somewhere in the
7 zone and --

8 MR. PARCELL: I am in the zone. I'm always in the
9 zone.

10 JUDGE MOSS: All right. Anybody else want to get in
11 the zone?

12 COMMISSIONER RENDAHL: I don't know if this is in the
13 zone, but I just have one question for all of you, which is --
14 and it was -- this question was triggered by some
15 cross-examination earlier this morning.

16 Do you think or what's your opinion on whether the
17 analysis, it was your role to do in this case, is any different
18 than what you would do if there was a general rate case before
19 you.

20 DR. MORIN: Well, I'm known -- I'm known for
21 consistency over the last 30 years, so I've done almost exactly
22 the same thing as I've always done, use the three methods, use
23 prospective data as much as I can.

24 The only footnote I would add to that is Mr. Parcell
25 made a good point this morning about the context of this case

0693

1 allowing you to be a little bit more flexible in the range,
2 given the circumstances, because we have to go back to the
3 future. But I've done exactly the same as I would do.

4 COMMISSIONER RENDAHL: Thank you. Mr. Gorman.

5 MR. GORMAN: My analysis I think is generally
6 consistent with what I do in a rate case. Is in a rate case
7 just like this case, there were cost increases that the utility
8 was asking to reflect by increasing its rates.

9 So in my testimony earlier, I asked the commission to
10 consider a cost decrease that should have offset those cost
11 increases, and the rate increase shouldn't be as high as the
12 utility was requesting.

13 So my presentation in this case is nearly identical to
14 what it would have been in a general rate case, because I think
15 the issue was the same as this case, as a general rate case,
16 how much should the utility's revenue requirement increase and
17 should they be allowed to increase their rates.

18 COMMISSIONER RENDAHL: Thank you. Mr. Hill.

19 MR. HILL: I would also agree that this case should be
20 looked at as a rate case, and the cost of capital analysis
21 should be no different than it would be in a general rate case.
22 That's the way I approached it.

23 Like I told the commissioner earlier, the difficulty
24 was forgetting about what happened after early 2013. You have
25 to not think about the fact that interest rates were projected

0694

1 to go up, but did not. So you have to go back to 2013, the
2 beginning, and assume that the projections are what they are,
3 that they're going to go up, and you take that into account to
4 some extent.

5 I didn't go as far as these gentlemen did by using
6 actual projections, but I do move my number up because of those
7 projections. And I think I did that this time and treated it
8 like a general rate case.

9 COMMISSIONER RENDAHL: Thank you. Mr. Parcell.

10 MR. PARCELL: The only meaningful difference in my
11 testimony here and my testimonies in recent years is I have a
12 broader range. Instead of using the midpoints of my individual
13 methodologies and averaging those two, I've used the -- the
14 high and low results of the individual, but not -- the midpoint
15 or the average refers to the same, which 9-5, should have a
16 wider band around it. That's the only difference I have.

17 COMMISSIONER RENDAHL: Thank you. That's all I have.

18 JUDGE MOSS: All right. Well, I believe that
19 completes our questions from the bench, so this would be the
20 opportunity for redirect.

21 DR. MORIN: I'd just like to commend the bench for
22 having this forum of discussion and airing our views with my
23 colleagues. I think this is great. This should be in all rate
24 cases.

25 MR. HILL: I disagree with that.

0695

1 JUDGE MOSS: Why don't we allow the company to go
2 first with any redirect of its witness.

3 MR. KUZMA: No.

4 JUDGE MOSS: Nothing? Ms. Davison.

5

6 E X A M I N A T I O N

7 BY MS. DAVISON:

8 Q. I just have one question for Mr. Gorman. Earlier
9 today you were asked about your proxy group and particularly as
10 it relates to Northwestern.

11 Is there anything you want to expand on or explain in
12 terms of your use of Northwestern in your proxy group?

13 A. Yeah. By selecting a proxy group, one of my criteria
14 is that a company not be involved in merger and acquisition
15 activity. Clearly Northwestern was involved in a major
16 acquisition, so from just that standpoint alone, it probably
17 should have been excluded from the proxy group, and I wish I
18 would have excluded it.

19 However, by including it, I don't believe it distorted
20 the reasonableness of the results of my study. And I say that
21 for the following reasons. The reason you exclude a company
22 that's involved in M&A activity is because it can distort the
23 market parameters for that stock.

24 Looking at Northwestern and the Value Line report
25 shows that the earnings growth for that company is in line with

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1 the earnings growth for the other companies. The consensus
2 analyst growth rates for Northwestern is in line with the other
3 companies. Its dividend yield is in line with the other
4 companies.

5 So the fact that it was involved in a major
6 acquisition and activity didn't -- does not appear to have
7 impacted the DCF parameters. It did not impact the beta
8 estimate, either, which is largely based on five years of data.

9 So I will acknowledge that it would have been better
10 had I excluded that company from the proxy group. But the fact
11 of it being in the proxy group did not change the results
12 that -- based on my interpretation of my DCF risk premium and
13 CAPM studies that were produced by including it in the proxy
14 group.

15 JUDGE MOSS: Okay. Mr. ffitch.

16 MR. FFITCH: Thank you, your Honor. Just a couple of
17 questions.

18

19 E X A M I N A T I O N

20 BY MR. FFITCH:

21 Q. Mr. Hill, in this case for this company, Puget Sound
22 Energy, in early 2013, would an allowed return of ten percent
23 fulfill the requirements of the Hope and Bluefield decisions?

24 A. No, I don't believe it would. My estimated range of
25 cost of equity is eight and a half to nine and a half. Ten is

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1 above that.

2 And I think while it would be similar to returns that
3 are being awarded in other jurisdictions, it's higher than the
4 average I think, but it would be similar, broadly. I don't
5 think that fulfills all the requirements of Hope and Bluefield.

6 There's a balancing that needs to occur between
7 investor interests and rate payer interests, and that would not
8 happen with a ten percent ROE.

9 Q. You were also asked about your analytic methodology
10 for calculating the decoupling impact related to the revenue
11 stabilization, were you not?

12 A. Yes, I was.

13 Q. Is it the case that you assessed decoupling impact in
14 this case in more than one way?

15 A. Yes. As I noted in my testimony, I rely on
16 Dr. Vilbert's studies as well as my own in determining what an
17 appropriate equity return decrement is. And he'll argue with
18 me all day about that they don't mean anything because they
19 don't reach the 95 percent threshold.

20 But I feel that's too strict a measurement. The
21 preponderance of the evidence, and the best evidence I think
22 he's offered, is the published 2014 study, because it comes
23 closest to his magic 95 percent number. And that is a very,
24 very large impact on the cost of equity.

25 I show in my Exhibit 17 that it's almost 80 basis

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1 points on the return on equity. So based on that information
2 and my own analysis of the relative volatility, I think 35
3 basis points is reasonable.

4 Q. And are there other methods in addition to your
5 methods used by other witnesses in this case to assess the
6 impact of decoupling on cost of capital?

7 A. Yes, other witnesses, all of us here on this panel
8 have lowered our ROE recommendations because of decoupling.
9 And Dr. Morin, who's apparently getting ready to speak, did
10 that by comparing yield differences in bond ratings, like a
11 difference between a B double A1 and a B double A2 bond.

12 He might take that for an indication of what would be
13 a likely outcome of decoupling, except it would go the other
14 way. And he would use that for his 25 basis points or
15 something of that nature. So that's a too long way of saying
16 yes, there are other ways to do the analysis besides what
17 Dr. Vilbert has done and what I've done.

18 Q. All right. Thank you. I don't have any other
19 questions.

20 JUDGE MOSS: All right. Anything?

21 MS. CAMERON-RULKOWSKI: Nothing from Staff.

22 JUDGE MOSS: All right. Further from the bench? All
23 right. With that, then, we have completed the examination of
24 our cost of capital experts. We appreciate you all being here
25 today and maintaining a high degree of civility. Thank you

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1 very much. You may all step down.

2 I think, given that we have about 90 minutes of
3 cross-examination indicated for Dr. Vilbert, that it would
4 probably be best to go ahead and take our afternoon break a
5 little early. And why don't we do that now for ten minutes and
6 come back and be ready to go at 2:25.

7 (A break was taken
8 from 2:14 p.m. to 2:30 p.m.)

9

10 MICHAEL VILBERT witness herein, having been
11 first duly sworn on oath,
12 was examined and testified
13 as follows:

14

15 JUDGE MOSS: Thank you. Please be seated. Who's up?
16 Ms. Carson.

17

18 E X A M I N A T I O N

19 BY MS. CARSON:

20 Q. Good afternoon, Dr. Vilbert. Please state your name
21 and title for the record, and spell your last name.

22 A. My name is Michael J. Vilbert. The last name is
23 spelled, V, as in "Victor," i-l-b, as in "boy," e-r-t. I'm a
24 principal of the Brattle Group, which is an economic consulting
25 firm with offices around the country, but my office is in San

0700

1 Francisco.

2 Q. Dr. Vilbert, do you have before you what have been
3 marked for identification as exhibit numbers MJV-1T through
4 MJV-17 and MJV-18T through MJV-21?

5 A. Yes.

6 Q. These exhibits are being stipulated into the record.
7 Do you have any revisions to these exhibits?

8 A. None other than the ones that have already been filed.

9 MS. CARSON: Thank you. Your Honor. Dr. Vilbert is
10 available for cross-examination. We do have a few exhibits
11 that we're not quite ready to stipulate into the record. We
12 may or may not have objections depending on how they are used.

13 JUDGE MOSS: Okay.

14 MS. CARSON: And then we also have a few supplemented
15 and revised cross-exam exhibits. We've provided you two of
16 those.

17 JUDGE MOSS: Just a few moments ago.

18 MS. CARSON: Yes. Well, it's MJV-47 CX, MJV-48 CX
19 were supplemented; right. And then MJV-50 is -- the parties
20 have reached a resolution about how to deal with this revised
21 data request response.

22 JUDGE MOSS: Okay.

23 MS. CARSON: And the solution is to not put in the
24 data request response at all, only to put in the attachment to
25 it, because that was the reason it was being designated as a

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1 cross-exam exhibit. So that would be pages 5 and 6.

2 JUDGE MOSS: Pages 5 and 6?

3 MS. CARSON: Of MJV-50.

4 JUDGE MOSS: 5 and 6 only. All right. And for the
5 bench, the thicker volume here behind you is the updated, I
6 guess, or revised version of the other two exhibits to which
7 Ms. Carson referred. That's 47 CX and 48 CX.

8 MS. CARSON: That's correct.

9 JUDGE MOSS: And so to the extent we need to refer to
10 these portions of them, they are in the separately bound behind
11 you there. And the small document only goes through page 3, so
12 you can safely ignore it, and what's in your notebooks will be
13 sufficient to your needs. Okay.

14 COMMISSIONER RENDAHL: So those were 47, 48?

15 JUDGE MOSS: Correct.

16 COMMISSIONER RENDAHL: That are behind me?

17 JUDGE MOSS: Pardon.

18 COMMISSIONER RENDAHL: The new stuff.

19 JUDGE MOSS: Yes, that's just expanding on the
20 original exhibits.

21 MS. CARSON: And so for 50, the response to the data
22 request is totally out, the original as well as the revised
23 that we had proposed.

24 JUDGE MOSS: Okay. So we have 50 CX in our notebooks,
25 and we're only going to be looking at pages 5 and 6 of that.

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1 MS. CARSON: That's correct.

