

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
2 COMMISSION

3	WASHINGTON UTILITIES AND	)	
	TRANSPORTATION COMMISSION,	)	
4		)	
	Complainant,	)	
5		)	
	vs.	)	
6		)	
	WASHINGTON NATURAL GAS COMPANY,	)	Hearing No. UG-920840
7		)	VOLUME 15
	Respondent.	)	Pages 2821 - 3034
8	-----	)	

9 A hearing in the above matter was held on  
10 July 6, 1993 at 9:30 a.m., at 1300 South Evergreen Park  
11 Drive Southwest, Olympia, Washington, before Chairman  
12 SHARON NELSON, and Commissioners RICHARD CASAD and  
13 RICHARD HEMSTAD, and Administrative Law Judge LISA  
14 ANDERL.

15 The parties were present as follows:

16 WASHINGTON UTILITIES AND TRANSPORTATION  
17 COMMISSION, JEFFREY GOLTZ and ROBERT D. CEDERBAUM,  
18 Attorneys at Law, 1400 South Evergreen Park Drive  
19 Southwest, Olympia, Washington 98502.

20 WASHINGTON NATURAL GAS, D. SCOTT JOHNSON,  
21 Attorney at Law, 815 Mercer Street, Seattle,  
22 Washington 98109, and HARRY E. GRANT, Attorney at Law,  
23 Suite 4400, 1001 Fourth Avenue Plaza, Seattle,  
24 Washington 98154.

25 NORTHWEST INDUSTRIAL GAS, PAULA PYRON,  
Attorney at Law, 1300 S.W. Fifth Avenue, Suite 3400,  
Portland, Oregon 97201.

PARTNERSHIP FOR EQUITABLE RATES FOR  
COMMERCIAL CUSTOMERS, CAROL S. ARNOLD, Attorney at  
Law, 5000 Columbia Center, Seattle, Washington 98104.  
Donna Davis, Court Reporter

1

2

## I N D E X

3 WITNESS: DIRECT CROSS REDIRECT RECROSS EXAM

4 J. THORPE 2826 2827 2897

5

6 J. WALDO 2906 2911 2938

7

8 C. THOMPSON 2952 2955 3011

9

10 EXHIBIT MARKED ADMITTED

11 T-316 2826 2827

12 317 2850 2852

13 318 2864 2865

14 T-319, 320 2906 2909

15 321, 322 2909 2909

16 T-323, 324 2952 2955

17 325 2979 2981

18 326, 327 2994 2994

19 328 3003 3006

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23

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## 1 P R O C E E D I N G S

2 JUDGE ANDERL: Let's go ahead and get  
3 started. Let's be on the record. We are reconvened  
4 in Docket No. UG-920840. We are here today to begin  
5 the presentation of the Company's rebuttal case.

6 Before we call the first witness, I would  
7 like to make a few preliminary announcements of the way  
8 the schedule works now. We will be starting at 8:30 on  
9 each of the three following days. The Commission has  
10 scheduled maybe a 10-minute open meeting tomorrow. I  
11 think that it will be best if we start at 8:30, break  
12 for the 10 minutes that we need for the open meeting,  
13 and then pick back up on this.

14 The other thing that I have is some things  
15 we'll be taking up after lunch. I want you to be aware  
16 of them.

17 COMMISSIONER CASAD: I suggest you consult  
18 on the Commissioners.

19 JUDGE ANDERL: I apologize. I thought that  
20 had been agreed upon. We'll announce the schedule for  
21 tomorrow on a more firm basis later on. My mistake.  
22 We'll be taking up bench requests 4 and 5 which have  
23 been submitted but not yet admitted. We'll also be  
24 taking up the subject to check responses and the

25 motions of the parties to correct transcript errors at

2824

1 the end of the lunch recess today right before we  
2 start.

3 So, if anyone has any objections to any of  
4 those or has not had an opportunity to look at those,  
5 I suggest you find time to look at them before we come  
6 back on the record after lunch.

7 Let's take appearances at the time.

8 MR. GRANT: Thank you, your Honor. For the  
9 company, Harry E. Grant, and with me is Marion V.  
10 Larson and Scott Johnson also representing Washington  
11 Natural Gas Company.

12 JUDGE ANDERL: Thank you.

13 MR. GOLTZ: Jeff Goltz and Bob Cedarbaum,  
14 the Attorney General's office.

15 JUDGE ANDERL: Public office.

16 MR. ADAMS: Charles Adams.

17 JUDGE ANDERL: Intervenors.

18 MS. PYRON: Carol S. Arnold, Partnership  
19 for Equitable Rates for Commercial Customers.

20 MS. PYRON: Paula Pyron for the Northwest  
21 Industrial Gas Users.

22 JUDGE ANDERL: Thank you. Are there any  
23 preliminary matters that we need to take up before we  
24 begin with the company's case today?

25

MR. GRANT: Would your Honor like to

2825

1 pre-mark the first of the exhibits?

2 JUDGE ANDERL: I think we'll just do that  
3 as we take the witnesses.

4 Mr. Adams, did you want to go ahead and make  
5 any sort of a statement?

6 MR. ADAMS: Yes. I think all the parties  
7 received and I know the Commissioners received a  
8 letter, my letter, concerning Commissioner Hemstad,  
9 and Commissioner Hemstad wrote back a letter which I  
10 think has been circulated to all parties. I  
11 appreciate the response, and I believe that the issue  
12 has been raised and Commissioner Hemstad is aware of  
13 it, and I think his response was very thoughtful and I  
14 am willing  
15 to --

16 JUDGE ANDERL: Waive any requirement for  
17 initial order in this case?

18 MR. ADAMS: Yes.

19 JUDGE ANDERL: Anything else? Then would  
20 the company like to call its first rebuttal witness?

21 MR. GRANT: The first rebuttal witness will  
22 be James A. Thorpe.

23 JUDGE ANDERL: Let's go off the record for  
24 a minute while Mr. Thorpe takes the stand.

25 (Discussion held off the record.)

2826

1 JUDGE ANDERL: Back on the record. While  
2 we were off the record Mr. Thorpe took the stand, and  
3 we pre-marked his rebuttal testimony as Exhibit T-316.

4 (Marked Exhibit T-316.)

5 Whereupon,

6 JAMES THORPE,  
7 having been first duly sworn, was called as a  
8 witness herein and was examined and testified as follows:

9 JUDGE ANDERL: Go ahead, Mr. Grant.

10

11 DIRECT EXAMINATION

12 BY MR. GRANT:

13 Q. Good morning, sir. Would you state your  
14 name for the record, please?

15 A. James A. Thorpe.

16 Q. Mr. Thorpe, what is your occupation?

17 A. Chairman and CEO of Washington Natural Gas  
18 and Washington Energy Company.

19 Q. Mr. Thorpe, have you testified in this  
20 proceeding before the Washington Utilities and  
21 Transportation Commission previously?

22 A. Yes, I have.

23 Q. Are you also in this proceeding filing  
24 rebuttal testimony?

25           A.     Yes, I am.

(THORPE - DIRECT BY GRANT)

2827

1           Q.     Mr. Thorpe, asking you to look at what has  
2     been previously marked as Exhibit T-316, I would like  
3     to ask you whether that is the rebuttal testimony that  
4     you have previously filed in this proceeding?

5           A.     Yes, it is.

6           Q.     And is that prefiled rebuttal testimony  
7     true and accurate to your best knowledge?

8           A.     Yes.

9           Q.     Are there any errors in that prefiled  
10    rebuttal testimony that you would like to correct?

11          A.     No, there are not.

12                   MR. GRANT: Your Honor, I would like to move  
13    for admission into evidence of Exhibit T-316.

14                   JUDGE ANDERL: Thank you.

15                   Mr. Goltz, any objection?

16                   MR. GOLTZ: None.

17                   JUDGE ANDERL: Any other parties? Hearing  
18    none Exhibit T-316 will be admitted as identified.

19                   (Admitted Exhibit T-316.)

20                   MR. GRANT: Mr. Thorpe is available for  
21    cross-examination.

22                   JUDGE ANDERL: Mr. Goltz?

23

24                                   CROSS-EXAMINATION

25 BY MR. GOLTZ:

(THORPE - CROSS BY GOLTZ)

2828

1 Q. Good morning, Mr. Thorpe.

2 A. Good morning.

3 Q. You are the chief policy witness for  
4 Washington Natural Gas in this proceeding; is that  
5 correct?

6 A. Yes, I am.

7 Q. And as I recall in your testimony, you  
8 referred to the reaction of you after staff had filed  
9 its case in this proceeding, and you stated that it was  
10 one of shock. Is that correct?

11 A. Yes, it was.

12 Q. And you stated that you felt it necessary  
13 for the -- or the company felt it necessary to issue a  
14 press release at that time?

15 A. Yes, it was; in order to inform the  
16 investing public of the vast difference between the two  
17 presentations.

18 Q. And in that press release, you stated that  
19 Washington Natural strongly disagrees with the  
20 majority of the staff's proposals and will contest  
21 them to the maximum extent possible. Is that your  
22 recollection of the press release?

23 A. In general, yes.

24 Q. Am I correct now in reviewing the Washington



25 Natural's rebuttal case that you have made a number of

(THORPE - CROSS BY GOLTZ)

2829

1 revisions to your initial case?

2 A. Yes, we have.

3 Q. Am I also correct that those have been  
4 substantially in response to concerns raised by staff  
5 in this proceeding?

6 A. Two major ones were in response to the  
7 Commission's action on not to entertain a surcharge for  
8 environmental clean-up and not to entertain a surcharge  
9 for compressed natural gas. The other changes were  
10 occasioned by agreement with staff on some of the  
11 issues raised by staff.

12 Q. In fact, the study that the company  
13 commissioned with Arthur Anderson was in response to  
14 staff's concerns; is that correct?

15 A. The study was in response to the concern  
16 that we had that staff had raised in the minds of the  
17 public confusion about our merchandising and jobbing  
18 operation and the concern that we had that the public  
19 was being led to believe that we were subsidizing  
20 incorrectly those operations with other gas revenue.

21 Q. So does that mean you're not doing it  
22 because it's the right thing to do? You're doing it  
23 because you feel obligated to do it because of the  
24 public concern?



25 gave us is news in the sense that that fact was not

(THORPE - CROSS BY GOLTZ)

2831

1 included in your testimony?

2 A. No. The testimony was prepared. And in my  
3 testimony was the statement that we would take to the  
4 board a recommendation to separate merchandising of  
5 appliances from Washington Natural Gas Company.

6 Q. And now your testimony is today that you, in  
7 fact, have done that?

8 A. Yes, it is.

9 Q. And the board approved that?

10 A. The board did. The board saw with us the  
11 problem that had been raised in the contention of  
12 staff and the trial in the newspapers that we could do  
13 nothing about, and the board agreed with us to  
14 separate once and for all the merchandise of  
15 appliances from Washington Natural Gas Company so that  
16 in future years this issue would be a moot issue.

17 Q. On Page 3 of your testimony, you state that  
18 staff's challenges have caused distress among various  
19 groups of persons and "perhaps in the public's mind,  
20 too."

21 What is the basis for that statement,  
22 "perhaps distress in the public's mind"?

23 A. The financial world will distress -- will  
24 agree with when we lost 12 percent of our value

25 overnight.

(THORPE - CROSS BY GOLTZ)

2832

1 Q. I'm not going to respond to your questions  
2 on that. Go ahead.

3 A. The financial world recognized the distress  
4 we were in. Our employees are distressed. The public  
5 has to be confused by the trial by newspapers of this  
6 item of merchandising. And if we have articles to cite  
7 the fact that the -- we have been -- it is alleged  
8 that we are subsidizing merchandising operations with  
9 other gas revenues. And that confusing point is  
10 something we had to eliminate. And that is why we're  
11 setting up a separate subsidiary to eliminate once and  
12 for all this contention that has been raised by staff  
13 in this case.

14 Q. So, when you say that "perhaps there is  
15 distress in the public's mind, too," are you referring  
16 to statements made by the public at public hearings in  
17 this case?

18 A. Not specifically, no. I'm referring to what  
19 you probably call hearsay when people have asked me, my  
20 friends, Is the Commission staff trying to destroy your  
21 company, Jim? I said, No, hopefully not. It's just a  
22 misunderstanding. I guess that's hearsay evidence.  
23 But it's real to me.

24 Then all of these newspaper articles that

25 point out from staff's point of view there has been

(THORPE - CROSS BY GOLTZ)

2833

1 subsidy of merchandising operations unfairly by

2 Washington Natural Gas Company ratepayers.

3 Q. Are you referring, for example, to the

4 article in the Seattle Post-Intelligencer dated May 25,

5 1993, with the headline Customers Attack Natural Gas

6 Rate Hike?

7 A. I don't know whether I'm referring to that

8 one or not, sir. Is that the one that Mr. Elgin is

9 quoted about the alleged subsidy?

10 Q. No. It's the one that took place after the

11 public hearing in Seattle at the -- in this proceeding.

12 MR. GRANT: Excuse me, Mr. Goltz. If you

13 would like the witness to comment on that? Would it

14 be appropriate to show the witness the article?

15 MR. GOLTZ: I would be happy to.

16 JUDGE ANDERL: I think it would be.

17 THE WITNESS: Thank you, Counsel.

18 I think this points out, sir, the very point

19 that I'm making: That homeowners who buy gas from the

20 company said it is using some revenue to subsidize

21 services that not all consumers use. I think that's

22 the confusion that's in the mind of the public and to

23 which I refer. But this is subsequent to the

24 preparation of this testimony. I'm not positive of

25 that.

(THORPE - CROSS BY GOLTZ)

2834

1 BY MR. GOLTZ:

2 Q. I don't know when you prepared testimony.  
3 When did you prepare testimony?

4 A. I don't know offhand. It was finished just  
5 subsequent to sending it down here. I have forgotten  
6 that date, also, sir. Sorry.

7 Q. Did you attend any of the public hearings in  
8 this case?

9 A. No, I did not.

10 Q. Did you read the transcript from the public  
11 hearings in this case?

12 A. Yes, I did.

13 Q. It's your testimony that that's an  
14 indication of distress on the part of the public?

15 A. It is my testimony that the fact that the  
16 case was tried in the newspapers is a very real concern  
17 that we have that the public has been misled and to  
18 rectify that misleading we are going to set up and have  
19 set up a new subsidiary to merchandise appliances.

20 Q. Basically you're saying the public is  
21 confused?

22 A. I think the public has been confused, yes,  
23 and we're trying to straighten out that confusion.

24 Q. Mr. Thorpe, on Page 3, Line 27 of your

25 testimony --

(THORPE - CROSS BY GOLTZ)

2835

1 A. Yes, I have it.

2 Q. -- and going over to Page 4, Line 1. Line  
3 27 on Page 3 and carrying over to Line 1 on Page 4, you  
4 state that the energy source which is gas is readily  
5 available "the cheapest and the most environmentally  
6 benign of all the options available."

7 Do you see that?

8 A. Yes, I do.

9 Q. In essence are you saying that the cost of  
10 gas is cheaper than the cost of electricity?

11 A. Basically. And cheaper than the cost of oil  
12 in today's prices, yes.

13 Q. Is that statement based on a comparison of  
14 cents per BTU for the two fuels, gas and electricity?

15 A. I guess that would be a measure, yes.

16 Q. Do you have other measures in mind?

17 A. You also have to take into account the  
18 efficiency factors between the two fuels.

19 Q. And is that basically the essence of the  
20 comparison that you're making here?

21 A. Yes.

22 Q. Cents per BTU comparison?

23 A. Cents per therm is what we probably --

24 Q. Right. But electricity isn't measured in

25 therms. So, you have to convert it. Once you convert

(THORPE - CROSS BY GOLTZ)

2836

1 them to some common measure, that's what you're

2 testifying to here?

3 A. Yes.

4 Q. Isn't it true that a true price comparison

5 involves a number of other factors as well?

6 A. I already mentioned the efficiency factor

7 has to be taken into account, yes.