2 JUDGE MOSS: Is that correct?

3 MS. CARSON: That is correct.

4 JUDGE MOSS: All right. Done.

5 MS. CAMERON-RULKOWSKI: Could I make a suggestion that
6 we also use page 4, just because it says what it is. It's just
7 a --

8 JUDGE MOSS: I think the record will be fine without
9 that. We'll be just fine.

10 MS. CARSON: Do you want to know now the cross-exam
11 exhibits that we're not yet sure if we want to stipulate to or
12 should we wait till those come up?

13 JUDGE MOSS: Why don't we go ahead and take it up now.
14 You know how much I love this sort of thing.

15 MS. CARSON: It's MJV-39 CX.

16 JUDGE MOSS: 39 CX.

17 MS. CARSON: This is a summary that Public Counsel has
18 prepared of Dr. Vilbert's studies.

19 JUDGE MOSS: Okay.

20 MS. CARSON: The orders MJV-40 through 43, we're not
21 sure why the orders are coming in as evidence as opposed to
22 being used on brief.

23 JUDGE MOSS: I may not be with you here. What exhibit
24 are we on? 40. Sorry. I was on the wrong exhibit.

25 MS. CARSON: Okay. MJV-40 through 43 are --

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1 JUDGE MOSS: Okay.

2 MS. CARSON: -- all orders.

3 JUDGE MOSS: Okay.

4 MS. CARSON: And we're just objecting to them coming
5 in as evidence as opposed to being used as legal authority on
6 brief.

7 JUDGE MOSS: All right.

8 MS. CARSON: So that's our concern there. MJV-44 and
9 45 are excerpts from 10-Ks of other companies. We don't know
10 what they're being used for. And they're just a few pages of
11 very lengthy 10-K and so it's hard to stipulate to them coming
12 in when we don't know the purpose --

13 JUDGE MOSS: Okay.

14 MS. CARSON: -- for that.

15 JUDGE MOSS: Well, on those two we'll have to wait and
16 see to what purpose they maybe put, if any. As to the orders,
17 I -- while I agree with you that these could simply be referred
18 to as legal authority on brief, it is convenient for us to have
19 them.

20 And so with the understanding that they are available
21 for the limited purpose of reference as legal authority from
22 other jurisdictions, then I think it might be best just to
23 leave them in the record for our convenience.

24 Is that all right with you?

25 MS. CARSON: That's fine.

0704

1 JUDGE MOSS: All right. That's what we'll do, then.
2 I think everybody can understand that easily enough. And as
3 far as the 10-Ks are concerned, we'll see if there are
4 questions on those. And if there are, we will take up the
5 objections then, which presumably will be relevance objections.

6 All right. Those are hard to take up in the abstract
7 as we all know. Okay. That said, do we have anything else
8 before cross-examination?

9 MS. CARSON: No, your Honor.

10 JUDGE MOSS: All right. Very well. And thank you for
11 bringing all this to my attention. With that, we have
12 Mr. ffitch. It looks like you're going first this time, unless
13 there is an agreement to the contrary.

14 MR. FFITCH: No, I'm going to go first, your Honor.
15 Thank you.

16

17 E X A M I N A T I O N

18 BY MR. FFITCH:

19 Q. Good afternoon, Dr. Vilbert.

20 A. Good afternoon.

21 Q. Dr. Vilbert, you are testifying in this proceeding
22 regarding the impact of decoupling on the cost of capital, and
23 you have found that there's no statistical indication that the
24 95-percent confidence level that indicates decoupling reduces
25 the cost of capital; is that correct?

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1 A. Yes, that's correct.

2 Q. All right. And you are also a cost of capital witness
3 in other proceedings and have testified on that issue; correct,
4 in other jurisdictions?

5 A. Yes.

6 Q. But you're not doing that in this proceeding; correct?

7 A. Correct.

8 Q. I'd like you, please, to take first a look at Public
9 Counsel Cross Exhibit 39 with the initials in there MJV-39,
10 please. That's the one-page chart.

11 Do you have that?

12 A. I do.

13 Q. And I'll just represent to you, Dr. Vilbert, that
14 this, as I believe you've been informed, this was prepared by
15 Public Counsel. It was delivered to your counsel on Monday
16 along with the other cross exhibits, and it is intended to be a
17 collection of data from throughout the record all collected in
18 one place so that we could discuss the various studies and
19 variations on the studies that have been presented and either
20 through your testimony or through data requests.

21 And so we have inquired of you and of your counsel if
22 you had any concerns about the footnotes, sourcing and things
23 of that nature. The purpose of this is simply to expedite some
24 examination on, generally speaking, what your studies have
25 shown rather than have us flipping through a lot of books and

0706

1 exhibits and multiple exhibit books.

2 So have you had a chance to review this exhibit,
3 Dr. Vilbert?

4 A. Yes, I have.

5 Q. And let me ask you just first if you have any
6 corrections to the footnotes and the sourcing of the data
7 that's shown in the -- in this chart.

8 A. No, I don't believe so.

9 Q. Okay. Thank you. I guess I'd just like to proceed
10 with the questions. And certainly, obviously if you have
11 anything you want to raise as I'm questioning you, you're
12 obviously free to do that. But I'd like to just walk through
13 some -- some information with you.

14 In general what we see here describes some of the
15 details and shows the results of the decoupling studies that
16 are at issue in this proceeding; correct?

17 A. Correct.

18 Q. And if we look at the far right-hand column, and
19 that's got the heading p-value, we see that none of the results
20 of any of your studies have a p-value of 0.05 which would
21 indicate a confidence level of 95 percent; correct?

22 A. Correct. And this is maybe a place where I would put
23 the one comment that I want to make about this particular
24 table.

25 Q. Okay.

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1 A. And that is the way this table is laid out, you could
2 walk away with the impression that there were -- there are
3 eight different numbers on this table and that we have done
4 eight different independent tests of the effect of decoupling
5 on the cost of capital.

6 And in reality there are two industries and some
7 updates, but the updates are not independent. By which I mean
8 the data sets are the same, except when they were updated they
9 were expanded in time a little bit and some other corrections.
10 So there are really two studies of two industries, not eight
11 separate independent estimates of the effect of decoupling on
12 the cost of capital.

13 Q. Okay. That's a fair point. And actually, you're just
14 getting ahead of me, because part of what I'm intending to do
15 with my questioning is simply to walk through that and show
16 exactly what you're saying. We just tried to put all the data
17 out here for ease of reference.

18 And I understand that some of the outputs are related
19 to the same study, same data set and so on. But we'll get to
20 that one step at a time. And I will just acknowledge to the
21 bench that this is just absolutely the worst time of the day
22 and the worst time of the week to get into some of this data,
23 so I'll try to keep it as efficient as possible, but luck of
24 the draw.

25 First of all, all your studies or data outputs,

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1 variations on studies that are shown on this page, do indicate
2 that as decoupling is adopted, the overall cost of capital
3 declines, that is the overall cost of capital indication from
4 each model changes in a negative direction; correct?

5 A. So the straight answer or the strict answer to your
6 question is that the coefficient on the decoupling index is
7 negative, but the uncertainty surrounding that estimate is such
8 that it could easily be, it could be positive or it could be
9 negative, and that's what the p-value is telling me, that it's
10 not statistically significant. Could be positive, could be
11 negative, but the point estimate is, to your question, is
12 negative.

13 Q. Yes. Thank you. And I understand your point, your
14 position, that the p-values are not meeting the standard that
15 you would like to apply. But let's focus on the differences
16 and similarities of each of these decoupling studies.

17 And if you look at the first line here on the chart on
18 the far left side, that's the designation of the study. And
19 the first line is the March -- the March 2014 study is listed
20 first.

21 And that study was undertaken on behalf of the Energy
22 Foundation and published by the Brattle Group about a year ago;
23 correct?

24 A. Yes, that's correct.

25 Q. And that study continues to be available on Brattle's

0709

1 web site; correct?

2 A. I believe it is, yes.

3 Q. And you're still standing by that study, then, today?

4 A. As updated for this proceeding. The updated version,
5 which you have listed there, is the one that I think is the
6 more reliable one, because we have fixed a number of issues
7 that were prevalent in the first line.

8 Q. Okay. We'll get to that update. But the -- is the
9 update on your web site?

10 A. Not yet, no.

11 Q. All right. Now, sticking with the March 2014 study.
12 That study reviews the cost of capital changes for a group of
13 electric utilities over the period 2005 through 2012; correct?
14 And that's shown in the third column, "time period analyzed."

15 A. Yes, that's correct.

16 Q. And for that group of companies, none of the
17 companies -- strike that.

18 For that group of companies at the start of the
19 period, the time period shown there, none of the companies had
20 decoupling. And by the end, all had at least some form of
21 decoupling.

22 Is that -- am I understanding that correctly?

23 A. Yes. We selected the sample for that specific
24 characteristic.

25 Q. And decoupling was defined as only true-up decoupling,

0710

1 the type of decoupling that Puget Sound Energy has in this
2 March 2014 study?

3 A. Yes, that's correct.

4 Q. And straight fixed variable rates were excluded from
5 consideration in that -- in that study; am I right?

6 A. Yes, initially.

7 Q. And finally, the DCF model you use to estimate the
8 cost of equity was the single stage DCF model. We see that in
9 the equity cost model column there; is that correct?

10 A. Yes, that's correct.

11 Q. And that's actually the same kind of DCF that
12 Dr. Morin uses in his testimony; correct? In this case; am I
13 right?

14 A. It's constant growth DCF. That's a generic form, yes.

15 Q. All right. Also known as single stage?

16 A. Correct.

17 Q. Now, if we look at the March 2014 study data here, the
18 first line, there's actually four results for the published
19 report. And you ran the regression analysis of decoupling and
20 cost of capital, and here I'll refer you to the second column
21 analysis point.

22 And this shows, does it not, that you ran the
23 regression analysis in the quarter in which the regulatory
24 order was issued, so that's regulatory order date. The next
25 one down is the first quarter before that, second quarter

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1 before that, third quarter before that; correct?

2 A. That's correct.

3 Q. So it was four different results. And you did that
4 because the market sometimes reacts to regulatory news prior to
5 the time the decision is rendered?

6 A. Yes, that's the underlying theory is that when
7 decoupling is proposed, the market evaluates a number of
8 things. One is whether or not the order will be ultimately
9 approved, the format of the order, and if there is an effect on
10 the cost of capital, what the effect on the cost of capital
11 would be.

12 And as time progresses, you would expect the
13 uncertainty associated with that series of events to be
14 resolved, and ultimately completely resolved upon publication
15 of the order or earlier if there was an announcement that
16 preceded the order.

17 Q. Okay.

18 A. So that's the theory underlying it.

19 Q. All right. Now, it appears from your results that the
20 maximum impact on the cost of capital occurs about two quarters
21 prior to the regulatory decision; is that right?

22 A. Yes, and this is why I mentioned at the very beginning
23 that these are not independent tests and I regard that as
24 just -- I mean, you look at the difference between these
25 estimates and they're in the second decimal place. It's just

0712

1 not a very significant difference among the quarters.

2 Q. Pardon me. And I am not representing, Dr. Vilbert,
3 that these are independent tests. These are portions of the
4 March 2014 study --

5 A. They are indeed.

6 Q. -- for regressions; right?

7 A. Yes.

8 Q. And if we do look at the second quarter line and we
9 look across under p-value, we see that the impact shown there
10 is 0.08, the biggest impact of the group of four.