8 Q. And also doesn't transportation

9 infrastructure costs also have to be taken into

10 account?

11 A. They are all included in the retail price to

12 our customers, sir.

13 Q. There is a number of costs. For example,

14 pipeline costs?

15 A. That's included in our retail price.

16 Q. And electricity, there is transmission

17 costs?

18 A. It's included in the retail price, yes.

19 Q. And am I also correct that the costs of

20 natural gas are changing? Isn't that true?

21 A. Yes.

22 Q. In fact, you just recently received a PGA

23 rate increase from this Commission?

24 A. Yes, we did, effective July 1.



25 Q. So, in a sense any comparison is really

(THORPE - CROSS BY GOLTZ)

2837

1 based on a moving set of variables?

2 A. Yes. The electric industry has been facing  
3 tremendous increases on an annual basis. I would say  
4 it's a moving target, yes.

5 Q. Am I also correct that not every home has  
6 the infrastructure for gas service. Isn't that  
7 correct?

8 A. Yes. We only serve about 41 percent of the  
9 single-family home market in our area.

10 Q. But virtually every home has the  
11 infrastructure in for electric service. Isn't that  
12 true?

13 A. I guess the word virtually is correct, yes.

14 Q. Isn't it also true that gas has not always  
15 been the cheaper of the two sources of energy?

16 A. Absolutely. It didn't change until the  
17 early 1980s when the electric industry first brought  
18 on thermal generation of its power and the nuclear  
19 plants and the coal generation caused a permanent  
20 increase in their rates.

21 Q. And a lot of those capital costs for the  
22 electric industry drove the price up, and gas then  
23 became in your view, at least, the cheaper of the two?

24 A. It's not just in my view. It is a fact that

25 it is the cheaper of the two, yes.

(THORPE - CROSS BY GOLTZ)

2838

1 Q. Do you recall when Washington Natural's  
2 appliance leasing program was put into effect?

3 A. I recall testifying to the virtues of the  
4 appliance leasing program in 1965, I believe. I  
5 believe it had been in effect since about '62. That  
6 was my first real task for Washington Natural Gas  
7 Company was to be the witness to explain to the  
8 Commission at that time the virtues of the appliance  
9 leasing program.

10 Q. And at least part of the reason for that was  
11 to promote the sale and utilization of gas?

12 A. Yes, it was. It was to increase the load  
13 factor on our system by increasing use to existing  
14 customers, yes.

15 Q. Do you know offhand what the incremental  
16 cost of natural gas is compared to the incremental cost  
17 of new electric generation?

18 A. Ask that again, please. I don't understand.

19 Q. Do you know what the incremental cost of  
20 natural gas supply is compared to the incremental cost  
21 of new electric supply?

22 A. No, offhand I don't. Electricity is much  
23 more expensive to produce than natural gas, however.  
24 What the difference is I don't know in real dollars.

25 Q. Isn't it true that the natural gas industry

(THORPE - CROSS BY GOLTZ)

2839

1 does not make resource alternative comparison on the  
2 basis of incremental costs, if you know?

3 A. I don't understand what you're asking me.  
4 Please do so again.

5 Q. We'll just skip over that, Mr. Thorpe.

6 A. Thank you.

7 Q. Referring back again to your testimony on  
8 Page 3, Lines 14 to 15, --

9 A. I have it.

10 Q. -- I'm sorry, Lines 12 to 13.

11 -- you state: "We saw the challenges that  
12 the staff is pulling the bottom out from under some key  
13 elements of our operations and continuing existing  
14 policies accepted and supported by this Commission over  
15 a considerable period of time were in the staff's view  
16 considered to be invalid."

17 Is that your testimony?

18 A. Yes, it is.

19 Q. Which policies of the Commission are you  
20 referring to? And specifically those policies embodied  
21 in orders, statutes, or regulations. Are those  
22 policies you're referring to embodied in some order,  
23 regulation, or statute?

24 A. The policy of a leasing program, for

25 example, was sanctioned in 1965 after a long, hard

(THORPE - CROSS BY GOLTZ)

2840

1 fight with outside forces that said we were wrong, and  
2 the Commission agreed we weren't wrong, that we were  
3 correct in having that program. That's a policy.

4 Q. That's embodied in the tariff?

5 A. It's in the tariffs, yes. And it's laid out  
6 in ample testimony in that case.

7 Our policy of taking care of our customers  
8 through customer service when we are called to the home  
9 to answer a problem. And we go now. It has been the  
10 contention of the staff to my understanding that we  
11 shouldn't do anything beyond the meter. I don't think  
12 that's correct. That's a policy that's been universal  
13 in the natural gas business and in the manufactured  
14 gas business since time immemorial. We take care of  
15 our customers. And to say that we shouldn't do that  
16 is violating a very basic policy of natural gas  
17 distribution companies.

18 Q. Are you referring to any other policies or I  
19 should say any other orders or rules of the Commission?

20 A. I'm referring to the fact that we have been  
21 before this Commission many, many times, and these  
22 issues have been discussed. The cost of these  
23 operations have been discussed and agreed to by the  
24 Commission. And in that regard I assume they have

25 accepted the policy that we would like them to agree

(THORPE - CROSS BY GOLTZ)

2841

1 with that we should service our customers.

2 Q. Are you suggesting in referring to your  
3 comments about the appliance leasing program, are you  
4 suggesting that what was appropriate in the '60s is,  
5 therefore, appropriate today? Let me rephrase that.  
6 That once approved, always approved?

7 A. No. I'm saying if the program has merit  
8 today as it had in 1965, there is no reason to throw  
9 it out. I think the program has merit and we have  
10 demonstrated that to the Commission and the staff.

11 Q. The issue is whether or not these programs  
12 have continued merits under today's circumstances?

13 A. Which programs? The leasing programs?

14 Q. The rental program.

15 A. I think that has been raised by staff and  
16 the Commission should make a decision as to whether or  
17 not we should continue the rental program if it so  
18 chooses. I would urge upon this Commission that it be  
19 continued because the least cost planning demand  
20 management aspects of other subjects we're talking with  
21 this Commission make the leasing program a very  
22 valuable tool as we pointed out in our testimony.

23 Q. Now, you aren't contending from what I just  
24 heard from you that staff said that you should not do

25 customer service, are you?

(THORPE - CROSS BY GOLTZ)

2842

1 A. I'm talking to Mr. Russell, I believe, who  
2 -- and I believe his interpretation that any service  
3 beyond the meter should not be performed by Washington  
4 Natural Gas Company under the operation as we do it  
5 today.

6 Q. But that's not to say that Mr. Russell or  
7 the staff believes that Washington Natural should not  
8 do customer service?

9 A. I don't know what Mr. Russell believes.

10 Q. Isn't it more accurate to say that some of  
11 those costs ought to be, in effect, competitive  
12 services and not recovered from ratepayers? Isn't that  
13 a better characterization of the staff's position?

14 A. If that is the characterization, it's wrong.

15 Q. What is your understanding of the staff's  
16 position?

17 A. That we should not do any work beyond the  
18 meter.

19 Q. Period?

20 A. Period; we changed for it for everything we  
21 do, even on a leak call, which is ridiculous in my  
22 estimation.

23 Q. That's not period. It's what I was saying:  
24 That it's become a competitive service?

25           A.     No. I don't understand -- I don't allege

(THORPE - CROSS BY GOLTZ)

2843

1     to understand Mr. Russell's thought process. I think  
2     we must continue customer service beyond the meter.  
3     To do so would not be correct. To do otherwise would  
4     not be correct.

5           Q.     On Page 6, Lines 3 to 5, you testified that  
6     "wholesale deletions has been proposed by staff of  
7     expense and capital items. This is relating to the  
8     marketing issue, marketing expenses necessary to  
9     provide an acceptable level of ratepayer service."

10           Is it your understanding, Mr. Thorpe, that  
11     staff proposes disallowance of the entire marketing  
12     budget?

13           A.     It's my understanding that staff has,  
14     through not -- through its lack of time to complete its  
15     study, has combined merchandising of appliance costs  
16     with marketing costs. As I point out in my testimony,  
17     we probably make a basic mistake in calling this  
18     marketing because it's basically customer service.

19           And if we separate the merchandising of  
20     appliances from the rest of the marketing, then, we  
21     have to have recognized by this Commission the very  
22     real need for marketing expenditures to accommodate and  
23     take care of our customers.

24           And staff has combined them by throwing out

25 all of the costs, or a great deal of them anyway, up

(THORPE - CROSS BY GOLTZ)

2844

1 to \$14 million, I believe.

2 Q. Is it your impression that staff is  
3 suggesting throwing out the entire marketing budget?

4 A. Not the entire marketing budget, but items  
5 in the marketing budget that must be done. And in  
6 staff's adjustment of the \$12 to \$14 million -- I  
7 forget the number exactly -- they have included very  
8 essential marketing items -- let's call them customer  
9 service items, if you will, as a better definition --  
10 and they must be maintained by this company.

11 Q. You recognize that staff has not proposed to  
12 throw out the entire marketing budget?

13 A. I don't know what you mean by entire. I'm  
14 talking about a number that is much too large in  
15 staff's opinion should be eliminated from our  
16 operations. And it is an incorrect number.

17 We have authorized Arthur Anderson to  
18 prepare the study, and they have separated merchandise  
19 functions from marketing functions, and Cathy Thompson  
20 will present that testimony to you.

21 Q. By the way, Mr. Thorpe, as I get into some  
22 more detailed questions, I recognize that you're the  
23 chief policy witness. And as lead-off witness for the  
24 company, you may feel more comfortable or it may be



25 desirable for you to defer some questions to some

(THORPE - CROSS BY GOLTZ)

2845

1 other witnesses. And that's fine.

2 And so if that's the preference, I'll be  
3 happy to accommodate that if I get into areas that are  
4 beyond the scope of what you feel comfortable  
5 testifying to.

6 A. Thank you. If you get into details on  
7 numbers, I probably will refer them to someone else,  
8 sir.

9 Q. On Page 8, Lines 9 to 10 of your  
10 testimony --

11 A. I have it.

12 Q. Actually, down to Line 12 and 15.

13 -- you testified that the incremental cost  
14 approach to allocation of M and J activity, merchandise  
15 and jobbing activity, was used from 1970 to 1984.

16 Do you see that?

17 A. Yes, I do.

18 Q. You testified that it was used. But can you  
19 point to a Commission order or rule which specifically  
20 endorsed that approach?

21 A. All I can point to is the fact that in the  
22 1984 rate case, for example, the amount of advertising  
23 that the Commission thought should be allocated to  
24 merchandising of appliances among other things was set

25 out separately. And we have been following that

(THORPE - CROSS BY GOLTZ)

2846

1 process ever since. And to which I refer -- I don't  
2 have any order that says that other than the rate case  
3 order itself which defines what value should be  
4 extracted from general utility revenues and expenses  
5 and allocated to merchandising and jobbing.

6 Q. I guess I'm talking about the accounting  
7 techniques. You don't have an order that endorses the  
8 incremental approach or marginal cost approach, do  
9 you? You don't have one in mind that endorses that?

10 A. Other than the fact that the Commission  
11 authorized the allocation of merchandising expenses on  
12 the incremental cost basis and has with every rate case  
13 we have been into other than this one. And we don't  
14 know what they are going to authorize in this one, of  
15 course.

16 Q. Isn't it true that the company's  
17 merchandising and jobbing activity has increased  
18 substantially since 1984?

19 A. You mean the volume of appliances sold?

20 Q. Yes.

21 A. That's probably a true characterization,  
22 yes.

23 Q. Can you tell me how the incremental cost  
24 approach benefits ratepayers as opposed to the

25 methodology recommended by Mr. Russell or methodology

(THORPE - CROSS BY GOLTZ)

2847

1 recommended by Arthur Anderson in its scenario A?

2 A. I think what we pointed out, Mr. Goltz, was  
3 that in the -- our initial filing with this  
4 Commission, we used the incremental cost accounting  
5 procedure -- I don't know if it's a method or official  
6 accounting function -- and we allocated \$5.1 million  
7 of M and J expenses out of the expenses we submitted  
8 to this Commission for consideration.

9 We allocated another \$1.3 million out that  
10 were properly allocated to other subsidiaries.

11 And that is the procedure that has been  
12 followed in every rate case since I have been with this  
13 company and probably before, also. It benefits the  
14 ratepayers by taking those expenses of merchandise and  
15 jobbing out of the general rate case. That's how it  
16 benefits the ratepayers.

17 Q. Isn't it true that incremental costs are not  
18 a sharing of joint and common costs between ratepayers  
19 and shareholders?

20 A. No. I just told you that if we extract  
21 expenses from utility operations and apply them where  
22 they belong to merchandising, then the ratepayer  
23 benefits because that cost-of-service is not carried by  
24 the ratepayer.

25                   So, I don't understand how you can make that

(THORPE - CROSS BY GOLTZ)

2848

1   statement that you just made to me.

2           Q.    So, you're saying the ratepayer benefits  
3   because those costs associated with the -- exclusively  
4   to the competitive merchandising operation are not  
5   borne by the regulated ratepayer?

6           A.    Yes, that is correct.  If we extract costs  
7   from the cost-of-service that the ratepayer is paying,  
8   then the ratepayer is benefited.  That's a given.

9           Q.    What about the joint and common costs that  
10   are shared by the regulated versus the non-regulated  
11   operations?

12          A.    Those are allocated out in the presentation  
13   we made initially to the Commission, also.  Arthur  
14   Anderson has gone a step further in its study B and  
15   has extracted more dollars, which will end up with the  
16   new subsidiary.

17          Q.    That was also the general approach in  
18   scenario A as well; correct?

19          A.    No, not quite.  To my understanding -- ask  
20   Miss Thompson, please.  She can define better than I.

21          Q.    Have you reviewed the Arthur Anderson  
22   study?

23          A.    Yes, I did.  I sat with Arthur Anderson and  
24   discussed with them what my role was with merchandise

25 and jobbing, and then we sat and discussed the initial

(THORPE - CROSS BY GOLTZ)

2849

1 study they made, and they told us that this was a

2 track that they thought would be beneficial to us.

3 And we said go ahead and do it. Do it with

4 merchandising retained by the utility and make a study

5 with merchandising out from under the utility.

6 Q. Who hired Arthur Anderson? Was that you?

7 A. I guess so, yes.

8 Q. Who did you direct to actually hire Arthur

9 Anderson?

10 A. Probably Mr. Torgerson was the one who

11 called Arthur Anderson and asked them to perform a

12 study for us, yes.

13 Q. Did you know what other firms were

14 considered for this project?

15 A. I don't believe any were. I believe Arthur

16 Anderson is familiar with our company, could come in

17 very quickly, could throw the forces into the study

18 very quickly, very competent people. And we asked

19 them to do so.

20 Q. And they, in fact, are your auditors on an

21 ongoing basis. Isn't that true?

22 A. You bet. They are independent auditors on

23 an ongoing basis, and, therefore, they do know the

24 company quite well, yes.

25 MR. GOLTZ: I would like this marked.

(THORPE - CROSS BY GOLTZ)

2850

1 JUDGE ANDERL: I'm being handled a document  
2 which is apparently response to a data request. I'll  
3 mark that for identification as Exhibit 317.

4 (Marked Exhibit 317).

5 BY MR. GOLTZ:

6 Q. Mr. Thorpe, do you have before you what's  
7 been marked as Exhibit 317?

8 A. It's a request to Answer No. 720?

9 Q. That's correct.

10 A. Yes.

11 Q. Is an attachment to this data request  
12 response a letter from Arthur Anderson and company to  
13 Mr. Torgerson?

14 A. There is a letter addressed to Mr.  
15 Torgerson, yes.

16 Q. Is that, in fact, the engagement letter  
17 between Arthur Anderson and Washington Energy Company?

18 A. I would say yes.

19 Q. You reviewed this engaged letter prior to  
20 its -- the implementation of the study?

21 A. No, I did not.

22 Q. So, to whom should I address questions  
23 about this -- the arrangement between the company and  
24 Arthur Anderson?

25           A.     Well, Mr. Torgerson prepared the response.

(THORPE - CROSS BY GOLTZ)

2851

1     Either he or Cathy Thompson of Arthur Anderson could  
2     provide you more detail of the import of this letter.

3           Q.     So, are you aware of the total costs of the  
4     Arthur Anderson study?

5           A.     No; except it's quite large, I'm sure.

6           Q.     But you don't know -- do you know the  
7     figure?

8           A.     They haven't finished yet because we're  
9     still probably being billed for Miss Thompson's time  
10    down here, and they have testimony and so forth.

11          Q.     Should I direct those questions to either  
12    Miss Thompson or Mr. Torgerson?

13          A.     You could.  Whether they have an answer for  
14    you at the moment I don't know.  If we haven't finished  
15    the job, the bill is not complete.

16                   MR. GOLTZ:  I understand.

17                   I would like to offer Exhibit 317 if I  
18    could.

19                   JUDGE ANDERL:  Is there any objection from  
20    the company?

21                   MR. GRANT:  We won't object.

22                   JUDGE ANDERL:  Okay.  Or from any other  
23    party?

24                   Hearing no objection, Exhibit 317 will be

25 admitted as identified.

(THORPE - CROSS BY GOLTZ)

2852

1 (Admitted Exhibit 317.)

2 Q. Referring still to the Arthur Anderson  
3 study, now the substance of it -- if you need to refer  
4 these to some other witness, please let me know -- the  
5 company adopted Arthur Anderson's cost allocation  
6 study as a result of Mr. Corbin's adjustments; is that  
7 correct?

8 A. I don't know. We adopted study B. And I  
9 assume Mr. Corbin used that in his presentation. But  
10 I'm not positive.

11 Q. And the study had two scenarios, A and B?

12 A. Yes.

13 Q. And B is the one which reflects what the  
14 company believes its cost will be for regulated  
15 operations if the merchandising operation is spun off  
16 into a separate legal or affiliated entity; is that  
17 correct?

18 A. That is correct.

19 Q. And scenario A left the merchandising  
20 operations in the -- and the jobbing operations in the  
21 regulated utility?

22 A. Yes. And it left still the confusion that  
23 the staff and we and the Commission have with the  
24 allocation process. And we feel and the board felt



25 that we should spin it out and get rid of that problem

(THORPE - CROSS BY GOLTZ)

2853

1 once and for all.

2 Q. Why would there be confusion if there is an  
3 accounting separation?

4 A. Because the staff, I'm sure, would feel  
5 obligated to investigate in any rate case proceeding in  
6 the future the allocations and whether they were  
7 proper. I figured if we spin it out, there is no  
8 doubt that if it's spun out that those allocation  
9 problems will be solved once and for all. And I  
10 believe it's better now for this Commission and for  
11 this company and for the staff to recognize that.

12 Q. But aside from that confusion, was there any  
13 problem with scenario A?

14 A. I know of no problem. I assume the numbers  
15 are probably correct as Arthur Anderson as a competent  
16 firm would make correct analyses.

17 Q. So, the real distinction in your mind, at  
18 least, is a possible continuing confusion, as you  
19 testified to earlier, in the minds of the public and  
20 perhaps Commission staff regarding it's for scenario  
21 A?

22 A. And even investment brokers. I was talking  
23 with an analyst and so forth. They are pleased that  
24 this issue is going to be put to rest, and they feel it

25 will benefit the investing public to have this one

(THORPE - CROSS BY GOLTZ)

2854

1 issue removed from future rate case considerations.

2 It's been a bone of contention of considerable size in

3 this case. Confusion does reign, sir, believe me, and

4 we can eliminate that confusion by taking the step to

5 form a new subsidiary.

6 Q. Am I correct that scenario B does not

7 allocate any rate base costs to the non-regulated

8 operations?

9 A. Scenario B envisions the merchandising

10 operation being physically separated from Washington

11 Natural Gas Company, and it will have its own housing

12 from this point forward. So, it can't carry part of

13 the Mercer Street building with it if that's your

14 question. That building will revert fully to use of

15 Washington Natural Gas Company's regulated operations.

16 Q. So, you have nineteen buildings or so? Is

17 that correct?

18 A. I don't know how many we have. We have a

19 number, yes.

20 Q. And you're testifying that this new company

21 would not use space in any of those buildings?

22 A. That's the intention, yes.

23 Q. And so all of the merchandising operations,

24 including display space, would move to some new

25 building?

(THORPE - CROSS BY GOLTZ)

2855

1 A. Display space is being moved out anyway at  
2 the present time because we need the space for other  
3 operations. So, it's not going to be something  
4 occasioned by the fact that the merchandising  
5 operation is being separated that display space is  
6 being occupied by those people who have to service  
7 normal regular gas customers.

8 Q. I know, for example, in your Olympia office  
9 -- I haven't been there in some time -- are you saying  
10 that now there is going to be two buildings in Olympia,  
11 one for the regulated operations and one for  
12 merchandising operations?

13 A. No, I am not. The merchandising function  
14 may well be contained just in Federal Way, halfway  
15 between Tacoma and Seattle, and everybody work from  
16 that one location. I don't know.

17 Q. But what you're telling me, though, is that  
18 the merchandising operations will be moved out of the  
19 Olympia office, for example?

20 A. Yes. And out of Centralia and out of  
21 Everett and out of all the other offices. But that  
22 space is vitally needed by the other operations. We  
23 are sitting on one another's laps right now in those  
24 operations.

25 Q. Do you know if scenario B allocates as much

(THORPE - CROSS BY GOLTZ)

2856

1 of the costs of operation and maintenance and general  
2 costs to non-regulated operations as scenario A?

3 A. I believe scenario B recognizes the fact  
4 that, for example, the vice-president of operations in  
5 the southern division who previously had some time  
6 allocated to merchandise and jobbing would no longer  
7 have any of his salary allocated to merchandise and  
8 jobbing and, therefore, less of those expenses would be  
9 allocated out.

10 So, the answer is the total dollars  
11 allocated out are probably less in B than they are in A  
12 because of that fact.

13 Q. So, under scenario B the costs left in the  
14 regulated operation are higher than under scenario A?

15 A. Under scenario A, we're in regulated  
16 operations. Scenario B we're out from under regulation  
17 because we form a new subsidiary with our sales and  
18 merchandising.

19 Scenario -- that was scenario B I hope I  
20 said.

21 Scenario A, the merchandising function stays  
22 under the regulated operations. So, I don't understand  
23 the import of your question.

24 Q. The costs in the regulated operation under

25 scenario B are higher than those under scenario A. Is

(THORPE - CROSS BY GOLTZ)

2857

1 that your understanding? Or is this -- I defer that  
2 to Miss Thompson?

3 A. As I pointed out, some of the costs  
4 presently allocated and subsidized by our  
5 merchandising operation to the benefit of our  
6 ratepayers will no longer exist, and there will be no  
7 subsidy from merchandising to the regulated  
8 operations. We will have to have a vice-president of  
9 operations in the southern division, and his time will  
10 now be totally dedicated to operating the utility with  
11 no allocation to merchandising.

12 So, there will no longer be a subsidy from  
13 merchandising itself to the regulated operation, which  
14 is I think probably a revelation to the staff that that  
15 has happened. Merchandising has been subsidizing the  
16 general ratepayer.

17 Q. I think that latter statement is accurate.

18 A. I said that merchandising has been  
19 subsidizing the general ratepayer to the extent of the  
20 difference between the two costs allocated out in A  
21 and B, about \$2 million is my recollection.

22 Q. Well, we'll get into that with some of  
23 your other witnesses, Mr. Thorpe.

24 At this time do you know which employees

25 will be asked to move over to the new merchandising

(THORPE - CROSS BY GOLTZ)

2858

1 operation?

2 A. Not by name. But we are making a study of  
3 that now and will shortly be coming out with a list of  
4 those people that will move to the merchandising.

5 Q. And so you don't know their salaries?  
6 Obviously, if you don't know who they are.

7 A. They are all commissioned people other than  
8 a couple or three supervisors. But the merchandising  
9 operations now, the pay is commission pay. And it's  
10 predicated on how much they sell. It doesn't really  
11 run salarywise through the utility anyway.

12 Q. I guess I should say as far as support  
13 people: Accountants, supervisors, lawyers, those sorts  
14 of people. Do you know which of those will be moving  
15 over?

16 A. We won't move any accountants because we  
17 need them in the gas business. So, they will be  
18 hiring an accountant, I'm sure. They will probably  
19 move some installation people with them I expect.  
20 They may move -- they will undoubtedly move sales  
21 people. They will move sales clerks. Those numbers  
22 are being developed, and I myself do not have that on  
23 the top of my head.

24 Q. But that plan for implementing this

25 separation, the details of the plan were not presented

(THORPE - CROSS BY GOLTZ)

2859

1 to the board?

2 A. Not on an exact dollar basis. The board  
3 was told about how many people would have to be moved,  
4 what the ramifications of the staff's case was --  
5 were, many, to the rest of the operation if we lost  
6 the marketing portion, the customer service portion of  
7 the regulated utility, and in general terms. Not in  
8 specific down to the dollar items.

9 Q. And so what you're saying is that a number  
10 of the facilities and efficiencies of the current  
11 system whereby you are all housed together, share  
12 accountants, share phone lines, share computers, those  
13 are going to be totally separate. So, those  
14 efficiencies will no longer exist?

15 A. I'm saying that the very fact that  
16 merchandising has caused such confusion in the minds  
17 of the staff, I believe, the way Mr. Russell grouped  
18 everything together, in my belief that it's also  
19 in the minds of the public out there that feel that we  
20 have been subsidizing merchandising to their  
21 detriment, the regular utility rate parity, just  
22 mandates that we get rid of that once and for all and  
23 move it out from under regulations and set up a new  
24 subsidy to take care of selling appliances.

25 Q. You aren't blaming this whole thing on poor

(THORPE - CROSS BY GOLTZ)

2860

1 Mr. Russell, are you?

2 A. I'm blaming it on trial by newspaper  
3 basically causing all of the confusion. I think we  
4 were tried in the newspaper unfairly, and I believe  
5 that it just set this up in motion so that we have to  
6 separate now to get rid of once and for all, Mr.  
7 Goltz, the fact that selling of appliances is in the  
8 mind of the public detrimental to their wellbeing as  
9 ratepayers of the natural gas utility.

10 Q. Wouldn't acceptance of the staff  
11 recommendation on this issue also eliminate the subsidy  
12 that you're -- any subsidies that you're referring to?

13 A. If we accepted staff's recommendations, sir,  
14 we would have to lay off half the company because they  
15 want us to shut down entirely the marketing, the  
16 customer service aspect of our business. And staff's  
17 recommendation is wrong.

18 Q. I'm talking about the merchandising and  
19 jobbing aspect of the staff's recommendation. Maybe  
20 I'll rephrase it.

21 Wouldn't acceptance of scenario A of Arthur  
22 Anderson also in substantial part eliminate that  
23 issue?

24 A. That's the problem. Substantial part. How



25 substantial is the part that would be eliminated? And

(THORPE - CROSS BY GOLTZ)

2861

1 in our opinion there would be continued controversy  
2 every time this company came before this Commission to  
3 discuss its rates and its cost-of-service.

4 Q. So, you're saying with scenario B there is  
5 no allocation problem?

6 A. Scenario B there should be diminimis if any  
7 allocation problem.

8 Q. There will be some?

9 A. There is a possibility. Initially we will  
10 ask the natural gas utility to render the merchandise  
11 bills. We will pay the natural gas utility for that  
12 service. But until we get our accounting system set  
13 up, it probably will be better to have that happen.  
14 So, there would be a minor allocation that way.

15 Q. You mentioned you would have the affiliate  
16 pay Washington Natural Gas for the service of billing;  
17 correct?

18 A. When we separate the two companies, that  
19 probably will happen. Until we get our own billing  
20 system set up.

21 Q. And do you envision as part of your  
22 proposal, have you envisioned how that's going to be  
23 priced?

24 A. No, I have not.

25 Q. Has anybody?

(THORPE - CROSS BY GOLTZ)

2862

1 A. I expect, yes.

2 Q. But that wasn't part of the proposal to the  
3 board?

4 A. I told you, sir, we did not go into minute  
5 details on the costs. Just the general parameters of  
6 the plan that was made necessary by this rate case.

7 Q. So, at the present time we don't know in  
8 detail who will be moving to the new operation as far  
9 as supervisory level employees go? Is that correct?

10 A. No, it's not correct. I'm sure those plans  
11 have been laid, but I would almost think it would not  
12 be politic, if you will, if that's a correct word, to  
13 talk in a general rate case about the numbers and the  
14 names of those people that have to move because we  
15 want to tell them about it before we tell the general  
16 public.

17 Q. I'm not asking for names. But at the  
18 present time as I understand your testimony, you don't  
19 know the dollars for the salaries of all the  
20 supervisory people that are going to be moved?

21 A. As I indicated, I think we probably do, but  
22 I do not -- but those plans are being made because we  
23 would like to occasion this change by October 1 so that  
24 the fiscal year and expenses of the next year will not

25 contain any merchandise and jobbing expenses. So, we

(THORPE - CROSS BY GOLTZ)

2863

1 are striving for an October 1 date.

2 Q. As far as the record in this case goes, we  
3 don't know that level of salary expenses being moved  
4 over to the new subsidiary as of October 1?

5 A. It has not been put in the record, no, it  
6 has not, other than through Arthur Anderson's study.

7 Q. As so I would have to refer to Arthur  
8 Anderson's study for that?

9 A. I think they have numbers that would show  
10 that. But, again, remember, the merchandising bulk of  
11 the merchandising salary costs are commission costs.

12 Q. You have obviously decided now to move --  
13 create a separate subsidiary. Will the goals, of the  
14 goals make sense for the employees of the regular  
15 operation change for the goals that were embodied in  
16 the program in the test year in this case as to hook-up  
17 and appliance goals?

18 A. We haven't gone that far, but I would say as  
19 far as employee prospecting for leads for the  
20 merchandise people, that goal perhaps would change.

21 I would still be urging upon our employees  
22 the need for them to communicate the wise use of  
23 energy, which that goal actually encompasses anyway.  
24 But they would change somewhat, I'm sure.

25 JUDGE ANDERL: Mr. Goltz, how are you doing

(THORPE - CROSS BY GOLTZ)

2864

1 on time? Just a few more or considerable amount?

2 MR. GOLTZ: I guess I would say I have got  
3 more than just a handful. So, a break would be fine.

4 JUDGE ANDERL: I would like to go ahead and  
5 take our morning recess then now. Let's be back in 15  
6 minutes, please.

7 (Recess.)

8 JUDGE ANDERL: Back on the record, please.  
9 We'll continue after our morning recess for further  
10 cross-examination of Mr. Thorpe by Mr. Goltz.

11 MR. GOLTZ: Your Honor, I have distributed  
12 another document which I would like marked.

13 JUDGE ANDERL: This is a response to data  
14 request. I'll mark that for identification as Exhibit  
15 318.

16 (Marked Exhibit 318.)

17 BY MR. GOLTZ:

18 Q. Mr. Thorpe, do you have what's been marked  
19 as Exhibit 318? It's three pages, and it's a 714, 15,  
20 and 16 group.

21 A. Yes, I have that, yes.

22 Q. Do these exhibits or these responses to  
23 staff requests state the company's position as to how  
24 it would allocate office space upon the adoption of

25 scenario B of Arthur Anderson's study?

(THORPE - CROSS BY GOLTZ)

2865

1 A. I think basically, sir, it says that the  
2 company has no excess office space available in all  
3 three kinds of answers to that one question.

4 Q. I'm sorry?

5 A. All three answer the basic question that  
6 there is not excess office space.

7 Q. These represent the company position?

8 A. They are prepared by Mr. Torgerson, who can  
9 speak to them more specifically, if you wish. Yes,  
10 yes, they do.