11 That's only about 300ths away from your 0.05
12 threshold; correct?

13 A. Yes, that's correct.

14 Q. And then if we look immediately to the left, that
15 shows the overall weighted average cost of capital reduction.

16 That's also the largest in the set of .487; correct?

17 A. Yes, that's correct.

18 Q. So that translates to 48.47 basis points on rate of
19 return?

20 A. That's -- yes, that's what it equates to.

21 Q. Right. Overall cost of capital, so it's not an ROE
22 number, it's an overall cost of capital number?

23 A. Correct.

24 Q. Still focusing on the first study, the 2014 study.

25 The regulatory order date analysis shows the lowest impact on

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1 the cost of capital. And the -- I would say the worst are the
2 highest p-value for statistical significance; right? You see
3 that in the first line.

4 A. I think this whole line of questioning, I understand
5 what you're saying and the numbers are as you portray them, but
6 this is just the happenstance of the data set doing this. I
7 don't believe there's any specific relevance to whether these
8 are different by a slight amount here.

9 Q. Okay.

10 A. This is the same data set, tested with slightly
11 different assumptions, and to pick one out of four and focus on
12 that as if that's some kind of relevance, I just don't agree
13 that that's appropriate.

14 Q. In all the rest of your studies, the ones that are
15 presented as evidence in this proceeding, you studied only the
16 cost of capital impact at the time of the regulatory order,
17 however, didn't you?

18 A. Yes, and I can explain if you like to hear why.

19 Q. All right. Why is that?

20 A. The theory that I explained earlier is based upon the
21 assumption that the market receives the evidence about
22 decoupling before the announcement of the decision. And I
23 believe that to be true. The problem is that for every one of
24 these things, we mechanically move the order date up by one
25 quarter. But when you think about how information is released,

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1 some proceedings take a very long time, some proceedings are a
2 shorter period of time, some proceedings have announcements
3 about what's going on that would affect the likelihood.

4 So what I'm saying is I believe that this is just
5 noise, because there's no way to say that one quarter for a
6 particular announcement is relevant relative to one quarter for
7 another decision. And it just becomes highly mixed up in the
8 process. That's why we did not continue that process in the --
9 in the updates is because, even though the theory is great,
10 implementation is just, in my judgment, problematic.

11 Q. All right. Let's move on to the next study, number 2
12 there, which we've labeled "Electric Study 1." Now, this is --
13 would you agree with me, this is the same companies over the
14 same time period, 2005 to 2012, exactly the same as the March
15 2014 published study, but in the second group, which we've just
16 labeled "Electric Study 1," you've changed the analysis by
17 adding straight fixed variable rate design and by using
18 multistage DCF.

19 And we can see both those things in the respective
20 columns here; is that correct?

21 A. It's correct with one caveat, and that was that we did
22 not add any companies with single straight fixed variable
23 rates. There was a company that was already in the sample that
24 had straight fixed variable rate, so we just recognized in the
25 decoupling index, because it was already --

0715

1 Q. Understood.

2 A. -- there. It was already there in the sample.

3 Q. So the only -- only change really was that you went to
4 a multistage DCF?

5 A. That plus the use of an EPOCH variable as opposed to a
6 single company variable.

7 Q. All right. And so -- and those changes cause the
8 indicated impact of decoupling on the cost of equity -- pardon
9 me -- on the overall rate of return to decline from 40.9 basis
10 points to 25 basis points on the regulatory order date?

11 A. That's correct.

12 Q. Now, let's go to the third line, and that's Electric
13 Study 2. And you presented this in -- study in this case. And
14 this study extended the analysis two more years through midyear
15 2014. It also uses the previous excluded straight fixed
16 variable measure and a multistage DCF, And it gets about the
17 same result as Electric Study 1; correct?

18 A. Yes.

19 Q. You can see that. Now we're going to ask you to --
20 we're going to come back to this, but I wanted to ask you to
21 turn, please, to Public Counsel Cross Exhibit 33. And this is
22 confidential. Easier to find. It's got the yellow pages.

23 MJV-33.

24 Do you have that?

25 A. I do.

0716

1 Q. And I'm going to ask you to go to the last page here.
2 And this is a response to Public Counsel data request 70. And
3 you provided us with the work papers and Excel spreadsheets
4 you've used to produce your two new electric decoupling
5 studies; correct?

6 A. Yes.

7 Q. And this second cross exhibit is a tab from Electric
8 Study 2, the one that we've called "Electric Study 2," that
9 goes through 2014.

10 And across the top we can see it says, "Multistage DCF
11 return on equity"; correct?

12 A. Yes.

13 Q. And if we look and we can see the ticker symbols of
14 the electric utilities that you studied, and that runs across
15 the top?

16 A. Correct.

17 Q. Is that right?

18 A. Yes.

19 Q. And down the side we see the time periods studied
20 starting with 2005 at the top, goes down to 2014. And the
21 months are there to the far left.

22 A. Yes.

23 Q. Is that accurate?

24 A. Yes.

25 Q. And you recognize this tab from the worksheets you

0717

1 provided to us in the data request?

2 A. Yes.

3 Q. And these are the costs of equity estimates that you
4 use in your decoupling analysis in this second electric study,
5 your update?

6 A. Yes, these are the equity returns that we use to
7 create the dependent variable, which is the overall, after tax
8 weighted average cost of capital. So this is just one input to
9 that final, final variable.

10 Q. Okay. Now again, this is confidential so I'm not
11 asking you to state any -- anything on the record that's
12 confidential. I want to take you to the -- let me just take a
13 look at my notes here and ask this question clearly.

14 Can you look at the first and second quarters of 2013.
15 And we have averaged just a simple average of the cost of
16 capital estimates for these companies that you have here in
17 this study in the first and second quarters of 2013, and that's
18 the time period of interest in this proceeding; correct?

19 A. Yes.

20 Q. And I want to ask counsel for the company. I would
21 like to ask a subject-to-check question and state the specific
22 averages that we've developed, and I'm wondering if that is a
23 problem with the confidentiality.

24 A. The confidentiality had to do with the underlying data
25 that we buy our license agreement with the data provider cannot

0718

1 disseminate. It's not the information itself. It's the
2 dissemination of the information that's restricted.

3 Q. Okay. Does that mean that we could redesignate the
4 entire exhibits on white paper? I understand what you're
5 saying.

6 A. What the Bloomberg and DS-IQ worry about is
7 disseminating data that they have published and people pay
8 money for. These calculations are the calculations we have
9 made from the data. So these two -- these two yellow sheets
10 are just our calculations from the data, so you can do, I
11 think, whatever you like with those.

12 Q. All right. I'm sure you probably want to confer with
13 counsel on that, but we might ask to have the confidentiality
14 lifted.

15 A. The confidentiality is on the data that comes from
16 Bloomberg and all the other -- CapIQ and so forth that provide
17 this data. It's not the calculations themselves.

18 Q. Well, let me get to my question, because I think we
19 can work this out. But I think you've answered my
20 confidentiality concern.

21 Would you accept, subject to check, that the average
22 equity cost estimate for these companies in the first and
23 second quarter of 2013 is 8.99 percent and 9.19 percent?

24 A. Subject to check, I accept that that's -- they look
25 about -- eyeballing it looks about that.

0719

1 Q. Okay. Thank you. That's all for that one. And if I
2 could just get you now to go back to Exhibit 39 again. MJV-39.
3 So we've done the first three and now we're moving to line 4,
4 the gas study.

5 You see that?

6 A. I do.

7 Q. And we see that the gas study produced the lowest
8 overall cost of capital impact of 0.136 negative, and the
9 lowest or the highest p-value of all the studies .32; correct?
10 Or -- I'm sorry. 37.

11 A. Well, you mixed and matched. But the -- there's
12 two --

13 Q. Yeah, I'm sorry.

14 A. -- lines there.

15 Q. I was reading the wrong line. Let me re-ask the
16 question so the record's clear. The lowest overall weighted
17 average cost of capital reduction of 0.087 and the lowest
18 p-value of 0.37; correct?

19 A. That's correct.

20 Q. Now, this study was different from your electric
21 studies, because this study included, from the outset, two
22 companies that already had decoupling in place at the beginning
23 whereas your electric studies excluded companies that already
24 had decoupling in place at the beginning; is that right?

25 A. That's correct. And it's because of the source of the

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1 data that we started with that you end up with that, that
2 result. If you're interested, I can explain why that is.

3 Q. Okay.

4 A. Is that a "yes" to explain or not?

5 Q. I'm agnostic on the explanation. I suppose if you
6 want to explain, that's fine.

7 A. So this whole process of understanding the effect of
8 decoupling on the cost of capital got started because of
9 proceedings in which people asserted, without any empirical
10 evidence, to my knowledge, that decoupling reduced the cost of
11 capital.

12 MR. FFITCH: Your Honor, this sounds like the
13 beginning of a long --

14 THE WITNESS: It's not.

15 MR. FFITCH: -- speech. The specific question was
16 whether this gas study included companies that already had
17 decoupling at the beginning. And --

18 THE WITNESS: So I was going to tell you is that it's
19 a data source that I had. We were doing cost of capital
20 testimonies in a lot of places, and this is just the data from
21 that.

22 BY MR. FFITCH:

23 Q. All right. That's sufficient for you. Thank you.
24 Now, in response to a data request, Dr. Vilbert, we asked about
25 the -- about this issue, and you removed those companies and

0721

1 reran the regression again; isn't that correct?

2 A. Yes, that's correct.

3 Q. And then we see the results of that in the last line
4 that's not numbered. It just says, "Gas study removing the two
5 companies," et cetera?

6 A. Yes, that's correct.

7 Q. And that actually shows the overall cost of capital
8 reduction to increase more than 50 percent from 8.7 basis
9 points to 13.6; correct?

10 A. It certainly increased to 13.6. I don't know if it's
11 50 percent.

12 Q. Okay. Unlike the -- continuing to focus on the gas
13 cost of capital study. Unlike the electric studies, you didn't
14 estimate the cost of equity for these gas studies, but you used
15 cost of equity estimates presented by Brattle cost of capital
16 witnesses during the time period; correct, 2005 to 2012 time
17 period?

18 A. Yes, that was what I was trying to explain earlier.
19 The source of the data was available to us from cost of capital
20 proceedings in which someone at Brattle was an expert witness.

21 Q. Okay. Now, it's true, isn't it, that Mr. Hill
22 expressed concern in his testimony that these estimates came
23 from Brattle Group witnesses representing utility companies,
24 and that could cause an upward bias and lead to errors in the
25 decoupling study result? Wasn't that his concern?

0722

1 A. Yes, and I commented and responded to that concern
2 that I think it's misplaced.

3 Q. And regarding your rebuttal, we then asked if you
4 thought that the accuracy of the cost of capital estimate used
5 in the Brattle decoupling studies is not important in assessing
6 the reliability of those studies, and you stated -- this is a
7 discovery response -- "Dr. Vilbert believes that it is always
8 important to estimate the cost of capital as accurately as
9 possible"; correct?

10 A. Yes, and the point is, whether Mr. Hill and I agree on
11 the level of the cost of capital, the thing that we are testing
12 in my papers is whether or not there's a difference between
13 those companies with decoupling and those without, irrespective
14 of the absolute level of the estimate.

15 And so since they were all done identically for every
16 company in the sample, and only afterwards did we go back and
17 ask the question about whether they were decoupled, I cannot
18 see a basis for any bias in the results.

19 Q. All right. Dr. Vilbert, in July 2013 you appeared as
20 a cost of capital expert on behalf of Alabama Power in the same
21 Alabama Public Service Commission meetings that Mr. Hill
22 participated in, did you not?

23 A. Yes, we did.

24 Q. And you provided your expert opinion to that
25 commission that for Alabama Power, an A-rated electric utility,

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1 return on common equity of 13 to 14.5 percent was both fair and
2 reasonable; isn't that correct?

3 A. It's a bit more complicated than that, because Alabama
4 has an alternative way of regulating. They have what they call
5 a rate stabilization and equalization plan. And they test
6 annually whether or not the amount of money that was earned
7 exceeds the band.

8 And if it does, they lower rates. And if it doesn't,
9 they can increase rates in order to get it back toward the
10 middle of the band. The particular process that Mr. Hill and I
11 engaged in was whether or not the band should be changed based
12 upon data that was provided.

13 Q. All right. And I'll just return to my question. In
14 that process -- I'll accept your description of it, but in that
15 process you recommended to the Alabama commission that 13 to
16 14.5 percent was a fair and reasonable return on equity for
17 that company in 2013?

18 A. I did under the circumstances of that policy.

19 Q. That's a "yes"?

20 A. Yes, as I said, under the circumstances of that
21 policy.

22 Q. All right. Thank you. I don't have any further
23 questions. Thank you, Dr. Vilbert.

24 JUDGE MOSS: Thank you, Mr. ffitch. Let's see. Okay.
25 I believe, Ms. Davison, you may have a few questions for

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1 Dr. Vilbert.

2 MS. DAVISON: Yes. Thank you, your Honor.

3

4

E X A M I N A T I O N

5 BY MS. DAVISON:

6 Q. Good afternoon, Dr. Vilbert.

7 A. Good afternoon.

8 Q. On page 29, line 3 of your direct testimony, you note
9 that you published your first results of decoupling in the
10 electric utility industry in March of 2014; is that correct?

11 A. Yes.

12 Q. When you say "published," did you mean that this was
13 published in a academic peer review journal?

14 A. No, it was published as a paper on the Brattle web
15 site.

16 Q. Okay. And if you look at MJV-47, cross-examination
17 exhibit, this is PSE's response to ICNU data request 2.23,
18 which includes an excerpt from a draft of the March 2014 report
19 that has red line comments from Ralph Cavanagh, who testified
20 in this case, and Cheryl Carter, both of whom are with the
21 Natural Resources Defense Counsel, and they're listed as peer
22 reviewers; is that correct?

23 A. Yes, that's correct.

24 Q. And is it also correct that, if you look at page 4,
25 that you've identified two other peer reviewers, Marty Kushler

0725

1 and Deborah Wang; is that correct?

2 A. There's also a Cheryl Carter.

3 Q. And -- right. And that's in addition to Mr. Cavanagh
4 and Ms. Carter?

5 A. Right.

6 Q. And that's the list of your peer reviewers?

7 A. For this paper, yes. Other than Brattle people.

8 Q. And isn't it correct that Mr. Cavanagh and NRDC is a
9 huge proponent of decoupling?

10 A. I know he favors decoupling as a policy, but I don't
11 know what constitutes huge. But I know he favors it, if that's
12 what you're asking me.

13 Q. All right. Thank you. And Marty Kush -- I may be
14 butchering the pronunciation of his name. So Kushler is from
15 the American Council of Energy Efficiency Economy; is that
16 correct?

17 A. I actually don't know. The contact that Brattle had
18 was to send the paper to the Energy Foundation and we got
19 comments back from this group of people. I never talked to
20 them, never.

21 Q. Okay. And -- and Deborah Wang is also from the Energy
22 Foundation who paid for the report; is that correct?

23 A. Energy Foundation paid for the report. I don't know
24 what her role in the money was.

25 Q. No, it wasn't her role in the money. It was that she

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1 was one of your peer reviewers.

2 A. Right, yes.

3 Q. So is it correct that you don't have any, just for a
4 lack of a better phrase, anti-decoupling peer review people
5 with this report; is that correct?

6 A. In the context of your statement, I guess that's
7 correct. But with all due respect, we approach this problem as
8 a scientific problem. We ask the question. We tried to answer
9 the question as carefully as we could. We revealed all of our
10 methods. We tell everybody what we're doing.

11 We were looking for reviews that said either we're not
12 being clear in what we are saying or there's a mistake in
13 something we've done. It wasn't -- it's not meant to be an
14 advocacy paper.

15 Q. It's being used as an advocacy paper.

16 A. It's being used, in my opinion, as evidence, empirical
17 evidence on the effect of decoupling on the cost of capital.
18 It is what it is. If it had turned out to be -- and we
19 reported the numbers that you saw earlier that were .4 that
20 were talked about a minute ago, we reported those numbers
21 accurately, faithfully as what they came out to be. If it came
22 out to be that it was statistically significant, I would have
23 published that paper as well. I publish the results that I
24 get.

25 Q. Thank you. If you look at MJV-15, this is a list of

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1 Dr. Morin's proxy group by which proxy companies have utility
2 subsidiaries with a decoupling mechanism; is that accurate?

3 A. Yes, this is a combined of both of Dr. Morin's
4 samples, and this was subject to some confusion, I guess.
5 These X's on here are only intended to show a holding company
6 that has at least one subsidiary with the policy that's listed.
7 It's not intended to be a hundred percent decoupled for any
8 particular holding company.

9 Q. Right. And I want to focus on the column entitled
10 "Decoupling with revenue true-up," which is similar to the type
11 of full decoupling mechanism PSE has; is that correct?

12 A. Yeah.

13 Q. I'll point you to four holding companies which you
14 have listed in this exhibit as having full decoupling. The
15 first one is Avista, CenterPoint, and I know I'm going to get
16 this pronunciation wrong, but I'm going to try it.

17 Interbreeze?

18 A. Integrys.

19 Q. How do you say that?

20 A. I think it's Integrys.

21 Q. Integrys; okay. Thank you. And Vectren. Do you see
22 that?

23 A. I do.

24 Q. And obviously this commission is familiar with the
25 Avista decoupling mechanism. If you look at MJV-40 CX, it's an

0728

1 excerpt from the most recent rate case issue that was issued a
2 few months ago.

3 Until this order, isn't it true that this decoupling
4 mechanism only applied to Avista's gas operations?

5 A. I believe that's correct. If you'll look at the
6 column titled at the very top it says, "True-Ups electric or
7 gas." It was not intended to be strictly electric, because
8 the companies in there, some of them only have it in their gas
9 side.

10 Q. And with regard to Avista, are you aware that the
11 industrial customers are exempt from the decoupling mechanism?

12 A. I've heard -- I'm not sure, to answer. I just don't
13 know for sure. I think that to be true, but I would have to
14 check.

15 Q. And similarly for CenterPoint, and if you look at your
16 Cross Exhibit 41 CX, it's an excerpt from an order from the
17 Minnesota PUC that grants full decoupling mechanism for
18 CenterPoint Energy Minnesota Gas; is that correct?

19 A. Yes.

20 Q. If you look at MJV-50 CX, which is PSE's response to
21 Public Counsel data request 69 and attachment A, we're only
22 going to refer to the attachment. The last page of this
23 exhibit identifies, on rows 14 and 22, to Integrys' utility
24 subsidiaries with full decoupling, that specifically Upper
25 Peninsula Power and which, as the exhibit identifies, is no

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1 longer an Integrys company, and Wisconsin Public Service
2 Company; is that correct?

3 A. I'm sorry. I was trying to get to the exhibit as you
4 were speaking and I didn't quite get there. Could you please
5 ask your question again.

6 Q. Sure.

7 COMMISSIONER RENDAHL: And can you please clarify what
8 exhibit you're looking at. I missed that.

9 MS. DAVISON: Sure. I'm sorry, your Honor. It's 50
10 CX. So ignore the data response and just focus on the chart,
11 pages 5 and 6.

12 COMMISSIONER RENDAHL: Thank you.

13 BY MS. DAVISON:

14 Q. And if you look at rows 14 and 22, you've got two
15 Integrys utility subsidiaries with full decoupling, Upper
16 Peninsula Power which, as the exhibit indicates, is no longer
17 an Integrys company, and Wisconsin Public Service Company; is
18 that correct?

19 A. Yes.

20 Q. If you turn to MJV-43 CX, which is an excerpt from the
21 Wisconsin PSE order. Are you aware that this order states, on
22 page 8 of the exhibit, that the Wisconsin Public Service
23 Company or Commission -- I'm sorry -- discontinued Wisconsin
24 Public Service Company's decoupling mechanism in 2013?

25 A. After getting your cross-examine exhibits, we

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1 recognize this fact, that we missed that one, as did our
2 secondary source that we referenced. They also missed it. And
3 we worried whether or not the regressions that we did that went
4 up through the second quarter of 2014 would be affected by the
5 fact that they no longer had decoupling.

6 And because Integrys was involved in a merger, that
7 merger screen kept them from being in the sample, so it doesn't
8 affect the results of the -- of the study. But we did miss it,
9 and the next time we update, we will fix that. And this is the
10 process that we go through when we find these kind of errors,
11 we fix them, which is why I think the November study is more
12 reliable than the March studies.

13 Q. And then the last one I'll point you to is Vectren.
14 None of Vectren's utility subsidiaries are listed in MJV-50 CX,
15 but would you be willing to accept, subject to check, that the
16 only Vectren utility subsidiary that are decoupled are gas
17 subsidiaries?

18 A. Its gas; right.

19 Q. And then in fact, if you turn to the last paragraph at
20 the bottom of page 12 of MJV-42 CX --

21 A. Can you wait? Let me catch up.

22 Q. Sure.

23 COMMISSIONER RENDAHL: Can you repeat the page number,
24 please.

25 MS. DAVISON: It's page 12 of 42 CX.

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1 COMMISSIONER RENDAHL: Thank you.

2 THE WITNESS: I'm there.

3 BY MS. DAVISON:

4 Q. And you see that Vectren's electric subsidiary's
5 request to implement decoupling was denied by the Indiana
6 Utility Regulatory Commission?

7 A. Yes.

8 Q. So should that be on your chart?

9 A. That there was denied?

10 Q. Well, that you've listed a subsidiary that it was
11 another error.

12 A. No. Recall that that chart says any one subsidiary in
13 the holding company has decoupling, and you just told me the
14 two gas subsidiaries do have decoupling, so the X is
15 appropriate.

16 If it had been restricted to the electrics side, then
17 it would not have been an X in Vectren. But because it's
18 electric or gas and Vectren, as a holding company, has both
19 kinds of subsidiaries, an X is appropriate there.

20 Q. Turning to your Exhibit MJV-16. This exhibit shows a
21 proxy group of companies with utility subsidiaries that have
22 some form of a rate mechanism besides decoupling; is that
23 the -- is that correct?

24 A. These are companies with these -- the five types at
25 the top, they have those particular types of mechanisms. Do

0732

1 you see there's -- there's list five different types across the
2 top, cap expenditure riders, formula rates, performance based
3 and so forth.

4 Q. Yes. So they have some other form of rate mechanism
5 besides decoupling?

6 A. Right, yes.

7 Q. So if you look at the third column, this lists proxy
8 companies that have a utility subsidiary with a multiyear
9 revenue cap possibility with RAM, meaning revenue adjustment
10 mechanism; correct?