11 MR. GOLTZ: I would like to offer Exhibit  
12 318.

13 JUDGE ANDERL: Any objection from the  
14 company?

15 MR. GRANT: We won't object.

16 JUDGE ANDERL: From any other party?  
17 Hearing no objection Exhibit 318 will be admitted as  
18 identified.

19 (Admitted Exhibit 318.)

20 BY MR. GOLTZ:

21 Q. Am I correct that as of 1991 the company  
22 had approximately 1560 employees? Would you accept  
23 that subject to check?

24 A. I'll accept that number subject to check,

25 yes.

(THORPE - CROSS BY GOLTZ)

2866

1 Q. I would refer to Exhibit 186.

2 Under the staff proposal, the percentage of  
3 the total employees counted as non-regulated is 22.39  
4 percent. Would you accept that subject to check?

5 A. Under the staff's proposal, which I reject,  
6 that number may be correct, yes.

7 Q. Again, that's in Exhibit 197.

8 And can you state for the record so we have  
9 this clear how many employees the company is proposing  
10 to be moved to separate facilities under scenario B?

11 A. Mr. Torgerson could give you a better  
12 answer. But I would say approximately 100.

13 Q. And it's your testimony that none of the  
14 office space -- that this transition would result in no  
15 vacant office space for the regulated operations?

16 A. Its regulated operation today is renting  
17 space in downtown Seattle because we have not enough  
18 space in our owned facilities. And so the testimony is  
19 that we would have no excess office space by moving 100  
20 marketing people out from all -- excuse me -- appliance  
21 people out from all of our facilities.

22 Q. So that you now just testified that you  
23 would be terminating those rental arrangements in  
24 downtown Seattle and consolidating them?



25           A.     You're driving us to the test year on

(THORPE - CROSS BY GOLTZ)

2868

1     everything we try to propose.  You won't let us move  
2     outside even though you and your staff have.

3           Q.     Going to the marketing issue, away from the  
4     space issue, are you aware that since 1988 the staff of  
5     the Commission has been in disagreement with the  
6     company on several issues with regard to advertising  
7     and marketing and cross subsidies between the  
8     regulated and non-regulated operations?

9           A.     No.  I think that's a mischaracterization.  
10    I don't believe that's correct.

11          Q.     Do you think staff and the company have  
12    been in total agreement?

13          A.     The staff and the company have never had  
14    the occasion to look at this in the context of a rate  
15    case up until this present filing.

16          Q.     In 1988 didn't the staff put the company on  
17    notice of a problem in this regard?

18          A.     Notice of what problem?

19          Q.     The marketing issue for one.  Are you aware  
20    of that?

21          A.     I have no idea of what you're speaking.  The  
22    rate case is 1991.  The issue is being heard before  
23    this Commission for 1991.  There has been no  
24    misallocation prior to that time if that's what you're



25 referring to. We have just continued our operations

(THORPE - CROSS BY GOLTZ)

2869

1 as was sanctioned for this Commission in 1984.

2 Q. You switched slightly back to a different  
3 issue. What about merchandising and jobbing  
4 operations? You're aware that -- are you aware that  
5 since 1988 the Commission staff has been in  
6 disagreement with the company in that regard?

7 A. That question is so broad, I can't say yes  
8 or no to that. I have no idea to what you're  
9 referring. Our profit levels aren't high enough in  
10 merchandising? Is that the disagreement?

11 Q. I may have misspoken as to characterizing  
12 the issue. But let me look at the merchandising and  
13 jobbing issue relating to regulated and unregulated  
14 operations.

15 You're aware that in 1988 there was in  
16 effect a staff investigation into that issue, are you  
17 not?

18 A. The staff and we had conversations in 1988.

19 Q. You had an exchange of letters in 1988; is  
20 that correct?

21 A. I guess so.

22 Q. I guess I should rephrase my original  
23 question, Mr. Thorpe: That you at least knew as of  
24 1988 that there was an issue in regard to the alleged

25 cross subsidization between regulated and

(THORPE - CROSS BY GOLTZ)

2870

1 non-regulated operations. Isn't that correct?

2 A. I cannot answer that yes or no. I would  
3 have to look at the documents to see what the issue  
4 was. I'm sorry. I do not have that recollection.

5 Q. And referring to the marketing expense  
6 disallowance proposed by staff witness Thomas, are you  
7 aware of the basis for the staff's adjustment to that  
8 marketing expense?

9 A. Am I aware of witness Thomas' --

10 Q. The basis of the staff's adjustment to  
11 marketing expense.

12 A. No, not entirely, no. I know the staff has  
13 advocated removing merchandising and marketing  
14 expenses out, which is wrong, running them all  
15 together into one big lump.

16 Q. Do you know after you break out into a  
17 separate subsidiary the nature of the advertising or  
18 marketing that the regulated company will engage in?

19 A. I have a good idea, yes.

20 Q. What's that going to be?

21 A. Continuation of the need to communicate with  
22 our customers and non-customers alike the need for  
23 conservation, the need for the wide utilization of  
24 natural gas as it relates to the State in our service

25 territory to perhaps supplement the electric supply,

(THORPE - CROSS BY GOLTZ)

2871

1 the need to --

2 Q. Are you saying it will be the same or  
3 different than the current -- I should say than during  
4 the advertising during the test year?

5 A. It will be pretty much the same as during  
6 the test year except we probably will not have an ad  
7 that we co-op with a furnace manufacturer where we talk  
8 about the fact that with that co-op ad that a furnace  
9 of a particular type and style is available for sale  
10 by Washington Natural Gas Company. The separate  
11 subsidiary would probably do that sort of advertising.

12 Q. And would there be an allocation between  
13 some sort of allocation regarding the -- such  
14 advertising by the regulated operations?

15 A. No, probably not. If we were talking about  
16 the wide use of energy and not the sale of appliances.  
17 We had to communicate with our customers, and our  
18 witness later on will amplify on that need. But it's  
19 absolutely necessary.

20 Q. Which witness is that?

21 A. Mr. Webb Green, I believe.

22 Q. Also as part of your proposal to separate or  
23 to spin off this new company, do you know what the name  
24 of that company is yet?

25           A.     No. I suggested Washington Energy Company

(THORPE - CROSS BY GOLTZ)

2872

1     M and J and they said that was too long and too  
2     cumbersome and that would not work. So, no, we do not.

3           Q.     Can I assume it will take advantage of some  
4     of the other such things as the Washington Natural Gas  
5     logo or other familiar symbols of the Washington  
6     Natural Gas Company?

7           A.     All of our subsidiaries have a logo that's  
8     similar with the basis being the Washington Energy  
9     Company logo. And all the subsidiaries have that type  
10    of logo.

11                   We'll not play off Washington Natural Gas  
12    Company as such. We will talk about the fact that it  
13    is a subsidiary of Washington Energy Company, like we  
14    do with the other subsidiaries.

15           Q.     So, there will be a link made in the  
16    public's eye between the new spun-off company and the  
17    other affiliated companies with Washington Energy  
18    Company?

19           A.     As a subsidiary of the parent, that link  
20    would be made and is necessary, yes.

21           Q.     But the public will sort all that out?

22           A.     Beg your pardon?

23           Q.     The public will be able to sort all that  
24    out?

25           A.     The public will be informed through

(THORPE - CROSS BY GOLTZ)

2873

1     advertising by the new subsidiary that it has  
2     appliances for sale. The public will be informed by  
3     the regulated utility that the wise use of energy is  
4     very valuable in the future of the public.

5           Q.     You don't believe the public will be  
6     confused between the two?

7           A.     I would hope not. I would think not.

8           Q.     Mr. Thorpe, referring to incentive  
9     programs, has the company attempted to quantify the  
10    benefits of the incentive plans in place during the  
11    test year in response to staff's case?

12          A.     No. As I think was pointed out in testimony  
13    to try to put a dollar amount on the value of incentive  
14    compensation was not attempted and probably could not  
15    be ascertained.

16                   The value of incentive compensation is many  
17    fold, one of which is that it ties compensation to  
18    performance.

19                   Secondly, it keeps out of base payroll,  
20    some of the pay to the employees. Therefore, pension  
21    and other expenses are better controlled.

22                   And the program has worked as measured by  
23    industry standards of our operations versus many, many  
24    other utilities. And we stand out like a shining star

25 as far as expenses are concerned, predicated by the

(THORPE - CROSS BY GOLTZ)

2874

1 fact in my opinion that we have incentive compensation  
2 available for our people from the lowest laborer to me.

3 Q. Mr. Thorpe, on Page 18 -- I'm almost done  
4 here -- Page 18, Lines 7 to 8 -- you state that you  
5 are proud that the company hasn't been in for a rate  
6 increase in many years.

7 A. Yes, I am, very proud of it. In fact,  
8 that's why I have it in this testimony because it is an  
9 outstanding example of efficiency of operation of this  
10 company.

11 Q. Isn't it true that during this period or in  
12 recent years the total annual return to shareholders  
13 has been approximately 20 percent, if not more?

14 A. Over the ten-year period, I think I  
15 testified in my direct case that with dividend  
16 reinvestment and the dividends paid to shareholders  
17 and the appreciation advice that the return has  
18 approximated that, yes.

19 Q. And you so testified in your direct case or  
20 in cross-examination in your direct case?

21 A. Something similar to that number, yes.

22 Q. So, was there real need for the benefit for  
23 the shareholders for you to come in to seek a rate  
24 increase during that period?

25           A.     As I testified previously, too, I believe,

(THORPE - CROSS BY GOLTZ)

2875

1     each year as we put our budget together, we would  
2     entertain the idea or the need for a rate increase.  
3     Most of the time we could have used a very small one to  
4     fully compensate our shareholders. Most of the time,  
5     in fact, all of the time, because we haven't been in up  
6     until this time, we deferred that on the basis that our  
7     shareholders would probably recognize the fact that to  
8     hold our rates where they were would be of ultimate  
9     benefit to the shareholders. Mr. Gustafson will  
10    testify to comparative operating costs of our company  
11    versus others in the utility business.

12           Q.     Mr. Thorpe, one final line of questioning:

13                   In a recent Seattle Times article you were  
14    quoted in response to a question about the rate  
15    proposal, rate increase proposal by the company, going  
16    from \$41 million to 14.8 million, you were quoted as  
17    saying quote, "it's the way the game is played,"  
18    unquote. Is that an accurate quote?

19           A.     It is. It's an unfortunate statement, but  
20    it's an accurate quote, yes.

21           Q.     Do you believe that what we're involved in  
22    here is in a sense a game?

23           A.     No. I think I stated that it was an  
24    unfortunate statement in response to a question from a

25 group of analysts. And it was one I should not have

(THORPE - CROSS BY GOLTZ)

2876

1 made.

2 Q. So, that was or was not part of a trial in  
3 the press?

4 A. Was that a part of a trial by press?

5 Q. In the press.

6 A. I did not make that statement to a reporter.  
7 So, I don't think it was a trial by press, no.

8 Q. Did you mean by that statement that your  
9 original proposal asked for more than the company  
10 really needed?

11 A. No. I meant that the original proposal had  
12 been reduced by two actions of the Commission to  
13 eliminate any consideration of CNG and to eliminate  
14 any consideration of a rate to recover environmental  
15 costs.

16 That we and the staff working together had  
17 agreed on some issues that we resolved. And Mr.  
18 Corbin and Mr. Karzmar will testify to those, and that  
19 we had changed our request occasioned by two major  
20 items: One, the cost of money, which we recognize as  
21 of the filing of our date was higher than what it is  
22 today. And the second, that we are moving  
23 merchandising and appliances out from under our  
24 operation.



25                   So that, if you want an apology to the

(THORPE - CROSS BY GOLTZ)

2877

1   Commission, I will apologize. That was not a statement  
2   that I should have made, and I sometimes say things I  
3   should not say.

4           Q.    On Page 3 -- thank you -- on Page 3, Lines 7  
5   through 9, you state that you accept the fact that  
6   staff's case was made in good faith.

7                   Is that still your testimony?

8           A.    Yes, I do. I don't think there was any  
9   maliciousness on the part of the staff. I think they  
10  did a job in good faith as they saw the job -- that the  
11  job should be done.

12          Q.    The reason I asked that question is in your  
13  testimony so far today you have referred to a trial  
14  in the press.

15          A.    Yes, I have.

16          Q.    And what I'm wondering there is: Are you  
17  in making that statement making any allegations of bad  
18  faith on the part of the Commission staff?

19          A.    I think I answered the question. I think  
20  that the effort by the staff was a good-faith effort.  
21  I object to the fact that the newspapers were used to  
22  confuse the public, if you will, by bringing out issues  
23  that should not have been brought out in the light they  
24  were brought out.

25 Q. And are you contending that staff made

(THORPE - CROSS BY GOLTZ)

2878

1 contacts -- initiated contacts with the press?

2 A. No, I am not. The newspaper reporters are  
3 very inquisitive.

4 Q. When you say there was a trial in the press,  
5 you were not saying that staff has tried this case in  
6 the press, I hope?

7 A. Staff was induced to make statements that --  
8 similar to what I made that I should not have made. I  
9 think maybe staff should not have talked as they did  
10 to the reporters. But it's difficult not to do so. I  
11 recognize that.

12 Q. Indeed, staff has issued no press releases  
13 in this case, has it?

14 A. I don't have any idea whether they have or  
15 not. I think the reporters' reports were injurious to  
16 Washington Natural Gas Company, its reputation, which  
17 I have cherished because I believe we are the best  
18 utility in the nation, and I have said that many, many  
19 times, and to impugn our reputation in a trial by  
20 press has been injurious to us.

21 Q. And, in fact, the initial press release  
22 issued in this case was that press release that the  
23 company issued -- I should say the initial press  
24 release regarding the staff's case was the press

25 release that Washington Energy Company issued. Isn't

(THORPE - CROSS BY GOLTZ)

2879

1 that correct?

2 A. Much to our dismay, we had to notify the New  
3 York Stock Exchange of the very drastic difference  
4 between our case and the staff's case. Otherwise, I  
5 think we would have all ended up in jail as withholding  
6 information that is available and needed by the  
7 investing community.

8 Q. I gather that staff of Washington Natural  
9 Gas or Washington Energy Company then was contacted by  
10 members of the press in response to that press release.  
11 Isn't that true?

12 A. I would say yes to that question.

13 Q. Wouldn't you also expect that the staff of  
14 the Commission would also be contacted by members of  
15 the press in response to that press release?

16 A. Yes. But Washington Natural Gas Company's  
17 staff did not state that we were subsidizing a  
18 non-utility operation with utility revenues. And that  
19 was the point made by staff in its conversations with  
20 the reporters. Or there might have been a  
21 misinterpretation by the reporter of what the staff  
22 said. But even so, as it came out in the newspaper,  
23 it was detrimental to our operations and to the  
24 reputation of this fine company.

25 Q. Isn't that term subsidizing a subsidy

(THORPE - CROSS BY GOLTZ)

2880

1 between the regulated and non-regulated operations, we  
2 could probably find that almost a direct quote in  
3 various places in the text of the staff's case? Isn't  
4 that true?

5 A. I expect probably so. I couldn't say for  
6 sure. But yes, it could well be.

7 Q. You aren't saying that what staff said to  
8 the press was outside the scope of what was contained  
9 within the four corners of staff's case, are you?

10 A. No. I answered the question. I think what  
11 I am saying is that what was reported, whether it was  
12 an interpretation by the reporter or whether it was a  
13 quote by the staff, was injurious to Washington  
14 Natural Gas Company's reputation. To clear that  
15 reputation we went to our board, and the board agreed  
16 with us that we should get rid of the problem once and  
17 for all and move the merchandising of appliances out  
18 from under the regulated operation as to from this  
19 point forward once this is decided that issue will no  
20 longer consume of this Commission, the time of the  
21 people at Washington Natural Gas Company, and the time  
22 of the staff.