11 A. Yes.

12 Q. And this would be similar to PSE's rate claim;
13 correct?

14 A. Yes, it's my understanding that you have a four-year
15 stay-out with PSE.

16 Q. With automatic rate increases?

17 A. With a specified amount of rate increase, yes.

18 Q. And then if you compare MJV-16 with MJV-15, it appears
19 that there are only two holding companies that have full
20 decoupling mechanisms and multiyear rate cap possibility with
21 RAM among the utility subsidiaries, and that would be Duke
22 Energy and Northeast Utilities; is that correct?

23 A. To answer that question, I would have to spend some
24 time looking at the -- the two charts, but I'll accept your
25 characterization for this purpose.

0733

1 Q. Okay. Thank you. And then if you look at Duke
2 Energy, which is on the last page of your MJV-50 CX chart, you
3 list --

4 A. Excuse me. We're back to 50 CX?

5 Q. Yes. I'm sorry. I'm trying to go fast with the --

6 A. Faster than I can keep up with you.

7 Q. I'm sorry. You've got an impressive notebook there.

8 A. Okay. So now I'm on 50.

9 Q. 50, yes. And it's on the last page of 50. You list
10 the -- look at Duke Energy, and you see the utility subsidiary
11 that has full decoupling as Duke Energy Ohio.

12 Do you see that?

13 A. Oh, yes. Sorry.

14 Q. Okay.

15 A. Yes.

16 Q. I know it's fine print. Then if you turn to the last
17 page of MJV-49 CX, it's obvious that it's not the same Duke
18 Energy subsidiary that has the multiyear revenue cap with the
19 possibility of RAM that you've listed as Progress Energy
20 Florida; correct?

21 A. I apologize. You're bouncing around so fast, I just
22 can't keep up. What's -- what was the next one you went to?

23 Q. I went to MJV-49 CX.

24 A. Right.

25 Q. And so my question is that the Duke subsidiary that

0734

1 has the multiyear revenue cap with the possible decoupling
2 mechanism is what you've listed as Progress Energy Florida; is
3 that correct?

4 A. That's correct.

5 Q. Now that Duke and Progress have merged, Project Energy
6 Florida is now Duke Energy Florida; is that correct?

7 A. I know they merged. I'm not sure what the exact title
8 of the new company is.

9 Q. And now if we turn to Northeast Utilities, which I'll
10 give you a chance to get to the chart, 50 CX, page 5, row 11.

11 A. Okay.

12 Q. You've listed Western Massachusetts Electric as having
13 full decoupling; is that correct?

14 A. Revenue decoupling with true-up, yes.

15 Q. And if you look at page 3 of your 49 CX -- give you a
16 minute to get there. This is not the same northeast utility
17 subsidiary that has a multiyear revenue cap, possibility with
18 decoupling, which is identified as Public Service Company of
19 New Hampshire; correct?

20 A. Correct.

21 Q. So you've stated repeatedly through your testimony
22 that decoupling is designed to promote energy efficiency; is
23 that correct?

24 A. Almost. It's to remove the throughput incentive that
25 a company has when it recovers its volumetric rates, fixed cost

0735

1 and volumetric rates, to not oppose energy efficiency and
2 energy conservation. It's a little different than what you
3 said.

4 Q. Okay. And then if you look at MJV-48 CX. This
5 data -- these data responses indicate that you have not
6 evaluated whether decoupling increases energy efficiency, and
7 you're not aware of any such analysis; is that correct?

8 A. There is one performance study that's attached to 29
9 that talks about the study that was done for Cascade Natural
10 Gas. And it indicates that -- at least the conclusion is that
11 it seems to have the kind of effect that's desired.

12 Q. Have you looked at the details behind that study?

13 A. It's a 300-some-odd-page study. I focused on the
14 summary, executive summary. I didn't read the whole thing.

15 Q. I don't blame you. When you were retained by PSE to
16 provide testimony in this docket, were you asked to evaluate
17 PSE's decoupling mechanism and the results that it has produced
18 thus far?

19 A. No, I was not.

20 Q. I have no further questions.

21 JUDGE MOSS: All right. Thank you very much. That
22 then will bring us to any questions from the bench? No? Okay.
23 Well, apparently we have no questions from the bench for you,
24 Dr. Vilbert. Is there any -- any redirect? No?

25 MS. CARSON: Yes, your Honor.

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1 JUDGE MOSS: Okay.

2

3 E X A M I N A T I O N

4 BY MS. CARSON:

5 Q. Dr. Vilbert, I'd like to go back to the
6 cross-examination exhibit that shows the four different
7 studies, and I believe that's 39 CX. And it's actually
8 electric and gas study, but it's broken out into four
9 categories, I guess.

10 A. I'm there.

11 Q. So you mentioned the one that's listed number 2, PSE
12 electric study, some changes were made. And one thing that you
13 mentioned was the use of the EPOCH variable?

14 A. Yes.

15 Q. Can you explain this?

16 A. Sure. When we were -- we submitted this study in
17 Hawaii and was subject to some criticism, but it was in a
18 hearing. And so from preparation for this, we endeavored to
19 look at addressing some of those criticisms.

20 And as part of that process, we got to thinking about
21 the fact that some of our companies were engaged in mergers and
22 acquisitions and we had, in the original study, a dummy
23 variable for each individual company. But we recognize that
24 that assumed that the company didn't change at all over the
25 12-year period, and so we went back and said, "Gee, we need to

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1 take in consideration that a company that merges with another
2 company or acquires a lot of assets is a different holding
3 company than it was before," and we used a new variable for the
4 period after they reentered the sample subsequent to the
5 conclusion of the merger and acquisition. And so that was one
6 change we made.

7 There was a couple data issues that we fixed and we
8 went to the multistage DCF, as that was pointed out. But the
9 result primarily was I think the EPOCH variable made the
10 primary difference.

11 Q. I'd like you to turn to MJV-33 CX, page 4.

12 A. I'm there.

13 Q. You were asked questions about the results of the cost
14 of equity estimates that are shown here; correct?

15 A. Yes.

16 Q. Are these -- is it appropriate to use these cost of
17 equity estimates to estimate PSE's cost of equity in this case?

18 A. No, I wouldn't think so, for at least three or four
19 different reasons.

20 Q. Can you elaborate on those?

21 A. Sure. It's -- okay. First, when the cost of capital
22 panel was up here, the one question was what's the appropriate
23 sample group, and this -- this sample group was selected for a
24 completely different purpose.

25 These are companies that had a change in decoupling

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1 over the last -- since 2005, and it wouldn't be the same sample
2 that I would select if I were estimating the cost of capital
3 for PSE.

4 Secondly, this is one of multiple methods of
5 estimating the cost of capital for a sample company, and to
6 rely on any particular one method, I think the panel was
7 unanimous in that was inappropriate as well.

8 And third, this is a particular estimate of the cost
9 of capital using a multistage. There's many others. So again,
10 the one -- the one methodology to estimate the cost of capital
11 makes this problematic as a estimate of the cost of capital for
12 PSE in this proceeding.

13 Q. Earlier Dr. Morin was asked a question and he deferred
14 to you regarding the number of electric companies with
15 decoupling in the United States.

16 Does your -- does the study that the Brattle Group
17 performed purport to show the number of companies in the United
18 States with electric decoupling?

19 A. No. This group was specifically selected to be
20 companies that had a change in status from 2005 through the
21 period of the end of the study, which was second quarter of
22 2014. There were -- there are companies that have decoupling
23 that didn't change over that period.

24 And the biggest group, of course, are all -- all of
25 the California utilities, all of them, water, gas, electric,

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1 they're all decoupled. And they have been for -- since the
2 '80s. I mean, it's a long-standing policy. I haven't checked
3 to see how many others there are out there that had decoupling
4 that didn't change, but at least the California utilities are
5 in that category.

6 Q. Thank you. I have no further questions.

7 JUDGE MOSS: All right. Thank you.

8 Commissioner Jones, did you have a question after all?

9

10 E X A M I N A T I O N

11 BY COMMISSIONER JONES:

12 Q. Yeah. I hope this doesn't prompt any redirect, but
13 it's just a simple question, I think. You're familiar with our
14 2013 order that authorized the -- have you read that, the
15 multiyear rate plan with decoupling, have you had a chance to
16 read that?

17 A. Yes.

18 Q. Which of your studies would have been available to us
19 for review during consideration of decoupling during that plan?
20 My recollection is it was just Pamela Morgan's study that was
21 introduced into the record and -- and was there, but even
22 because the test year in that case I think was 2011.

23 And your data for PSE for study 1, study 2, goes
24 through the fourth quarter of '12 and the second quarter. So
25 it seems to me would -- were these results available then?

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1 A. For the electric side, not at all. I think the gas
2 study was just coming out about the time that you were in the
3 process of making some decisions.

4 Q. Yeah.

5 A. So --

6 Q. I'm referring, as you know, gas decoupling LRAM's have
7 been available a lot earlier than electric. I'm just talking
8 about electric.

9 A. You would not have had access to the study when you
10 were making your judgment.

11 Q. Okay. Thank you.

12 JUDGE MOSS: All right. I don't imagine that did
13 prompt any additional redirect. So with that, Mr. ffitch, you
14 have something before I dismiss this witness?

15 MR. FFITCH: Your Honor, I just wanted to offer our
16 cross exhibits or address that matter at some appropriate time.

17 JUDGE MOSS: Okay. Is there any further -- any need
18 to elaborate on the --

19 MS. CARSON: We have no objection.

20 JUDGE MOSS: -- possible objection?

21 MS. CARSON: No, we have no objection to Public
22 Counsel's --

23 JUDGE MOSS: Fine. They'll be admitted. Dr. Vilbert,
24 thank you for your testimony today, and you may step down. And
25 if you have an early airplane, you may go catch it. I'm just

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1 going to make a comment here as I notice Dr. Dubin, I believe
2 it is, is our next indicated witness. And previously we had
3 Mr. Loshe, and I didn't comment on this first thing this
4 morning.

5 I made Mr. Cavanagh go through the exercise of being
6 sworn long distance, and that really isn't necessary when the
7 exhibits are stipulated in. So I just wanted to make that
8 remark for the record. These other exhibits will be given the
9 same level of credibility as anything that's sworn live here in
10 that sense. So with that, we come to Mr. Doyle.

11 MR. FFITCH: And, your Honor, we have no cross for
12 Mr. Doyle. In the event, we advised the company of that.

13 JUDGE MOSS: Okay. So, Mr. Doyle, your cross has been
14 waived, and that brings us to Mr. Schooley. You've indicated
15 30 minutes, Mr. ffitch. What do you really anticipate at this
16 point?

17 MR. FFITCH: No more than that, your Honor.

18 JUDGE MOSS: We're going to take a -- we've got plenty
19 of time. It's 3:30 and our court reporter can use a break and,
20 frankly, so could I. So let's -- let's take ten minutes and be
21 back at a quarter to 4:00, please.

22 (A break was taken
23 from 3:35 p.m. to 3:49 p.m.)

24 JUDGE MOSS: All right. Let's come to order, please.
25 Mr. Schooley, please raise your right hand.

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1 THOMAS SCHOOLEY witness herein, having been
2 first duly sworn on oath,
3 was examined and testified
4 as follows:

5

6 JUDGE MOSS: Thank you. Please be seated.

7

8 E X A M I N A T I O N

9 BY MS. CAMERON-RULKOWSKI:

10 Q. Good afternoon, Mr. Schooley.

11 A. Good afternoon.

12 Q. Would you please state your name, and spell your last
13 name for the record.

14 A. My name is Thomas Schooley, S-c-h-o-o-l-e-y.

15 Q. Please direct your attention to Exhibit TES-6T.

16 A. Yes.

17 Q. Is this the testimony that you prepared on behalf of
18 Staff in response to PSE's pre-filed direct testimony?

19 A. Yes.

20 Q. Are there any corrections that need to be made to this
21 exhibit?

22 A. Yes. If you turn to page 6 of TES-6T, on lines 13 and
23 14 where it says, "1 percent increase," it should say, "3
24 percent increase." That's all.

25 Q. And in the course of your direct testimony, you refer

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1 to exhibits TES-7 and TES-8. Are there any corrections that
2 need to be made to these exhibits?

3 A. No.

4 Q. Thank you, Mr. Schooley. Mr. Schooley is available
5 for cross-examination and questions from the bench.

6 JUDGE MOSS: All right. Thank you very much.

7 Mr. ffitch, you have some questions.

8 MR. FFITCH: Thank you, your Honor.

9

10 E X A M I N A T I O N

11 BY MR. FFITCH:

12 Q. Good afternoon, Mr. Schooley.

13 A. Good afternoon.

14 Q. You're the assistant director of energy regulation at
15 the commission; correct?

16 A. Correct.

17 Q. And your responsibilities include direct supervision
18 of commission regulatory analysts who review company filings;
19 is that correct?

20 A. Yes.

21 Q. And you also yourself make recommendations on company
22 filings and applications and file testimony on behalf of Staff;
23 isn't that right?

24 A. Yes.

25 Q. And in your testimony in this case, TES Exhibit 6T,

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1 you state that your position has not changed from the earlier
2 phase of this case and that, in your view, it remains premature
3 to address the impact of decoupling on the rate of return; is
4 that a fair statement?

5 A. Correct, yes.

6 Q. And you say that that is because the impact is quote,
7 "at best hypothetical"?

8 A. True.

9 Q. Is that right? And also in this testimony, you offer
10 Staff's position that decoupling, that the decoupling impact is
11 not an issue before the commission on remand based on your
12 reading of the court order and the commission order; correct?

13 A. Yes, I don't believe the word "decoupling" is
14 mentioned within the judge's decision.

15 Q. Okay. Now, also recently you filed testimony as a
16 witness for Staff in the Avista 2014 general rate case; isn't
17 that right?

18 A. Yes.

19 Q. In that case you sponsored Staff's full decoupling
20 proposal for Avista; is that also correct?

21 A. Yes, I did.

22 Q. And as part of your testimony in that case, you stated
23 that Staff's full decoupling proposal in that case has quote --
24 or -- excuse me -- was quote, "similar in all substantial
25 respects," end quote, to Puget's full decoupling proposal;

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1 correct?

2 A. If you're quoting me, then I guess I said that.

3 Q. Would you like to have a copy of your testimony to
4 look at?

5 A. I did not bring my Avista testimony.

6 MR. FFITCH: Okay. May I approach, your Honor?

7 JUDGE MOSS: Sure.

8 BY MR. FFITCH:

9 Q. Just to clarify the record, I've just handed you a
10 copy of your testimony, July 22nd, 2014, TES-1T in docket
11 UE-140 -- 140188, et cetera; is that right?

12 A. Yes.

13 Q. And so I'd asked you -- I've given you a quote, I
14 guess. Can you turn to page 19 of your testimony. We just
15 find the quote there.

16 A. Okay.

17 Q. And in that testimony on page 19, line 21, you say
18 that Staff's full decoupling proposal was quote, "similar in
19 all substantial respects to Puget Sound Energy's full
20 decoupling proposal"; correct?

21 A. Yes. And by "full decoupling," we're referring to
22 decoupling for not just conservation measures, but also for any
23 other effects, such as weather effects.

24 Q. Okay. Now, in that testimony you also provide a
25 review of commission -- the history of commission decoupling

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1 policy in Washington; correct?

2 A. Yes, I believe I do.

3 Q. And in there, in the testimony you reviewed how each
4 element of your decoupling proposal, Staff's decoupling
5 proposal, met the various elements of the commission's
6 decoupling policy order; right?

7 A. Yes.

8 Q. And specifically, with respect to the second element
9 of the test or -- excuse me -- element of the policy order,
10 which is entitled "Impact on rate of return," can you turn to
11 that, please. That's on page 20.

12 A. I see it.

13 Q. And there you state at line 19, "Staff proposes
14 reducing the percentage of equity in the capital structure to
15 42 percent from 46 percent. This reduces the rate of return by
16 13 basis points. Staff witness, Mr. Elgin, sponsors this
17 adjustment"; correct?

18 A. Yes.

19 MS. CAMERON-RULKOWSKI: One moment, please. I'd like
20 to object. Mr. ffitch, are you planning on offering this
21 particular exhibit for admission?

22 MR. FFITCH: I may do that after the questioning, yes.

23 MS. CAMERON-RULKOWSKI: Then I'll reserve my
24 objection.

25 BY MR. FFITCH:

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1 Q. All right. Mr. Elgin in his testimony recommended the
2 ROE -- excuse me, not the ROE adjustment, but the cost of
3 capital adjustment resulting from his capital structure
4 recommendation be incorporated in Avista rates beginning with
5 the effective date of the new rates determined in that case; is
6 that correct?

7 A. That was his recommendation.

8 MS. CAMERON-RULKOWSKI: Okay. I'm going to object
9 now. Mr. Schooley is being asked questions about an entirely
10 different case, an entirely different decoupling mechanism.
11 Decoupling, it's not relevant, because the actual decoupling
12 mechanism is not within the scope of the remand.

13 And I would object to the -- to the question, and also
14 to the admission of the document that Mr. ffitch had passed to
15 Mr. Schooley.

16 JUDGE MOSS: Okay. Well, he hasn't moved the
17 admission of the document, so that objection is premature. As
18 far as Mr. Schooley being able to testify on this, he is after
19 all Mr. Elgin's supervisor. And I assume you were the policy
20 witness in the case, Mr. Schooley? Is that right? In the
21 Avista case.

22 THE WITNESS: I think I was.

23 JUDGE MOSS: That would typically be the pattern, but
24 in any event, I don't think this is outside the realm of his
25 knowledge and expertise. And earlier, as I recall, you

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1 deferred to Mr. Schooley as the decoupling witness for staff in
2 this case. So I think we have to let Mr. ffitch go ahead with
3 his questions.

4 MS. CAMERON-RULKOWSKI: Thank you, your Honor. I
5 guess I would ask why it wasn't provided when cross exhibits
6 were filed. And I would object on that basis, that there was
7 the opportunity to -- to distribute this to witnesses in
8 advance by the deadline. It's well after the deadline. And
9 also, if Mr. ffitch wanted this in the record --

10 JUDGE MOSS: What are you referring to?

11 MS. CAMERON-RULKOWSKI: I'm referring to the -- the --
12 the document that Mr. ffitch just handed Mr. Schooley and which
13 he just -- to which he just handed me a copy.

14 JUDGE MOSS: What was that document, Mr. ffitch? Was
15 that something different than is in your cross-examination
16 exhibits?

17 MR. FFITCH: Your Honor, I did ask Mr. -- yes, your
18 Honor.

19 JUDGE MOSS: You asked Mr. Schooley if he testified to
20 something; right? And Mr. Schooley said that he didn't have
21 his testimony in front of him, and that's what you provided
22 him, was it not?

23 MR. FFITCH: Correct.

24 JUDGE MOSS: So it was just to refresh his
25 recollection; is that correct?

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1 MR. FFITCH: Correct so far, your Honor.

2 JUDGE MOSS: The objection is overruled.

3 BY MR. FFITCH:

4 Q. I want to just return to my last question, because I'm
5 not sure it was answered before the objection happened.

6 JUDGE MOSS: Not even sure what your last question
7 was, Mr. ffitch, so why don't you repeat it.

8 BY MR. FFITCH:

9 Q. My question was: Did Mr. Elgin recommend the
10 decoupling adjustment to be incorporated in Avista rates
11 beginning with the effective date of Avista's new rates
12 determined in the 2014 rate case?

13 A. There was a part of Staff's testimony that was not the
14 result of the case, though. Avista's decoupling program and
15 the rates coming out of that case became effective January 1 of
16 this year, so it is very much after the period of time that's
17 in question for this remand proceeding.

18 Q. Right. But I understand that there's a slightly
19 different time sequence here, but my question was simply
20 whether you or Mr. Elgin, on behalf of Staff in the Avista
21 case, recommended that the commission wait and study the impact
22 of decoupling for Avista for several years.

23 You did not do that, did you?

24 A. Not in that case, no.

25 Q. And neither did Mr. Elgin; is that correct?

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1 A. No, he didn't.

2 Q. And neither you nor Mr. Elgin testified in that docket
3 that the impact of decoupling was hypothetical, did you?

4 A. I still think that's a true statement whether it was
5 testified to or not.

6 Q. You didn't testify to that in the Avista case, did
7 you, Mr. --

8 A. I was not the cost of money witness.

9 Q. Can you turn to the front page of your testimony that
10 I handed you to refresh your memory, please. And that reflects
11 that you are the policy and decoupling witness for the staff in
12 the Avista docket; is that right?

13 A. Yes.

14 Q. Thank you. Did Staff do any discovery in this case
15 regarding Puget Sound Energy in the remand phase of the case
16 regarding Puget Sound Energy's decoupling program?

17 A. Staff's position is that decoupling was not a part of
18 the remand and we did no testimony on that. I still think it's
19 an inappropriate line of discussion throughout this day, so --

20 MR. FFITCH: Right. Thank you. Your Honor, those are
21 all the questions I have. Thank you, Mr. Schooley. And I
22 would offer exhibits TES-9, 10 and 11. I understand from Staff
23 Counsel there are no objections to 9 and 10. Exhibit 11 is the
24 testimony of Ken Elgin in the Avista docket.

25 JUDGE MOSS: Is there an objection?

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1 MS. CAMERON-RULKOWSKI: I don't. I no longer have an
2 objection. I don't -- are you going to move for -- are you
3 going to request admission of Mr. Schooley's testimony in the
4 Avista case?

5 MR. FFITCH: I am just waiting till we're done.

6 MS. CAMERON-RULKOWSKI: Sorry to jump ahead.

7 MR. FFITCH: 9, 10 and 11. I think we're -- 9, 10 and
8 11 are coming in without objection; is that correct?

9 JUDGE MOSS: Very well.

10 MS. CAMERON-RULKOWSKI: That's correct.

11 MR. FFITCH: And I would like to offer, your Honor,
12 the testimony of Tom Schooley that has been discussed by the
13 witness from the stand.

14 MS. CAMERON-RULKOWSKI: I object to the admission of
15 that particular document in this proceeding. We had an
16 opportunity to submit cross exhibits in advance. This exhibit
17 was not distributed until this moment. And furthermore, it
18 could have -- it's dated July 22nd of 2014. It could have been
19 included in -- in direct testimony by Public Counsel. It is
20 unfair.

21 JUDGE MOSS: Mr. ffitich, do you wish to be heard?

22 MR. FFITCH: Your Honor, I think it's relevant to the
23 witness's testimony. He did respond to questioning about it.
24 I think it would be helpful to have it in the record to be read
25 in conjunction with his live testimony.

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1 JUDGE MOSS: I'm somewhat disinclined to agree,
2 Mr. ffitich. I think you used it to refresh his recollection.
3 That's a perfectly appropriate use of it. You have his
4 testimony in the record of this case concerning its contents.
5 I don't see any reason to make it an exhibit in this record.