23 MR. GOLTZ: Thank you. I have no further  
24 questions.

25 THE WITNESS: Thank you.

(THORPE - CROSS BY GOLTZ)

2881

1 JUDGE ANDERL: Miss Pyron, we'll go to you  
2 next.

3

4 CROSS-EXAMINATION

5 BY MS. PYRON:

6 Q. Good morning, Mr. Thorpe.

7 A. Good morning.

8 Q. I have some questions related to your role  
9 as the chief policy witness for the company.

10 A. Yes.

11 Q. And if it's appropriate or you desire to  
12 defer a question to another witness, please just  
13 indicate so.

14 A. Thank you.

15 Q. How long have you been employed in the  
16 natural gas industry, you personally?

17 A. Forty-three years.

18 Q. And how long have you been at Washington  
19 Natural Gas?

20 A. Since 1976 -- make it 26/27 years.

21 Q. In your opinion at Washington Natural Gas,  
22 how important has it been to maintain industrial  
23 customers?

24 A. Very important. I think they are a vital

25 aspect of the utility's existence.

(THORPE - CROSS BY PYRON)

2882

1 Q. Do you think that's important for the future  
2 as well?

3 A. Yes, I do.

4 Q. Can you estimate the magnitude of that  
5 industrial customer base for Washington Natural?

6 A. Relate it to what, please?

7 Q. Related to revenues to the company, for  
8 example.

9 A. It's about one-third of our revenue base,  
10 I believe, something on that order.

11 Q. Is Washington Natural's -- the stability of  
12 the revenue impacted by maintenance of that industrial  
13 customer base?

14 A. Is the stability of our revenue stream  
15 impacted by the maintenance of that customer base?

16 Q. Yes.

17 A. Yes. If it loses a customer, it loses  
18 revenues, yes. If we keep customers, our revenues will  
19 stay as they are today.

20 Q. Is there a distinction between commercial  
21 customers as opposed to residential customers as a  
22 reason to maintain industrial customers in your  
23 revenue base?

24 A. They help us maintain a high load factor,

25 especially interruptible. When we need the pipeline --

(THORPE - CROSS BY PYRON)

2883

1 if the pipeline is unable to deliver supplies, they  
2 will get off the line so that it is deliverable to the  
3 firm customers. It is a vital part of our operation,  
4 and they do play a very strong role in the best  
5 operation, if you will, of Washington Natural Gas  
6 Company.

7 Q. Is it appropriate for the company as a  
8 matter of policy to send the correct price signals  
9 into the market to keep the industrial customers?

10 A. The company always has maintained the need  
11 to send correct price signals to our industrial  
12 customers, yes.

13 Q. Would you identify consideration of  
14 alternative fuels availability and prices as one of  
15 those factors?

16 A. It was more as to in the past when the price  
17 of gas at the well head was factored by the cost of  
18 alternative fuels. Today that's not the pricing scheme  
19 used at the well head.

20 Alternative fuels plays a role when an  
21 individual customer determines whether or not it will  
22 stay on natural gas. If the alternative fuel costs  
23 less than natural gas, that customer who has the  
24 facilities to burn the alternative fuel will go to the

25 other fuel.

(THORPE - CROSS BY PYRON)

2884

1 So, pricing does play an important role, of  
2 course.

3 Q. That's why your prices need to send accurate  
4 price signals into that industrial market?

5 A. I don't understand the question accurate.  
6 We send price signals to the industrial market, yes.

7 Q. If you sent inaccurate price signals into  
8 the industrial market, could you induce your customers  
9 to swing to alternate fuels that might otherwise stay  
10 on your system?

11 A. The customers that can swing can do so on a  
12 daily basis. Basically if we send an inaccurate price  
13 signal to them, I think they would notify us. They  
14 would probably want to change to the alternative fuel.

15 Q. Or change permanently? Is that not an  
16 option?

17 A. That's certainly an option, yes. Customers  
18 have done it in the past.

19 Q. Does your company also need to consider the  
20 potential for industrial customers to directly connect  
21 to pipeline facilities where that's an alternative?

22 A. So-called bypass item? Yes, it is possible  
23 that some bypass could occur.

24 Q. Would you also identify a factor relative to



25 attracting new growth in your industrial market being

(THORPE - CROSS BY PYRON)

2885

1 where businesses locate?

2 A. Absolutely. If the State of Washington, for  
3 example, does not present the best climate for business  
4 and they go to Idaho, we lose them. If they locate in  
5 our service territory, we would expect to sign them up  
6 and serve them.

7 Q. Switching to another topic, I have just a  
8 couple of questions related to the working capital  
9 allowance that's being sought in this case. And if  
10 it's appropriate to defer that to someone else, just  
11 indicate.

12 Is Washington Natural still scheduled for  
13 trial against its insurance coverers in October of '93  
14 for the environmental cleanup costs?

15 A. To my knowledge, yes.

16 Q. Would there be somebody else in the company  
17 who would have more specific knowledge?

18 A. What would you like to know? Try me, first.

19 Q. You would know if the trial date had  
20 changed?

21 A. The trial date has not changed. It's  
22 October. You expect we're going to get -- I shouldn't  
23 anticipate your question. We're not going to get a  
24 settlement on October 10.

25 MS. PYRON: I have no other questions at

(THORPE - CROSS BY PYRON)

2886

1 this time. Thank you.

2 JUDGE ANDERL: Thank you, Miss Pyron.

3 Miss Arnold, do you have some questions?

4 MS. ARNOLD: Just a couple.

5

6 CROSS-EXAMINATION

7 BY MS. ARNOLD:

8 Q. Mr. Thorpe, I'm Carol Arnold for the  
9 commercial customers.

10 A. Yes, sir.

11 Q. You stated in your answers to Mr. Goltz'  
12 questions that the company's revised revenue  
13 requirement reflects that you have dropped the  
14 surcharge for the environmental costs. Is that  
15 correct?

16 A. Yes.

17 Q. Isn't it true that the Commission dismissed  
18 or deferred consideration of those environmental costs?

19 A. Yes. And they dismissed the compressed  
20 natural gas rate that we asked for, also.

21 Q. Part of your revised revenue requirement  
22 reflects the fact that you didn't include the surcharge  
23 for the refueling stations this time in your rebuttal  
24 testimony. Is that correct?



25 BY MR. ADAMS:

(THORPE - CROSS BY ADAMS)

2888

1 Q. First off, would you agree that any  
2 testimony that is filed in this proceeding, regardless  
3 by which party, unless it's designated confidential, is  
4 a public record?

5 A. You have to ask my attorney that. I assume  
6 unless it's confidential when it's filed, if my  
7 attorney says differently, I'll stand corrected. But  
8 I guess it is public record.

9 Q. And in that sense it is open to anyone  
10 whether it be a newspaper or anyone else who wants to  
11 read that document; is that correct?

12 A. I expect so, yes.

13 Q. The question about the splitting off of  
14 merchandising and referring you specifically to the  
15 scenario B which as I understand it you have chosen;  
16 is that correct?

17 A. Yes.

18 Q. Just a quick question: As I understand it,  
19 the separate subsidiary you would be creating would be  
20 a subsidiary of WECO not of Washington Natural Gas?

21 A. That's correct.

22 Q. Washington Natural Gas and this new  
23 subsidiary would be basically sister affiliates; is  
24 that correct?

25 A. Yes.

(THORPE - CROSS BY ADAMS)

2889

1 Q. At Page 8 of your testimony, approximately  
2 Lines 11 through 13, you have indicated that the  
3 "Company adopted a recognized cost allocation  
4 methodology which is best described as a marginal or  
5 incremental cost approach."

6 Do you see that?

7 A. Yes, I do.

8 Q. Am I correct that in this case the company  
9 filed a cost-of-service study done on a fully  
10 distributed basis? Would you accept that subject to  
11 check, if you don't know?

12 A. I'm not that familiar with the accounting  
13 terms. So, I'll accept it subject to check, yes.

14 Q. Referring briefly to the issue of marketing,  
15 I, as I'm sure many of the other people in this room  
16 are customers of your company. And my most recent  
17 bill which I just received two days ago I received a  
18 bill with the return envelope the same type as we have  
19 before, the hot potato bang tail envelope with a  
20 Honeywell furnace advertisement on it and also  
21 included the brochure for Homeguard Security Systems.

22 A. Yes.

23 Q. Now, will this type of merchandising or  
24 advertising be continued under your I guess scenario B

25 plan?

(THORPE - CROSS BY ADAMS)

2890

1 A. The hot potato envelope would not be used --  
2 I would not expect it to be used to send bills out  
3 because then it would be a direct advertisement of the  
4 merchandising subsidiary. Today we are still operating  
5 as a combined company, and it's very appropriate to  
6 continue to use the same advertising vehicles. Once we  
7 separate it will not be.

8 Q. I guess that's part of my question then:  
9 When will the separation occur such that that type of  
10 insert or billing materials is not received by a  
11 Washington Natural Gas customer?

12 A. As I indicated, we are attempting because of  
13 the beginning of the new fiscal year on October 1, to  
14 have the separation complete by that time if at all  
15 possible. We may not be able to do it. But that is  
16 our target date.

17 Q. Do you envision continuing separate inserts  
18 in the bills? That is, the advertising --

19 A. I doubt it, not unless the merchandising of  
20 appliance subsidiary acts as an independent company  
21 and pays Washington Natural Gas Company the freight of  
22 carrying that insert through. I would doubt it,  
23 though. I think they are going to have their own  
24 separate billing system and would utilize their own

25 separate billing system to do their advertising plus TV

(THORPE - CROSS BY ADAMS)

2891

1 and radio.

2 Q. I guess I'm not sure. Are you saying at  
3 this point you're not really sure whether that will be  
4 discontinued or you are certain that it will be?

5 A. I think you might ask Miss Thompson from  
6 Arthur Anderson what she has included, if anything, in  
7 the new company as far as those items are concerned,  
8 or Mr. Gessell, who is coming on as a witness in this  
9 case will give you more detail.

10 Q. You would agree that currently, for  
11 instance, Homeguard is a separate subsidiary, is it  
12 not?

13 A. Oh, yes. And so are the other subsidiaries  
14 of -- sister subsidiaries of Washington Energy  
15 Company. And Homeguard message is carried to our  
16 customers in that bill. That's correct.

17 Q. But --

18 A. But it doesn't cost anything to carry that  
19 message because we still spend only 23 cents for that  
20 envelope to carry the gas bill and that insert is no  
21 difference in price.

22 Q. So, if the subsidiary were to decide or  
23 Washington Natural was to decide to include such  
24 inserts in the future, would it be Washington Natural's

25 policy that as long as it didn't increase the cost of

(THORPE - CROSS BY ADAMS)

2892

1 the stamp or the postage that there would be no charge  
2 to the subsidiary for that advertising?

3 A. I doubt it very much. I think we're going  
4 to make that company stand by itself. As I indicated  
5 before, it will do its own advertising.

6 Q. But if it is to include any materials of  
7 Washington Natural, has the company determined a  
8 costing methodology for doing that?

9 A. I don't know. You might ask one of the  
10 accountants whether or not that's been done, or even  
11 Miss Thompson. I don't know.

12 Q. Now, at Page 6 of your testimony, Lines 7  
13 through 9, you make the statement: "Service is not  
14 just an idea, but a fundamental utility obligation."

15 When you refer to service there, are you  
16 referring to the as to-called jobbing function that  
17 the company currently performs?

18 A. No. I think that's the confusion that is  
19 part of the problem we're having. I'm talking about  
20 being called by a customer, asking for help with an  
21 appliance to go out and it's not functioning. That's a  
22 service call. Come out and light the furnace for me.  
23 It's not functioning. Come out and investigate this  
24 odor I have because I don't like what I'm smelling. We



25 may have some problems here. That's the kind of

(THORPE - CROSS BY ADAMS)

2893

1 service I'm talking about.

2 Not jobbing where you go out and if a  
3 thermocouple has gone out we replace it and charge the  
4 customer. That's jobbing. The other service is what  
5 we do and must do as a utility to make sure our  
6 customers are served safely and reliably.

7 Q. Perhaps a little of my confusion in looking  
8 at your testimony and so forth. I thought under  
9 scenario B of the Arthur Anderson approach that  
10 jobbing was included as a Washington Natural Gas  
11 function.

12 A. Jobbing is going to be left in the utility,  
13 yes, because it deals with existing customers and not  
14 the new customers that the merchandising of appliance  
15 people will take care of. The jobbing will stay there.  
16 The expenses will be above the line and the revenues  
17 will be above the line. So, there will be probably a  
18 profit available to offset some other costs in the  
19 regulated utility.

20 Q. Could you redefine for me what you would call  
21 jobbing, what kinds of functions?

22 A. Yes. It's replacement of a thermocouple,  
23 replacement of a heat exchanger, where parts are  
24 requirement.

25 Q. What about installation of a waterheater or

(THORPE - CROSS BY ADAMS)

2894

1 furnace?

2 A. That will go over with the subsidiary.

3 Washington Natural Gas Company will no longer have any

4 installation department as such under Washington

5 Natural Gas Company.

6 Q. If my waterheater or furnace goes on the

7 blink and I call for service, will Washington Natural

8 Gas provide that repair service?

9 A. Washington Natural Gas Company will answer

10 your call. And if you need a new furnace, we will red

11 tag your old one because it's defective probably and

12 suggest five or six appliance dealers available to you.

13 Here is the list. Call one and replace that furnace.

14 Q. Assume for the moment that this isn't

15 something that needs to be replaced. Simply serviced.

16 Who will do the servicing?

17 A. Under the jobbing function of the company,

18 we could make the repair, yes, if the customer so

19 chose to have us do it.

20 Q. And correct me if I'm mistaken. But I

21 believe the company still intends to continue its

22 leasing of waterheaters and conversion burners, does

23 it not?

24 A. Not conversion burners. We have decided to

25 freeze the conversion burner rental schedule. But we

(THORPE - CROSS BY ADAMS)

2895

1 are advocating the continuation of waterheater

2 leasing, yes.

3 Q. Who will install that leased waterheater?

4 A. Probably the same people who install it  
5 today. That's the outside dealers we employ today to  
6 install waterheaters. Some lease them to install  
7 directly and some install those we lease.

8 Q. Washington Natural currently installs  
9 waterheaters by using contractors?

10 A. That's correct.

11 Q. But as far as the transaction is concerned  
12 to the customer, it's all a Washington Natural Gas  
13 installation, is it not?

14 A. In the future, if it's a leased appliance,  
15 it will be Washington Natural Company rate base, that  
16 will not change.

17 Q. The leasing of that item will still be  
18 done as a Washington Natural Gas regulated function;  
19 is that correct?

20 A. Yes. It will be a rate base item and will  
21 be probably installed the way it is today by an outside  
22 dealer, but then the cost will be put into our plant as  
23 a rate base item.

24 Q. And going back to the furnace, as to

25 existing leased conversion burners -- and there are

(THORPE - CROSS BY ADAMS)

2896

1 many out there today --

2 A. Yes.

3 Q. -- will the company continue as a Washington  
4 Natural Gas function to maintain those units?

5 A. Yes; because the merchandising subsidiary  
6 will not have any service people on its staff. The  
7 utility will retain the need to service its customers.

8 Q. So that where a customer calls for repair of  
9 a furnace, the company, being Washington Natural, will  
10 send out a service person. And then if the unit is  
11 non-serviceable or repairable, at that point the  
12 Washington Natural Gas operation will not take any  
13 further part in it? Is that correct? At that point  
14 it will not be turned over to either the marketplace,  
15 if you will, or the affiliate to replace the furnace?

16 A. It won't be turned over to the affiliate  
17 directly. I think the affiliate name could well be in  
18 the list of five or six companies that could be chosen  
19 by the customer to have a new furnace installed.

20 Q. Could you indicate which other Washington  
21 gas utilities currently lease waterheaters or other  
22 appliances?

23 A. I don't know the answer to that question.  
24 I don't know whether Cascade or Water Power leases

25 that. I'm not sure.

(THORPE - CROSS BY ADAMS)

2897

1 Q. You don't know the answer?

2 A. No, I do not. Ask Mr. Gessell when he gets  
3 on. He can tell you.

4 Q. What about the jobbing function? Do you  
5 know if any of the other gas -- Washington gas  
6 utilities perform jobbing?