6 And I want to ask you as well why we are making
7 Mr. Elgin's testimony from another case at another time an
8 exhibit here. I -- I'm always disinclined to allow testimony
9 by a witness who's not present to testify.

10 So what is the -- what is your purpose there?

11 MR. FFITCH: Your Honor, in the case of Staff, it's
12 not a question of individual personal witnesses. The Staff is
13 an entity that presents evidence and recommendations to the
14 commission. We believe that the testimony of Mr. Elgin and
15 Mr. Schooley is directly inconsistent with the Staff's position
16 in this case that was filed only six months after the Avista
17 case.

18 We believe it therefore casts doubt on the credibility
19 and the weight to be given to the Staff's testimony in this
20 docket. It's directly inconsistent, and that's why we're
21 offering it for the record, your Honor.

22 MS. CAMERON-RULKOWSKI: May I point out something,
23 your Honor?

24 JUDGE MOSS: Sure.

25 MS. CAMERON-RULKOWSKI: Staff does testify as Staff,

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1 but individual -- individual Staff members do present
2 particular testimony and that is their individual expert
3 opinion. And in this case we -- in this case we have our
4 expert opinion presented by Mr. Schooley and by Mr. Parcell.

5 And in the Avista case, as you can see by the
6 document, it's presented by someone entirely different. And
7 I -- I think that the relevance is small.

8 JUDGE MOSS: Okay. So you're picking up on my
9 objection to Mr. ffitich's objection, are you?

10 MS. CAMERON-RULKOWSKI: That was my original
11 objection, but you wanted to save time that I thought I'd just
12 let that one go. But now I will point out that the relevance
13 is small.

14 JUDGE MOSS: All right. Well, Mr. ffitich, I did let
15 you ask Mr. Schooley questions about Mr. Elgin's testimony, and
16 I believe you probably got the salient points in that way. I
17 will have to say as an institutional matter that I have become
18 concerned in the last year or so with this increasing practice
19 of parties trying to introduce one witness's testimony through
20 another witness.

21 We saw it to a rather -- well, I'm not going to
22 mention particular proceedings or parties. But that has been
23 something of a noticeable trend and is something I want to
24 discourage, and I'm going to discourage it here by by not
25 admitting the exhibit that was marked -- pre-marked as TES-11

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1 CX. I think that's enough said about that.

2 MR. FFITCH: Your Honor, Public Counsel would request
3 to make an offer of proof for the record with respect to this
4 cross exhibit.

5 JUDGE MOSS: Well, you can always refer to the order
6 in that case, of course, Mr. ffitch. But, yes, if you want to
7 make an offer of proof, we'll accept it as such.

8 MR. FFITCH: Thank you, your Honor. May I make a
9 brief statement for the record as an offer of proof?

10 JUDGE MOSS: Sure, you may do that.

11 MR. FFITCH: Thank you, your Honor. The offer of
12 proof is with respect to Public Counsel cross exhibit number
13 TES-11 CX. This exhibit is the testimony of Ken Elgin in the
14 Avista general rate case of 2014. It is being offered to show
15 that the commission staff in this case is taking inconsistent
16 positions with respect to the question of the impact of
17 decoupling on cost of capital.

18 I believe, we believe this is relevant evidence
19 because it addresses the same subject matter and the issues
20 that are at issue in this proceeding, and because it bears on
21 the credibility of this witness and the weight to be afforded
22 his testimony. Thank you, your Honor.

23 JUDGE MOSS: All right. Thank you. Thank you for
24 that. And I'll just say again, to underline the point, the
25 reason that I am not admitting this exhibit is because it is an

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1 exhibit -- we treat Staff like any other party.

2 Mr. Elgin is not here available for cross-examination.

3 It is in that sense a type of hearsay that is generally not
4 admitted. And certainly you could have called Mr. Elgin as a
5 hostile witness if it was that important to your case.

6 I think you have sufficient information in the record,
7 through Mr. Schooley's testimony, to argue the point on brief.
8 Other parties will have an opportunity to respond to it and
9 reply and we'll take whatever cognizance of it and give it
10 whatever weight we feel it deserves.

11 MR. FFITCH: Thank you, your Honor.

12 JUDGE MOSS: Thank you very much. All right. With
13 that, then, I've forgotten where we are here. We've completed
14 Mr. Schooley's examination. Anything from the bench? Okay.
15 We do have some questions from the bench.

16

17 E X A M I N A T I O N

18 BY COMMISSIONER JONES:

19 Q. Could you turn to page 7 of your TES-6T.

20 A. In this case?

21 Q. How about five cases ago. No. This case. TES-6T.

22 A. Page 6?

23 Q. Page 7.

24 A. Page 7.

25 Q. This is the part where you're talking about the

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1 implementation of the decoupling mechanism and K-factor.

2 A. Okay.

3 Q. So just help me through the math here, if you would,
4 please. So for the first -- the last six months of 2013, the
5 company over collected on electric 16 million, over collected
6 on gas to a total of 21 million.

7 And we, the commission, and you recommended to us, and
8 this over collection was returned to customers in a rate
9 revision of May 2014; right?

10 A. Correct.

11 Q. And was that -- do you recall? Because I don't. I
12 should. Did we require that to be done on the line item basis
13 to the customer, to the residential customers? I forget.

14 A. No, I don't believe so. I think it was melded with
15 the K-factor increase that occurred at the same time.

16 Q. So what did the customer see when they got --

17 A. They actually saw a rate increase. The increase due
18 to the rate plan of three percent on the dollars per customer
19 was greater than the 16 million dollars, so the customers did
20 see an increase --

21 Q. Do you recall --

22 A. -- on their bills.

23 Q. I'm sorry. Are you finished?

24 A. Yes.

25 Q. Do you recall how was it -- how it was described on

0757

1 the bill, on the customer residential bill? No? Okay.

2 A. No.

3 Q. That's okay. And then the first half of 2014, I guess
4 the first six months it's going the other way, at least on
5 electric. The company is under collecting 25 million, natural
6 gas over collecting 10 million.

7 In my math that's a net 15 million back to the
8 company; right?

9 A. Yes, for that period. I don't know what has happened
10 in the second half of 2014.

11 Q. That was my -- yeah, that was my next question. So
12 what has happened for the second six months of 2014?

13 A. I don't know.

14 Q. Okay. And then how is Staff going to respond to this?
15 Staff will verify the numbers of the company, the RPC, the
16 revenue per customer decoupling, and come to the commission
17 with some recommendation in 2015?

18 A. Yes, there should be a filing soon on that topic, and
19 there will be the -- whatever the true-up is for 2014 for the
20 customers to see, to true that up to what the revenues per
21 customer were, and then the customers will pay those bills.

22 This may be an opportunity to make sure we are using
23 correct terms here. The company earns its revenues on the
24 dollar-per-customer basis. Customers are paying the bill that
25 they receive, but that's not revenues. Those are the -- just

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1 the accounts payable that they owe to the company for their use
2 and, more to the point, for their portion of the dollars per
3 customer.

4 The difficulty comes in where, for 2013, the customers
5 received moneys back because they had overpaid the dollars per
6 customer. For 2014, I wouldn't be surprised that the customers
7 will owe more money because they have underpaid their portion
8 of the dollars per customer, and that's going to be a double
9 whammy to the customers, because the credit or decrease that
10 they received from 2013 will now be added. Well, that will go
11 away and there be an increase due to the under collections
12 during 2014, assuming that's what's coming about.

13 And I think the customers will be seeing greater
14 fluctuations and the cash flow for the company will be greater
15 fluctuations, not less as what had been represented by other
16 witness earlier.

17 So this is one of the problems with decoupling which
18 I've -- which I see. And the fix to me is to go to straight
19 fixed variable pricing where both the customers and the company
20 will see the reduction in volatility of the revenues. And
21 that's my opinion on decoupling in general.

22 Q. So you referred to the cost of capital witnesses
23 earlier today where we were discussing that the -- and I think
24 it was universally shared that the -- that the impact of
25 decoupling, whether it be a true-up or straight fixed variable,

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1 evens out the fluctuation of revenues to the company; right?

2 A. Yes, and those are the same revenues --

3 Q. Right.

4 A. -- that the customers will pay, except the customers
5 don't see their portion of it until the next year.

6 Q. But what you're saying is that these fluctuations to
7 the customer that we'll probably see this year are -- are --
8 are significant fluctuations or fluctuations that they don't
9 understand? I mean, how significant are they?

10 A. This -- they can be, I think, fairly significant, and
11 I think they will be difficult to -- for the customers to
12 understand.

13 Q. And that is the reason why line 17 through 21 you make
14 a fairly unusual recommendation. I just want you to explain
15 that to me a little bit. An educational campaign be
16 instituted.

17 This is something the commission has grappled with, as
18 you know, for a number of years in just trying to explain rate
19 making to the consumers. And we had decoupling in there, as
20 you recall, about how rates are set, the complicated process,
21 and we do have this decoupling mechanism now.

22 So are you suggesting that we ramp up, we the
23 commission ramp up our education efforts? Is the burden on us
24 through this rate-making video and trying to explain to
25 customers, legislators? I assume people will write

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1 legislators, they'll write us, we'll have to explain. But
2 you -- you appear to be saying that PSE and NWECC should do
3 something here.

4 A. Yes, I believe it's in their --

5 Q. And why is that? Why is the burden on them?

6 A. I'm sorry. I believe they are the ones that have been
7 the promoters of decoupling in particular, and it should be up
8 to them to explain to customers why their bills are starting to
9 fluctuate so much from one year to the other. And it's because
10 of this lag between when the companies receive their revenues
11 on a dollar-per-customer basis, yet the customers still pay on
12 a volumetric basis.

13 Then the customers get the true-up a year later, and
14 those true-ups can start exacerbating each other or perhaps
15 sometimes offsetting each other. But nonetheless, it's -- it's
16 throwing the customers into great confusion as to why this is
17 happening, yet the -- and I think that's a problem.

18 I think it's a problem inherent in the decoupling-type
19 solutions to trying to cure a problem through -- either caused
20 by conservation or any other methods.

21 Q. Right. Yeah. Well, it's an interesting proposal.
22 It's not a big issue in this case, but maybe we can discuss
23 that separately. And I think just on the natural gas side for
24 heating purposes, this is just my speculation, but because --
25 and I don't know what the forecast of therms you -- were used

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1 for the gas side of the operation for this period, but it's
2 been an unusually warm wet winter so far.

3 But I would fully expect that the -- the under
4 recovery of PSE on the gas side is going to be, you know,
5 substantial.

6 A. It could be.

7 Q. Thank you. That's all I have.

8 JUDGE MOSS: Go ahead.

9

10 E X A M I N A T I O N

11 BY CHAIRMAN DANNER:

12 Q. So Mr. Schooley, just want to be clear. When you say
13 the high volume of calls that the consumer protection may
14 expect next spring, you don't know that they are going to be --
15 it's your -- that's your prediction that that's going to
16 happen?

17 A. Yes.

18 Q. But we don't know that that's happened yet?

19 A. They haven't seen the results of their 2014 in their
20 bills yet.

21 Q. But we have true-ups for a lot of our utilities right
22 now. Are we seeing an increase in confusion by the customers
23 in terms of the volumes to our consumer protection staff?

24 A. I'm not sure. I think there is -- the biggest example
25 here might be in the PGA process, on the purchase gas

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1 adjustments, that you have a prediction of gas costs for one
2 year going out and a true-up for the prior year, and then that
3 true-up, if it was a credit to the customers, goes away a year
4 later, and it might be replaced by an increase in revenues to
5 the customer beyond what the projection had been from the prior
6 year.