7 A. No, I do not. I assume and I know they  
8 provide customer service. Whether they carry on to the  
9 jobbing function, I do not know.

10 MR. ADAMS: Thank you. That's all I have.

11 THE WITNESS: Thank you.

12 JUDGE ANDERL: Thank you, Mr. Adams.

13 Question from the Commissioners?

14

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

16 BY CHAIRMAN NELSON:

17 CHAIRMAN NELSON: Just a couple.

18 Good morning, Mr. Thorpe.

19 THE WITNESS: Good morning.

20 CHAIRMAN NELSON: I forgot to bring my notes  
21 with me from the previous phases of this proceeding.

22 Bear with me for a brief second.

23 I think we do have the annual report in the  
24 record. I just want to know about the corporate

25 structure of WECO.

(THORPE - EXAM BY CHAIRMAN NELSON)

2898

1 How many members of the board of WECO are  
2 there? How many directors?

3 THE WITNESS: Nine.

4 CHAIRMAN NELSON: Of that what proportion  
5 represent outside directors?

6 THE WITNESS: Seven.

7 CHAIRMAN NELSON: Could you give me the  
8 affiliation of the outside directors, the principal  
9 business affiliation?

10 THE WITNESS: Let's start outside the state.  
11 Robert Bailey is in the oil and gas industry. He  
12 resides in Midland, Texas.

13 CHAIRMAN NELSON: Which company?

14 THE WITNESS: He changed the name of the  
15 company. It won't be the same company that's shown in  
16 the annual report. I'm sorry. I can't think of the  
17 name.

18 CHAIRMAN NELSON: Midland, Texas is where  
19 all the FERC commissioners used to come from.

20 THE WITNESS: He is our oil and gas expert  
21 that works on that.

22 Jack Creighton is chairman of Weyerhaeuser,  
23 president and CEO of Weyerhaeuser. Don Covey is  
24 chairman of UNICO Properties. That's the outfit that

25 manages the University of Washington properties

(THORPE - EXAM BY CHAIRMAN NELSON)

2899

1 downtown.

2 Virginia Anderson is the director of the  
3 Seattle Center.

4 Sally Narodick is chairman and CEO of  
5 Edmark. That's a software company for education  
6 software.

7 Tomio Moriguchi is president of Uwajimaya.  
8 Don't ask me to spell that for you, ma'am.

9 CHAIRMAN NELSON: I know it.

10 THE WITNESS: And I don't know how many I  
11 have told you.

12 CHAIRMAN NELSON: You have got six.

13 THE WITNESS: I'm always forgetting someone.

14 Bob Dryden. Thank you very much. That's  
15 what goes early I think in age. Bob Dryden is  
16 Executive VP of the Boeing Commercial Airplane  
17 Company.

18 CHAIRMAN NELSON: Thank you very much.

19 And then the WECO board essentially is  
20 the policy making board for Washington Natural Gas?

21 THE WITNESS: Yes, it is. Even more so  
22 today than 10 or 15 years ago, yes.

23 CHAIRMAN NELSON: My second question was,  
24 again, my notes are somewhere else: Some previous

25 phase of the hearing there was discussion of the cast

(THORPE - EXAM BY CHAIRMAN NELSON)

2900

1 iron pipe replacement program having been discontinued  
2 sometime I believe in the '80s.

3 THE WITNESS: It wasn't discontinued. I  
4 think the major portion of the cast iron replacement  
5 program that was referred to by staff and Mr.  
6 Gustafson took care of the major problems in the '70s,  
7 I believe it was. And then we went on a normal  
8 replacement basis after that.

9 Now, with the new program under the federal  
10 and this Commission, we have programmed a total  
11 replacement of our cast iron in 15 years.

12 CHAIRMAN NELSON: You would characterize  
13 what happened in the early part of the '80s as a  
14 deceleration as opposed to a discontinuance of it?

15 THE WITNESS: By all means. Cast iron or  
16 any other name was just replaced by cause subsequent to  
17 the major program earlier.

18 CHAIRMAN NELSON: So, that decision was  
19 essentially taken as just sort of a capital replacement  
20 program as opposed to perhaps a safety program? Is  
21 that how you would characterize it?

22 THE WITNESS: Yes. Cast iron is inherently  
23 safe. We don't have any frost that we have to worry  
24 about that fractures the cast iron. In the east, for



25 example, or the Midwest. It's all low pressure. It's

(THORPE - EXAM BY CHAIRMAN NELSON)

2901

1 all 8 inches which is a very low pressure service of  
2 natural gas. It's very inherently safe system.

3 But under the conditions laid down by the --  
4 for the future, we will replace it all in the next  
5 fifteen years.

6 CHAIRMAN NELSON: That's all I have now.

7 COMMISSIONER CASAD: I have no questions.

8 JUDGE ANDERL: Mr. Hemstad?

9

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

11 BY COMMISSIONER HEMSTAD:

12 COMMISSIONER HEMSTAD: Mr. Thorpe, it's  
13 your conclusion or view that the merchandising  
14 function subsidizes ratepayers. Is that a fair  
15 statement?

16 THE WITNESS: So some extent, yes. There is  
17 subsidy both ways in that operation as laid out by  
18 Arthur Anderson in scenario B.

19 As the difference between the dollars  
20 allocated in A and B indicate that there is a  
21 subsidization back to the ratepayers.

22 COMMISSIONER HEMSTAD: Of approximately \$2  
23 million?

24 THE WITNESS: That's my recollection, but

25 Miss Thompson can tell you more exactly.

(THORPE - EXAM BY COMMISSIONER HEMSTAD)

2902

1 COMMISSIONER HEMSTAD: Is it a fair  
2 characterization that the staff position is the other  
3 way around, that ratepayers are subsidizing the  
4 merchandising function?

5 THE WITNESS: That's the way it began  
6 because of I believe a misunderstanding of  
7 merchandising and jobbing. We mischaracterized the  
8 whole effort as marketing, which includes service to  
9 customers other than selling them an appliance. What  
10 we would like -- what we have proposed doing to our  
11 board and they have accepted is moving the selling of  
12 appliances out. Other marketing efforts have to  
13 continue. We have to continue to serve new builders  
14 who inquired as to whether or not we can get them  
15 serviced. Architects and engineers, can we supply  
16 service to new buildings and so forth. That's the  
17 marketing effort that we have to continue.

18 COMMISSIONER HEMSTAD: Is the difference in  
19 view between the company and the staff related to the  
20 cost methodologies that are applied?

21 THE WITNESS: I believe it is. The views  
22 are different because of that. And Miss Cathy  
23 Thompson of Arthur Anderson can probably lay out the  
24 difference much more succinctly than I can.

25 COMMISSIONER HEMSTAD: I'll pursue that with  
(THORPE - EXAM BY COMMISSIONER HEMSTAD) 2903

1 her.

2 JUDGE ANDERL: Anything else from the  
3 Commissioners?

4 Anything else for the witness on redirect?

5 MR. GOLTZ: I have one question.

6 JUDGE ANDERL: Go ahead, Mr. Goltz?

7

8 CROSS-EXAMINATION

9 BY MR. GOLTZ:

10 Q. You claimed that the merchandising operation  
11 is subsidizing the gas operation?

12 A. Yes, to an extent, yes. And I so testified  
13 in my redirect on my rebuttal.

14 Q. I gather you're endorsing Arthur Anderson  
15 scenario B?

16 A. Yes.

17 Q. And am I correct that scenario B allocates  
18 an additional \$6.9 million of expenses to  
19 merchandising and affiliated companies over and above  
20 the company's direct case?

21 A. No, I don't believe so. But, please check  
22 those numbers with Miss Thompson. I think it  
23 allocates \$6.9 million out of Washington Natural Gas  
24 Company into subsidiary, not -- I don't believe it's

25 in addition to what we have already allocated.

(THORPE - CROSS BY GOLTZ)

2904

1 Q. But whatever the figure is, it's above what  
2 the company had allocated in its direct case, is it  
3 not?

4 A. Yes, it is. And that's why we're spending  
5 it now completely. But also it allocates back to  
6 Washington Natural Gas Company some expenses that have  
7 been allocated previously and today to merchandising  
8 those people who engaged in the operations of the  
9 natural gas company plus have some oversight of  
10 merchandising.

11 Q. So I'm confused. Are you saying that the  
12 scenario B does not allocate additional dollars to  
13 merchandising and affiliated companies over and above  
14 what the company allocated in its direct case?

15 A. I don't believe they are administrative.  
16 That is correct. I don't believe they are  
17 administrative. But check that with Mr. Karzmar and  
18 Mr. Corbin. Either one could give you the exact  
19 number.

20 Q. Are you saying in effect it's a neutral  
21 allocation compared to the direct case?

22 A. No, I'm not. I'm saying it's an increased  
23 allocation out of the regulated utility. But as not an  
24 aside but as a fact, they are indicating to this

25 Commission that some of the dollars that are being

(THORPE - CROSS BY GOLTZ)

2905

1 allocated out of the utility now to merchandising are  
2 coming back because I, for example, will no longer  
3 have any of my Washington Natural Gas Company salary  
4 allocated to merchandising. It will come out from  
5 WECO over to the new subsidiary.

6 The division vice presidents and everyone  
7 else who has a dual responsibility.

8 Q. I'll address these further to Miss Thompson.

9 JUDGE ANDERL: Is that it for this witness  
10 then?

11 Thank you, Mr. Thorpe, for your testimony.  
12 You may step down.

13 THE WITNESS: Thank you.

14 JUDGE ANDERL: Let's go off the record for  
15 just a moment.

16 (Discussion held off the record.)

17 JUDGE ANDERL: Back on the record.

18 The company's next rebuttal witness has  
19 taken the stand. That's James Waldo. Mr. Waldo,  
20 would you raise your right hand, please.  
21 Whereupon,

22 JAMES WALDO,

23 having been first duly sworn, was called as a

24 witness herein and was examined and testified as follows:

25 JUDGE ANDERL: Before we went back on the

(THORPE - CROSS BY GOLTZ)

2906

1 record we identified Mr. Waldo's testimony as Exhibit  
2 T-319. And his Exhibit JW-1 as Exhibit 320. Go  
3 ahead, Mr. Grant.

4 (Marked Exhibits T-319 and 320.)

5 DIRECT EXAMINATION

6 BY MR. GRANT:

7 Q. Will you state your name for the record,  
8 please?

9 A. James C. Waldo.

10 Q. Mr. Waldo, what is your occupation?

11 A. I'm an attorney.

12 Q. Where are you employed?

13 A. In Tacoma, Washington. Actually, the firm,  
14 Gordon Thomas Honeywell Malanca Peterson and Daheim  
15 has offices in Seattle and Tacoma.

16 Q. Have you also served in state government or  
17 worked for the government of the State of Washington?

18 A. Actually, in my checkered career I have  
19 worked for the State in a number of different  
20 capacities, going back to the early '70s, going back  
21 to the early 70s when I worked for Governor Evans,  
22 secretary Kramer. Board member at Western Washington  
23 University and I recently served as chair of the  
24 Washington State Strategy Commission.

25 Q. You have prefiled testimony in this

(WALDO - DIRECT BY GRANT)

2907

1 proceeding; is that correct?

2 A. Yes, I have.

3 Q. And before you, Mr. Waldo, is a copy of  
4 what has been previously marked as Exhibit T-319; is  
5 that correct?

6 A. Yes.

7 Q. And is that a true and correct copy of the  
8 rebuttal testimony that you have prefiled in this  
9 proceeding?

10 A. Yes, it is.

11 Q. Are there any corrections that you need to  
12 make to that prefiled testimony?

13 A. Actually, I found one small one on page 5,  
14 line 4, where we need to insert "additional" in front  
15 of short and near-term.

16 Q. So, that sentence is this read, the  
17 committee concluded that our additional short and  
18 near-term needs --

19 A. Yes.

20 Q. With that one correction, Mr. Waldo, is  
21 your prefiled testimony that's been marked as Exhibit  
22 T-319 correct and accurate?

23 A. Yes, it is.

24 Q. In addition, Mr. Waldo, have you provided

25 an exhibit to go with your testimony that has been

(WALDO - DIRECT BY GRANT)

2908

1 previously marked as Exhibit 320?

2 A. Yes, I have.

3 Q. And is that a true and correct copy of the  
4 Washington Energy Strategy Commission report?

5 A. Yes.

6 MR. GRANT: Your Honor, the respondent would  
7 move for admission into evidence of Exhibit T-319,  
8 which is Mr. Waldo's rebuttal testimony, and Exhibit  
9 320.

10 JUDGE ANDERL: Is there any objection to  
11 those exhibits, Mr. Goltz?

12 MR. GOLTZ: No.

13 JUDGE ANDERL: Mr. Adams?

14 MR. ADAMS: No.

15 JUDGE ANDERL: Any other party? Hearing no  
16 objection, those exhibits will be admitted as  
17 identified.

18 After our lunch recess we'll come back and  
19 begin cross-examination of this witness. We'll stand  
20 in recess until 1:30.

21 (Admitted Exhibits T-319, 320.)

22 (At 12:00 the above hearing was recessed  
23 until 1:30 p.m. of the same day).

24



25

(WALDO - DIRECT BY GRANT)

2909

1

AFTERNOON SESSION

2

1:30 p.m.

3

JUDGE ANDERL: Let's be back on the record,  
4 please, after our lunch recess. I had warned you all  
5 that I wanted to address some of the procedural things  
6 that have been kind of hanging around first. And the  
7 responses to bench requests No. 4 and 5, No. 4, I  
8 believe, submitted by the company and No. 5 submitted  
9 by the Commission staff, I would propose to identify  
10 those as Exhibits Nos. 321 and 322 respectively and  
11 ask if there's any party having any objection to those  
12 being part of the record? Hearing none, bench request  
13 No. 4 as Exhibit 321 and bench request No. 5 as 322 or  
14 the responses to those bench requests will be  
15 admitted.

16

The other things that I have are two subject  
17 to check responses: A letter from public counsel  
18 identifying Mr. Lazar's subject to check response and  
19 also I believe it's letter from the company  
20 identifying their witness's subject to check  
21 responses.

22

Does any party have any objection to those

23

being considered as additions to the record?

24

(Marked and Admitted Exhibits 321 and 322.)

25 MR. CEDARBAUM: Your Honor, if I could have  
(WALDO - DIRECT BY GRANT) 2910

1 a minute to look in the file. I'm not sure I received  
2 a copy of the company's subject to check responses.

3 JUDGE ANDERL: I believe it's the company.  
4 Am I correct in that.

5 MR. JOHNSON: Quite awhile ago.

6 MR. CEDARBAUM: Why don't I take a look at  
7 it.

8 MR. ADAMS: I would like to do the same. I  
9 don't recall.

10 JUDGE ANDERL: That's kind of why I brought  
11 it up this morning so we wouldn't have to do this now.

12 In any event, I also have the motion from  
13 the Northwest Industrial Gas Users, from the staff, and  
14 from the Seattle Steam, motions to correct transcript  
15 error. Does anyone have any objection to those  
16 motions?

17 MR. GOLTZ: No.

18 MR. ADAMS: Your Honor, while you're on that  
19 subject, I have been passing one out as well. Counsel  
20 has not had an opportunity to see it. I'm not  
21 requesting that it be considered this moment, but  
22 perhaps tomorrow or something.

23 JUDGE ANDERL: Okay. And hearing no  
24 objection, then, I will grant those three motions.

25 Mr. Johnson, I still have your motion, but

(WALDO - DIRECT BY GRANT)

2911

1 I don't have an updated one. I understood that you  
2 would be submitting something else if you wanted that  
3 considered. Is that right?

4 MR. JOHNSON: We'll submit that, yes.

5 JUDGE ANDERL: That sounds fine.

6 MR. GOLTZ: Your Honor, we had also filed a  
7 motion to amend in a modest way the testimony of  
8 witness Catherine Thomas. Was that --

9 JUDGE ANDERL: I believe it was a motion to  
10 correct transcript errors and to amend testimony. I  
11 was considering both. I guess they are separate  
12 items, are they not?

13 MR. GOLTZ: Yes.

14 JUDGE ANDERL: Does anyone have any  
15 objection to the motion to amend Miss Thomas'  
16 testimony. From the company?

17 MR. JOHNSON: No.

18 JUDGE ANDERL: That motion will also be  
19 granted then.

20 I think that covers all the procedural  
21 things that I wanted to do. We'll go to the  
22 cross-examination of Mr. Waldo.

23 Mr. Goltz?

24

1 BY MR. GOLTZ:

2 Q. Mr. Waldo, it's good to see you again.

3 A. You, too, counselor.

4 Q. You mentioned in your introductory  
5 testimony that you had a checkered career. And in  
6 your response to Mr. Grant and also in your prefiled  
7 direct testimony you only touched upon it briefly.

8 But just touching from my personal  
9 recollections of the times we have crossed paths, I  
10 recall that you have done -- let me go back. You  
11 graduated from law school when?

12 A. 1974, Willamette University.

13 Q. And you worked for the U. S. Attorney's  
14 office; is that correct?

15 A. Yes. In 1976.

16 Q. And you there were involved in the question  
17 of Indian treaty rights, as I recall; is that correct?

18 A. Yes.

19 Q. You have also done substantial work since  
20 then in the issue of Indian treaty rights. Is that  
21 true?

22 A. Yes. I continued through this time to be  
23 involved in natural resource issues and almost all in  
24 the Northwest today involve to some degree or another

25 questions of Indian treaty laws.

(WALDO - CROSS BY GOLTZ)

2913

1 Q. And also true that you represented a number  
2 of industries and other residents within the Puyallup  
3 reservation in the so-called Puyallup settlement?

4 A. Yes. I was retained principally by the  
5 local government, cities of Tacoma, Fife, Puyallup,  
6 Pierce County, Port of Tacoma, and then some private  
7 entities to help negotiate the Puyallup land claim  
8 settlement.

9 Q. We also crossed paths, I guess, in some  
10 environmental work that you were doing. You mentioned  
11 in your prefiled testimony you do a fair amount of  
12 environmental work?

13 A. Yes, that is true.

14 Q. And then did you also in the development of  
15 state superfund legislation also represent the  
16 association of Washington business and other  
17 industrial entities in the development of what became  
18 the alternative to initiative 97?

19 A. Yes, that's correct.

20 Q. And then most recently you have been more  
21 involved in the energy area. Is that accurate?

22 A. Yes. I have been.

23 Q. And, first, as chair appointed by the  
24 Governor, is that correct, of the Energy Strategy

25 Committee?

(WALDO - CROSS BY GOLTZ)

2914

1 A. Yes.

2 Q. And you're testifying today on behalf of  
3 Washington Natural Gas Company?

4 A. I'm testifying as to I guess a couple of  
5 specific issues that came up during the course of the  
6 Commission's review on the company's application. And  
7 the way that that came about, I guess, is I had read  
8 some general news accounts of this proceeding sometime  
9 back, and was somewhat curious in my own mind how they  
10 fit or didn't fit with what we had recommended. And  
11 not too long thereafter was contacted by Mr. Golliver,  
12 who had been a member of the committee, and he asked  
13 if he could come speak with me. And he and another  
14 gentleman, Tim Hogan did. And essentially their  
15 question to me was did I see any of these issues as  
16 being pertinent and, if so, would I be willing to  
17 speak to them.

18 A. I told them I would think about it and  
19 contacted and said, yes, I would. But I did not want  
20 to do so as a witness for the company and I did not  
21 want to be compensated and I did not want to get into  
22 any other issues before the Commission other than those  
23 that came up in this hearing. If it hadn't been this  
24 company it probably would have been some other

25 company.

(WALDO - CROSS BY GOLTZ)

2915

1 COMMISSIONER CASAD: Counsel, may I  
2 interrupt? I also was a member of the Energy Strategy  
3 Committee under the able leadership of Mr. Waldo. I  
4 don't perceive any conflict of interest or any problem  
5 because of my participation on that committee.  
6 However, Mr. Waldo is appearing as a witness. And  
7 if anybody should have any difficulties with my service  
8 in that committee, I guess we should hear about it now  
9 if anyone does have any kind of a problem with it.

10 JUDGE ANDERL: Would you like to comment on  
11 that?

12 MR. GOLTZ: I only perceive your  
13 participation in that committee as a plus.

14 JUDGE ANDERL: Anyone else have any  
15 comments?

16 MR. ADAMS: I have no problem with that.

17 MR. GRANT: Obviously none, Commissioner.

18 COMMISSIONER CASAD: I just wanted to set it  
19 out so that somebody at some later date didn't say  
20 something.

21 BY MR. GOLTZ:

22 Q. When was the last meeting of the Washington  
23 State Energy Strategy Committee?

24 A. Our last meeting was in November of last

25 year.

(WALDO - CROSS BY GOLTZ)

2916

1 Q. So, your involvement in this case is really  
2 subsequent to the operation of that committee?

3 A. That's correct, Jeff. To be complete on  
4 that, our charge was to complete the report by the end  
5 of the last calendar year and submit it to the  
6 Governor and the legislature in January of this year,  
7 which we did do. So, the committee is no longer in  
8 existence.

9 Q. So, basically you're not testifying on  
10 behalf of the committee. You're testifying as to your  
11 own personal views?

12 A. That's correct.

13 Q. And I also gather that, since you haven't  
14 had a meeting, that you haven't discussed this with the  
15 committee?

16 A. That's also correct. That's right.

17 Q. Although you stated you have discussed it  
18 with Mr. Golliver, who is a member of the committee,  
19 obviously?

20 A. Who was a member of the committee.

21 Q. Was a member of the committee.

22 A. And, yes, we talked. I mean, when he first  
23 came to ask me if I would be willing to speak to these  
24 issues, he made it plain that the query was in the



25 context of how did I perceive them fitting or not

(WALDO - CROSS BY GOLTZ)

2917

1 fitting with the strategy? So, you're correct,  
2 Counselor, that this is my perspective on the  
3 implementation of the strategy. And the committee is  
4 no longer formally a committee and has not met to  
5 discuss this. I have tried to reflect on how what I  
6 have had to say would be interpreted by the various  
7 people and perspectives on the committee, but I have  
8 not talked to them or sent them copies.

9 Q. Other than Mr. Golliver, you haven't  
10 discussed it with members of the committee?

11 A. That's right.

12 Q. In preparing your testimony, did you read  
13 the cases prepared by the Commission staff?

14 A. The cases?

15 Q. I'm sorry. The staff testimony, exhibits --

16 A. Yes. I read Mr. Elgin's testimony and Ms.  
17 Thomas's testimony.

18 Q. Any other parts?

19 A. No.

20 Q. And did you read or review the exhibits as  
21 well?

22 A. No.

23 Q. Other than this one? Did you read the  
24 transcript of their cross-examination of their

25 testimony?

(WALDO - CROSS BY GOLTZ)

2918

1 A. I don't think so. I don't think so. I  
2 think I just read the initial testimony.

3 Q. Referring to your exhibit, which is now  
4 admitted as Exhibit 320 -- and I'm looking at the very  
5 last page, which is Page C-2, that is the -- a  
6 reproduction of the State law which created the state  
7 energy policy committee?

8 A. Yes.

9 Q. And looking at subsection 2(f), which is  
10 about the middle of the page, Page C-2, one of the  
11 charges to the committee is to recommend energy goals  
12 and policies to the Governor and the legislature?

13 A. Yes.

14 Q. Am I correct that this document, which is  
15 now Exhibit 320, is the fulfillment of that charge?

16 A. Yes.

17 Q. And so this, in effect, is a recommended set  
18 of energy goals and policies?

19 A. Yes.

20 Q. And so to the extent that there is an  
21 official state energy policy, it has not really been  
22 adopted. This has been recommended?

23 A. That's correct.

24 Q. Now, with all due respect, Mr. Waldo, I had

25 a little bit of trouble figuring out exactly the

(WALDO - CROSS BY GOLTZ)

2919

1 thrust of your testimony. And after I read it a couple  
2 times, I thought that, in essence, what you were saying  
3 is, to quote, "gas makes sense." Is that basically  
4 the thrust of your testimony?

5 A. I think that's a good place to start. I  
6 guess the way that I might summarize it is that we are  
7 going to use substantially larger quantities of natural  
8 gas in this state as a key part of our short-term and  
9 near-term energy future. And that would be true  
10 whether this committee existed or not. That's simply a  
11 fact of the direction we're headed.

12 The committee's response to that fact was  
13 then to say what's the most intelligent and cost  
14 effective way to approach that use? And I think that's  
15 what I was trying to get at in my testimony, perhaps  
16 not as artfully as some might.

17 Q. So, do you live within the service territory  
18 of Washington Natural Gas?

19 A. Yes.

20 Q. And are you a customer of Washington Natural  
21 Gas?

22 A. No.

23 Q. So, how do you heat your home?

24 A. Combination of woodstove and oil.

25 Q. And why don't you use natural gas if gas

(WALDO - CROSS BY GOLTZ)

2920

1 makes sense?

2 A. I never say that.

3 Q. Meaning?

4 A. Just have too many other things to get  
5 around to. Actually, the service to our end, I live  
6 on Vashon Island. The service to our end of the  
7 island probably wasn't actually installed until about  
8 last 24 months maybe or less? But beyond that,  
9 probably at some point I will get around to switching  
10 over to gas.

11 Q. So, are you saying that it would make  
12 economic sense for you to do that, but you haven't done  
13 it? Or because you have got a pretty good deal with a  
14 woodstove it just doesn't make sense for you to do it  
15 right now?

16 A. Probably closer to the latter. I have got a  
17 pretty good deal with the woodstove, and we don't have  
18 quite as many air restrictions as other parts of King  
19 County does. So, the amount of time we would burn an  
20 alternate fuel are limited. If that changes I would  
21 expect that we would switch from oil to gas.

22 Q. Is the gas main close to your residence?

23 A. It is now. It's within a couple blocks.

24 Q. Would you agree that gas service for -- and

25 I guess we answered the next to the last question, you

(WALDO - CROSS BY GOLTZ)

2921

1 would -- gas service for residential use is not always  
2 cheaper than electric or other forms of energy?

3 A. We actually plowed that ground at great  
4 length during the Energy Strategy Committee. I think  
5 we covered it north to south and east to west and back  
6 north to south again.

7 The answer is, no, it's not always cheaper.  
8 But I think the more fundamental issue here, which I  
9 would like to speak to, is at least in the Puget Sound  
10 area in the case we're talking about, I think there is  
11 pretty good evidence that the most efficient use of gas  
12 would be at end tip use from a societal perspective and  
13 at least in most cases today in the Puget Sound area,  
14 gas is cheaper than electricity.

15 Q. But obviously there is a number of  
16 residences for whom it is not? That's correct?

17 A. Sure.

18 Q. Now, going beyond what I perceived was the  
19 essence of your testimony of gas makes sense, perhaps  
20 the other part that I gleaned from it as being the  
21 theme was looking at Page 7, Lines 13 to 22, you  
22 basically said the consumer information is important.

23 Is that really -- I'm sorry. I think I must  
24 have meant the exhibit because your testimony doesn't

25 go that long. I'm sorry. Page 7, Line 13 to 22.

(WALDO - CROSS BY GOLTZ)

2922

1 A. Right.

2 Q. Consumer information is a major thrust of  
3 your testimony, the importance of that?

4 A. Yes. One of the things that became I think  
5 evident during the course of the committee's  
6 deliberations is that there was a consensus on the  
7 committee that, to the extent possible, we wanted to  
8 utilize market-based actions and responses as a part of  
9 the energy strategy. And as we conducted the public  
10 hearings around the State and looked at the information  
11 that we got from the staff and some people who  
12 testified in front of us, it was pretty clear that  
13 because energy prices have been relatively low in this  
14 state for a long period of time that these were not  
15 issues that were necessarily uppermost on people's  
16 minds.

17 So, the public and consumer education effort  
18 is fairly essential to that part of the strategy if  
19 it's going to mean anything.

20 Q. And you testify over on Page 8 regarding  
21 staff's interpretation of WAC 490-90-043; correct?

22 A. Yes.

23 Q. And I read your testimony here as being a  
24 little bit equivocal on -- you said -- state on Lines

25 16 and 17: "After reading the WAC, I can see the

(WALDO - CROSS BY GOLTZ)

2923

1 basis for there that is the staff's position, but the  
2 outcome is wrong."

3 I gather that what you're stating here is  
4 that from a policy view the outcome is wrong; is that  
5 correct?

6 A. Yes.

7 Q. And are you aware of the policy reasons for  
8 the Commission adoption of the rule?

9 A. No, I'm not.

10 Q. You also testify on Page 8, Lines 14 to 15,  
11 that, if I can paraphrase, the staff's proposed result  
12 would eliminate one key element of the energy  
13 strategy's natural gas policy, namely, the consumer  
14 information element.

15 Is that correct?

16 A. Yes.

17 Q. Now, I looked at the report. And I didn't  
18 see a requirement in the report that the consumer  
19 information element be implemented by utilities at  
20 ratepayer expense. Am I correct on that?

21 A. I think there are several places in the  
22 report where we speak to the need for education and  
23 communication with the citizens and the ratepayers.  
24 And the sources of that information are not

25 differentiated. It speaks to both utilities and

(WALDO - CROSS BY GOLTZ)

2924

1 governments and to other entities that could supply  
2 information.

3 I think as a practical matter now, looking  
4 at the current state, local, and federal budgets, one  
5 would have to say that, if the utilities don't carry a  
6 major share of this communication education effort, it  
7 isn't likely to happen.

8 Q. Let's explore that for a minute.

9 I gather that one option -- and I believe  
10 you talked about it -- a tax, using the general fund or  
11 at least that would be one option to do it.

12 A. Yes.

13 Q. Another option would be for some sort of a  
14 surcharge on the public utility tax, which then could  
15 be devoted to this effort of consumer education,  
16 including the gas issues that you have raised; is that  
17 correct?

18 A. I think you could take potentially any tax  
19 source that would provide the revenue to run such a  
20 program, whether it was public utility tax or --

21 Q. And you could make it a governmental run  
22 program?

23 A. You could.

24 Q. As you point out there are some down sides



25 to that.

(WALDO - CROSS BY GOLTZ)

2925

1 A. It won't happen.

2 Q. You aren't going to get a tax increase  
3 through, but you're aware, are you not, that a public  
4 utility tax increase would be passed on to ratepayers?

5 A. Yes.

6 Q. And so it was a difference between having  
7 ratepayers pay for it and taxpayers pay for it through  
8 an increase in the public utility tax, the avoidance of  
9 the legislature?

10 A. Well, speaking in terms of the discussion  
11 in the committee, I think the discussion was that they  
12 probably would say, first of all, it's not preferable  
13 to have one source and one program for some of the  
14 reasons you alluded to earlier: That conditions tend  
15 to vary around the state and that factors that you  
16 might bring to consumers' attention, therefore, might  
17 vary around the state.

18 When we talked about the need -- funding  
19 needs in the energy area and looked at them  
20 specifically as they related to state programs, the  
21 committee's assessment was that we would be lucky to  
22 get sufficient funding to pay for other areas that we  
23 felt really the State was probably the only entity that  
24 could conduct those activities.

25 By the time we got to that point of an

(WALDO - CROSS BY GOLTZ)

2926

1 information program, our feeling was that we were going  
2 to have to look at various combinations of ways through  
3 the school systems, through ongoing education programs  
4 that utilities already had in place, through outreach  
5 programs that currently exist in one form or another  
6 that are paid through Bonneville or others, and figure  
7 out how to piggyback on existing delivery systems  
8 rather than try to create and fund a new one.

9 At that time, frankly, it wasn't so much, I  
10 think, a question of the anti tax revolt as it was we  
11 knew there were significant state budgetary problems  
12 that were going to be faced by the next session of the  
13 legislature and we felt we could come up with a list  
14 of activities that, in fact, we knew weren't going to  
15 get funded.