7 So they -- they are thrown into negative feedback
8 loops. And I think that we do get some complaints from
9 customers after that, but I'm --

10 Q. You think so?

11 A. I'm not certain what the consumer protection staff --

12 Q. Thank you.

13 A. -- have seen.

14 JUDGE MOSS: All right. Well, that completes
15 questions from the bench. Any redirect?

16 MS. CAMERON-RULKOWSKI: Short, your Honor. Yes.

17 MR. FFITCH: Your Honor, may I have recross based on
18 responses to the bench?

19 JUDGE MOSS: All right.

20

21 E X A M I N A T I O N

22 BY MR. FFITCH:

23 Q. One question. Mr. Schooley, you've expressed some
24 concerns about decoupling. Isn't it true that Staff agreed
25 with Puget Sound Energy and Northwest Energy Coalition, in a

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1 settlement agreement, to the adoption of this specific
2 decoupling mechanism and then advocated for its approval by
3 this commission?

4 A. I did. And the reason I agreed to it was because of
5 it being full decoupling. As anybody's heard me rant against
6 decoupling due to conservation measures would know that I've
7 not been a fan of it.

8 And -- but I could accept the rate plan as the
9 K-factor and the decoupling knowing that it might be
10 engendering these confusions, and that's -- it's the confusion
11 that needs to be solved to make this work. I haven't seen that
12 happening yet.

13 MR. FFITCH: That's all I have. Thank you, your
14 Honor.

15 JUDGE MOSS: All right. Fine. Redirect.

16

17 E X A M I N A T I O N

18 BY MS. CAMERON-RULKOWSKI:

19 Q. Mr. Schooley, to the extent there's any confusion
20 about -- about your testimony, is it your test -- is it your
21 testimony that Staff would never reduce return on equity due to
22 the effects of decoupling?

23 A. No, that is my -- not my testimony. Our testimony is
24 that it needs to be looked at, and we are engaging in that
25 process now using the commission basis reports from the middle

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1 of the period ending July of 2014 for the first full year of
2 decoupling.

3 And future ones, depending on the results of that, I'd
4 be looking at not just decoupling as a mitigating factor to
5 revenue stabilization, but also all the other types of
6 regulatory risk mitigation and risk-inducing elements in the
7 company's rates.

8 MS. CAMERON-RULKOWSKI: Thank you. That's all I have.

9 JUDGE MOSS: All right. Very good. Mr. Schooley,
10 that appears to bring your examination to a close. We
11 appreciate your being here to testify today. And that brings
12 us to the conclusion of our witnesses.

13 We do have some additional business to conduct. I
14 believe Ms. Rulkowski has some exhibits she wants to argue on
15 terms of admission, but I believe we can release the
16 commissioners from the bench for that purpose and let them get
17 about other business and pressing needs that they have.

18 MS. CAMERON-RULKOWSKI: Your Honor, shall I proceed or
19 shall I wait a moment?

20 JUDGE MOSS: Pardon me?

21 MS. CAMERON-RULKOWSKI: Shall I proceed?

22 JUDGE MOSS: No, no. You should wait a minute. Let's
23 let the commissioners retire from the bench first.

24 MR. KUZMA: I think the judge-proof has been removed.

25 JUDGE MOSS: Pardon me?

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1 MR. KUZMA: I think the judge-proof has been removed.

2 MS. DAVISON: It's freezing in here.

3 JUDGE MOSS: Maybe so.

4 MS. DAVISON: You want to keep us awake.

5 JUDGE MOSS: Well, we're only going to be here a few
6 more minutes and you'll be fine. Most of you have to drive
7 some distance so it's better to be alert. All right. Now
8 let's -- which exhibits do we have to consider?

9 MS. CAMERON-RULKOWSKI: Thank you, your Honor, for
10 giving me the opportunity to explain my objections. So I've
11 narrowed my objections to cross exhibits directed at
12 Mr. Parcell. That's DCP-14 CX, 15 CX, and 16 CX.

13 JUDGE MOSS: All right. Let me get those. All right.
14 And what is your objection to 14?

15 MS. CAMERON-RULKOWSKI: My objection to all of them is
16 that they are irrelevant to -- they are irrelevant. And
17 specifically that they are outside the scope of Mr. Parcell's
18 testimony.

19 Mr. Parcell did not testify on the effects of
20 decoupling on ROE and, therefore, these exhibits are being
21 introduced for the improper purpose of asking him to testify
22 on -- on that issue.

23 These -- and I will note that Exhibit DCP-14 X, CX, is
24 identical to another cross exhibit. My objection here is
25 having Mr. Parcell be listed as the sponsor for this exhibit,

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1 because he did not testify in his direct testimony to -- to
2 anything in here.

3 JUDGE MOSS: He's not the sponsor of this witness.
4 Public Counsel is the sponsor of this witness. It's a
5 cross-examination exhibit.

6 MS. CAMERON-RULKOWSKI: Understood, your Honor. He --
7 he is the witness at whom the exhibit is being directed.

8 JUDGE MOSS: That's true.

9 MS. CAMERON-RULKOWSKI: And -- and I believe
10 improperly directed to Mr. Parcell given that he did not
11 testify on this subject. The -- the issue of -- I want to
12 discuss the issue of relevance.

13 In Order 7, the commission decided not to reduce the
14 ROE in this proceeding for the effects of decoupling. And it
15 is Staff's position that this decision by the commission was
16 not overturned by Judge Murphy.

17 JUDGE MOSS: Ms. Rulkowski, I'm going to cut you off.
18 You can save that argument for brief if you want to. I know
19 it's Staff's position and has been since the beginning of this
20 case, but that's not a matter we're going to resolve in the
21 context of ruling on the admissibility of these exhibits.

22 MS. CAMERON-RULKOWSKI: Understood. I wanted to
23 explain my objection based on relevance, and we had simply
24 believed it was the law of the case and, therefore, that it was
25 not relevant.

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1 JUDGE MOSS: All right. Well --

2 MS. CAMERON-RULKOWSKI: I would say that the gravitas
3 of my objection is due to the fact that it's -- in all of these
4 exhibits are outside the direct testimony.

5 JUDGE MOSS: This will be sorted out on the briefs and
6 in the commission's order and perhaps in any subsequent appeal
7 that may follow. The commission will ultimately decide
8 whether, to what extent and in what fashion decoupling is
9 relevant here.

10 We have quite a range of testimony on that, which I
11 thought was very well-presented, I might add. And I think
12 we'll -- we'll take it under advisement and the commission will
13 do with it what the commission will do with it. I can't tell
14 you sitting here today what that might be.

15 MS. CAMERON-RULKOWSKI: Does that mean that you're
16 admitting these exhibits?

17 JUDGE MOSS: Well, that's another issue. You asked
18 me, you started down the path of arguing about the general
19 posture of the case, which is something addressed in orders 10
20 and 11 and will be ultimately resolved later based on any
21 argument that parties may wish to present in their briefs
22 concerning again whether, to what extent and how the subject of
23 decoupling may be relevant to the commission's determination of
24 the return on equity as of the early part of 2013, which is the
25 specific issue that was remanded to the commission.

1 Now, as far as these exhibits are concerned, you -- I
2 thought we discussed earlier on the record that my view as the
3 judge in the case, that Mr. Parcell is a very well-respected
4 expert in the field of cost of capital. I think he clearly
5 understands and clearly has positions on the effect of
6 decoupling on cost of money.

7 I think, as I said earlier today, I think it was fair
8 to have inquiry of him on that subject. And since this is all
9 his prior testimony -- although I must say, Mr. Ffitch, one of
10 these exhibits was kind of mixed up, as I recall, in terms of
11 having some Arizona Corporation Commission testimony apparently
12 followed by reference to Pepco. So that's going to need to be
13 straightened out.

14 I've got page 4 of Exhibit 14 CX that describes this
15 exhibit as direct testimony of David C. Parcell on behalf of
16 Utilities Division of the Arizona Corporation Commission. And
17 then on page 5 of that exhibit, there's a discussion about
18 Pepco. So you need to go back and check and let's make sure we
19 have the right pages in here.

20 As we had questioning earlier today, I believe we
21 turned on over to another page and it turned out that it was
22 indeed Arizona Corporation Commission. But we need to make
23 sure the exhibit is -- was properly presented, so I'll ask you
24 to check on that.

25 MR. FFITCH: Thank you, your Honor. I'll check with

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1 staff on that. We'll check with them and make sure we can get
2 everything straightened out.

3 JUDGE MOSS: All right. Fine. Well, that -- subject
4 to that caveat and in light of my discussion of this subject
5 earlier today and again now, I'm going to overrule the
6 objection and these -- these will be admitted as marked.

7 MR. FFITCH: I guess I have -- thank you, your Honor.

8 JUDGE MOSS: We don't really need to hear any more
9 about it.

10 MR. FFITCH: This is housekeeping. Actually, the full
11 testimonies were provided to us supplementarily by the
12 commission staff. We didn't put those in. We can provide
13 those if the bench would like.

14 JUDGE MOSS: I have no particular use for them,
15 Mr. ffitch.

16 MS. CAMERON-RULKOWSKI: I think I may --

17 JUDGE MOSS: If the staff wishes to offer them under
18 the rule of optional completeness, we'll certainly accept them.
19 But otherwise, if you've got your needs met here, I'm good.

20 MS. CAMERON-RULKOWSKI: Judge Moss, SGH-23 CX is an
21 identical exhibit and the pages aren't mixed up there.

22 JUDGE MOSS: SGH what?

23 MS. CAMERON-RULKOWSKI: 23 CX.

24 JUDGE MOSS: All right. Very good. That's identical
25 to 14 or supposed to be 14?

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1 MS. CAMERON-RULKOWSKI: That's correct.

2 JUDGE MOSS: All right. Well, very good.

3 MS. CAMERON-RULKOWSKI: There's a discrepancy of one
4 page, but that's because in one of the exhibits there's a blank
5 page at the end.

6 JUDGE MOSS: All right. Fine. Well, I don't normally
7 like to have duplicate exhibits, but perhaps in this case it's
8 fortuitous. So let's leave it at that.

9 Anything else we need to discuss on this? Did you
10 wish to make the balance of these testimonies an exhibit on the
11 basis of the rule of optional completeness?

12 MS. CAMERON-RULKOWSKI: No, your Honor.

13 JUDGE MOSS: Thank you. I really appreciate it. I'm
14 sure they're fat. Okay. Anything else? Any other business we
15 need to conduct today? Don't let me get overeager here just
16 because it's Friday afternoon.

17 All right. Thank you all very much. As always, it's
18 been a very good hearing and you all have done a very nice job.
19 I appreciate both the witnesses' and the -- and the efforts of
20 counsel to make this run smoothly, and the effort of our court
21 reporter to keep up with my sometimes too rapid speech as well
22 as others. With that we're off the record.

23 (Proceedings concluded at 4:30 p.m.)

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C E R T I F I C A T E

STATE OF WASHINGTON
COUNTY OF KING

I, Kathleen Hamilton, a Certified Shorthand Reporter and Notary Public in and for the State of Washington, do hereby certify that the foregoing transcript of the proceedings on FEBRUARY 13, 2015, is true and accurate to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this 20TH day of FEBRUARY, 2015.

KATHLEEN HAMILTON, RPR, CRR, CCR