16 Q. Even though the ultimate impact of a public  
17 utility tax versus a rate increase passed on to the  
18 ratepayers is going to be a burden on the ratepayers,  
19 the ultimate burden would be similar?

20 A. Right.

21 Q. With one possible exception, isn't it? That  
22 if comparing what I gather you're advocating here,  
23 which is increased burden on the ratepayers of  
24 Washington Natural Gas, the public utility tax option

25 would spread that burden over to gas utility

(WALDO - CROSS BY GOLTZ)

2927

1 ratepayers and electric utility ratepayers?

2 A. If one assumed that those other utilities  
3 would not run comparable programs. Otherwise, you  
4 might have the net effect being the same regardless of  
5 which vehicle you used.

6 Q. I agree. Now let's explore one other  
7 possible difference here:

8 If the state energy office were to conduct  
9 the energy education program, who would oversee it?  
10 How would the energy office be held accountable? Maybe  
11 I should rephrase that.

12 A. Well, presumably they would be accountable  
13 to the Governor and the legislature, I would assume.

14 Q. And there would be year-to-year  
15 appropriations which then could be modified as the  
16 program went on?

17 A. Right. Biennially.

18 Q. And if the energy office went astray, it  
19 could be pulled back into line?

20 A. Sure. That's theory anyway.

21 Q. If the -- how do you envision if the  
22 utilities are to do it through a rate increase, how are  
23 they to be held accountable?

24 A. Well, that's a good question. But I think

25 that there presumably could be ways that the

(WALDO - CROSS BY GOLTZ)

2928

1 Commission, if as a matter of policy the Commission  
2 were to determine that communicating with the customers  
3 and potential customers about energy conservation,  
4 energy use, energy price, those are an important  
5 function to be accomplished in the next period of time.

6           It seems to me that there are ways that one  
7 could describe program parameters and the types of  
8 things that could be used and the purposes for which  
9 they could be used that are measurable.

10           I mean, our form of that type of effort is  
11 the degree of receptivity. But you can set out  
12 things that are permissible or not permissible by way  
13 of communication and defined with some degree of  
14 precision what some of the outer parameters would be.

15           I guess to kind of back up one second, if I  
16 can, the interactions that I guess I think the  
17 committee foresees in terms of the energy choices will  
18 become -- we're going to have a much more active set of  
19 consumers as energy costs go up. And you have now much  
20 more competitive energy environment in many respects  
21 with the introduction of new energy companies that are  
22 going to be doing a lot of commodity trading and  
23 selling of specialized services and buying and selling  
24 energy essentially up and down the West Coast.

25

So, I think that the question of the

(WALDO - CROSS BY GOLTZ)

2929

1 marketing and the information communication -- and I  
2 don't know the basis for the Commission's previous  
3 policy decision that you asked about earlier -- but to  
4 some extent I would guess it was probably based on an  
5 assumed model that has a much more static customer  
6 base that is fairly likely to stay with the utility  
7 over a long term.

8 That's been our history in this state.  
9 And I think what we foresaw in the committee is that  
10 that's very likely to change at least in the  
11 industrial and commercial area people have got the  
12 ability to go do transactions whether it's through  
13 bypass or whether it's through energy exchanges or  
14 whatever.

15 Q. Would you agree that the main element,  
16 main mechanism for the Commission to oversee  
17 advertising or communications efforts by regulated  
18 utilities, is through periodic rate case?

19 A. Would I agree that that's the main vehicle  
20 that is available to the Commission?

21 Q. Yes.

22 A. Yes, I would think so. I'm not an expert  
23 in your activities. But I would assume that that's  
24 the case.

25 Q. Now, let me -- now, in the process of

(WALDO - CROSS BY GOLTZ)

2930

1 looking at your policy, making your policy conclusion,  
2 the staff's interpretation of WAC 490-90-043, did you  
3 review any of the exhibits to witness Thomas'  
4 testimony which set forth some of the details of the  
5 company's advertising program?

6 A. No.

7 Q. I would like now to show you what's been  
8 introduced as Exhibit 232 and tell me if you think  
9 this is the sort of advertisement that you think  
10 should be part of a consumer program as you envisioned  
11 by the Energy Strategy Commission in your testimony?  
12 Exhibit 232.

13 (Discussion held off the record.)

14 THE COURT: Mr. Adams, you have some cross  
15 of this witness?

16 MR. ADAMS: Yes.

17 THE COURT: Mr. Adams will go to his cross  
18 of Mr. Waldo.

19

20 CROSS-EXAMINATION

21 BY MR. ADAMS:

22 Q. Mr. Waldo, I just want to ask you a couple  
23 of questions relating to the report of the committee?

24 A. All right.

25 Q. And looking at Page 16 on the right-hand

(WALDO - CROSS BY ADAMS)

2931

1 column, the second one down, I don't know if you call  
2 those bullets or what. It says, gas utilities  
3 should implement the cost effective conservation  
4 measures and programs in their service territories  
5 consistent with their least cost plans.

6 A. Got it.

7 Q. Did the committee as part of its work make  
8 any specific analysis of Washington Natural Gas'  
9 conservation programs or even determine whether they  
10 had programs?

11 A. We did not look at their programs  
12 specifically. If you may recall, the timing was such  
13 that they were submitting their plan to the Commission  
14 at the time we started our work, which was in late  
15 1991. And the Commission, I think, sent it back to  
16 the company. So, of course, we used to try and kid  
17 both Mr. Golliver and Mr. Casad, if they couldn't get  
18 it right in the other forum, we would be more than  
19 happy to help them out. But they never availed  
20 themselves of our offer.

21 Q. I guess there wasn't one at the time  
22 basically?

23 A. It was in the process of being submitted.  
24 And I think the initial submission -- I have forgotten

25 the exact time -- it was about the time the committee

(WALDO - CROSS BY ADAMS)

2932

1 started. And then there were some sort of back and  
2 forth on it while we met.

3 Q. On the same -- next page over, Page 17,  
4 the two bullets in the lower left-hand corner make  
5 reference to line extension policies. I just wanted  
6 to ask you a couple questions about line extension  
7 policies.

8 A. Sure. Right.

9 Q. Do you understand that currently  
10 Washington Natural pays up to a certain -- up to  
11 certain limits for line extensions and then the  
12 customer must pay for any amounts that exceed that  
13 payment? It's often called a customer contribution in  
14 aid of construction?

15 A. Yes.

16 Q. I think you would agree, I think you  
17 already may have agreed, some applications are not  
18 cost effective?

19 A. Right.

20 Q. Did the committee make any recommendation  
21 as to who should pay as between electric and gas  
22 customers for uneconomic line extensions? Did you get  
23 into that issue of perhaps having electric companies  
24 or their customers paid for some of these extensions?



25           A.       The question of whether you would have a

(WALDO - CROSS BY ADAMS)

2933

1   payment from an electrical utility or gas utility  
2   actually came up in two or three different areas.  The  
3   line extension issue, I guess, would be one of them.  
4   The second one and the one we actually spent more time  
5   on had to do with the question of fuel choice.  And  
6   then the third had to do with the -- kind of the issue  
7   we have been talking about this morning:  To what  
8   extent does the electrical utility industry or  
9   Bonneville actually pay for programs about switching  
10  to gas?

11                   So, it came up really in all three areas,  
12  and the principal discussion in the line extension  
13  area, given the high usage in new single-family  
14  residences being constructed, at least in the Puget  
15  Sound area, the principal way it came up had to do  
16  with two things:  One was the -- how it might tie into  
17  the growth management act in terms of making gas  
18  available as the new act designates where growth will  
19  go, could we use that as a guide in terms of extending  
20  lines with some probability of fairly near-term  
21  recoupment of those costed?  At the time they were  
22  going through how they were going to implement the  
23  Act.  That was kind of an open question, but it was  
24  something that the committee talked about extensively

25 as a way to balance some of these interests. That's

(WALDO - CROSS BY ADAMS)

2934

1 really what you're talking about is where is the  
2 equity?

3                   And the other place that it came up is, in  
4 the debate about fuel choice or fuel switching between  
5 gas and electric, with the exception of  
6 multiple-family dwelling, it's really not a lost  
7 resource from an electrical perspective if you say gas  
8 doesn't go in but people could be encouraged to use it  
9 later. That turns out to be a good fit, except where  
10 you get to multiple-family where it could be very  
11 expensive to retrofit it. And if you didn't have gas  
12 available in the first place, pretty clearly you  
13 weren't going to have multiple-family units using gas.  
14 And that in effect might be the equivalent of a lost  
15 resource from a planning perspective on the electrical  
16 side.

17                   And the committee's feeling, I think, was,  
18 given the current price differentials between gas and  
19 electric that, if the gas is available and if the  
20 consumer understands the differential, then in all  
21 probability we were going to see a high rate of  
22 utilizing gas. That's why the issues that other  
23 counsel was asking me about were so important even  
24 though they may not seem monumental is from what we

25 have seen in actual market trends, if you provide the

(WALDO - CROSS BY ADAMS)

2935

1 right information if it's available, we had every  
2 reason to believe it would be utilized.

3 And from an integrating of the natural gas  
4 resource and the electrical resource, that appeared to  
5 be a pretty inexpensive way to both get some initial  
6 actions accomplished and foreclose the least  
7 opportunities in the future.

8 Q. It's sort of a market-driven kind of  
9 approach, if you will?

10 A. It certainly seemed to be working here.  
11 And then if you said, well, where isn't it working or  
12 why isn't it working? And we looked at the areas sort  
13 of what were the exceptions to what appeared to be the  
14 general rule. And that's what got us to focus on the  
15 question of the line extensions and in on the  
16 questions of the communicating the information.

17 Q. But in terms of you had those discussions,  
18 but am I correct there were no at least agreed upon  
19 recommendations by the committee on that issue?

20 A. That's correct.

21 Q. I gather that's true of basically the  
22 whole line extension issue; is that correct?

23 A. That's correct.

24 Q. Certainly for some time to come. I

25 understand you live on Vashon. If the gas pipeline is

(WALDO - CROSS BY ADAMS)

2936

1 in the north end and somebody lives down on Maury  
2 Island in the south end, clearly an individual  
3 customer is not going to cough up the thousands of  
4 dollars to get the gas to them. So, it will be  
5 economically unavailable for some time; right?

6 A. Certainly. And I don't think that's from  
7 the committee's perspective a troublesome question. I  
8 don't think that the goal was or should be to say  
9 there is universal availability. I mean, a hundred  
10 percent or nothing. I don't think that's really the  
11 mark that we were aiming for. I think the mark is to  
12 try to make sure it's available particularly in those  
13 areas that are likely to experience rapid development  
14 or growth.

15 MR. ADAMS: Thank you.

16 THE COURT: Were those all your questions,  
17 Mr. Adams?

18 MR. ADAMS: That's all I have.

19 THE COURT: Mr. Goltz, are you ready?

20 MR. GOLTZ: I am told we are, told by our  
21 director producer.

22 THE COURT: That's Exhibit 232, Mr. Goltz?

23 MR. GOLTZ: Yes.

24 THE COURT: That's already a part of the

25 record.

(WALDO - CROSS BY ADAMS)

2937

1 (Videotape Exhibit 232 was shown.)

2

3

CROSS-EXAMINATION

4 BY MR. GOLTZ:

5 Q. Mr. Waldo, this has been admitted as an  
6 exhibit as one of the ads that was shown during the  
7 test year, 1991. And my question is: Is this the  
8 sort of message that you think should be included in a  
9 consumer education program consistent with the energy  
10 strategy?

11 A. If I understood the spoken message, it was  
12 that it was half as expensive. Whether I would choose  
13 the visual images that were used I think is -- I  
14 probably wouldn't. But I think the thrust of that  
15 advertisement in terms of cost and availability is --  
16 would be consistent with what the committee had in  
17 mind.

18 Q. But you say the visual images would not be  
19 something that you would endorse?

20 A. Whether endorse is the right word, Jeff.  
21 I wouldn't pick them if I were doing it. But I'm not  
22 an advertising executive.

23 MR. GOLTZ: Thank you. I have no further  
24 questions.

25

THE COURT: Okay. Anything from the

(WALDO - CROSS BY GOLTZ)

2938

1 Commissioners for this witness?

2 CHAIRMAN NELSON: No questions.

3

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

5 BY COMMISSIONER CASAD:

6 COMMISSIONER CASAD: I don't know quite  
7 how to approach this. But I would like to preface a  
8 question and then I would like you to answer it if you  
9 would based on your personal opinion and after your  
10 exposure to this whole area of energy efficiency.

11 I think there can be little question that  
12 gas as of this time is the cheapest energy resource.  
13 I think there could be little question that the most  
14 efficient use of that resource is at the burner tip as  
15 you indicated. And in your colloquy with public  
16 counsel it was indicated that there is not universal  
17 service. There is not the ability to universally  
18 deliver gas. If I heard you right you  
19 indicated that really wasn't the issue that the  
20 committee was focusing on, but that there is a  
21 significant element of the population out there who  
22 would like to avail themselves of the opportunity to  
23 purchase least-cost energy resource who are unable to  
24 do so at this time because they are not served by gas

25 facilities.

(WALDO - EXAM BY COMMISSIONER CASAD)

2939

1 I believe it's correct that a good bit of  
2 attention was devoted to this regarding line  
3 extensions as to how to try to resolve this particular  
4 issue. And I think that the language or the strategy  
5 at some point indicated that it was desirable for the  
6 Commission to look at line extension policies.

7 Also, there was, in fact, an electric  
8 conservation element that, if you extended a gas line  
9 and served a customer with gas, there was a decrease  
10 in electrical load if that customer had been space  
11 heating and water heating with gas. Therefore, there  
12 was a complement to the very extensive conservation  
13 program that's been mounted in this region to try to  
14 save electricity.

15 Although no final recommendation was  
16 developed, as you indicated, I'm wondering what are  
17 your personal views about what should be done to try  
18 to help solve this problem of line extensions? And  
19 what are reasonable courses to be taken to try to  
20 allow people the opportunity to avail themselves of  
21 that service?

22 THE WITNESS: I guess the first thing I  
23 would like to do, Dick, is to agree with you that on  
24 the line extension policy, one of the recommendations

25 was to have the Commission take a look at that. And I

(WALDO - EXAM BY COMMISSIONER CASAD)

2940

1 guess I would add to that one of the things that this  
2 sort of chain of events set off in my mind is whether  
3 it might not be a good idea to have the Commission  
4 take up some of the issues in the strategy that are  
5 under your purview and ask for some general comments  
6 back from the communities that normally come before  
7 you, rather than dealing with them on a case-by-case  
8 basis as they happen to come up in a particular  
9 utility's application.

10 I really got into this more because of  
11 what I saw as being the policy issues than because of  
12 it being Washington Natural Gas. If it had been  
13 Cascade or someone else coming in with the same set of  
14 questions I would be making the same points.

15 I throw it out for you to consider that  
16 you may want to look at these issues more from a  
17 policy perspective as distinct from a particular  
18 filing.

19 And that's why I'm not sure, Jeff, I  
20 really answered one of your questions. I guess it was  
21 one of the reasons I didn't want to be critical of the  
22 staff because I could see how they read what they  
23 read. If you didn't start from our policy framework,  
24 I don't know if they necessarily reached a bad



25 decision. I just happen to think it's one right now

(WALDO - EXAM BY COMMISSIONER CASAD)

2941

1 if you subscribe to this strategy that doesn't  
2 necessarily get us where we want to go. It's not that  
3 one is inherently good or inherently bad. But they  
4 are kind of a different perspective.

5 In terms of the line extensions, let me  
6 speak to that for a minute:

7 In our discussion in the committee, if I  
8 remember the briefing from your staff, you do have a  
9 question now or ability now to have companies extend  
10 lines and recover costs in various ways. And really  
11 the question is sort of what are some of those cut-off  
12 points in terms of what's a prudent investment that  
13 there is some reasonable probability of recapture or  
14 recapture within a period of time. And that's what I  
15 guess I think would be the most important aspect to  
16 focus on. And I do believe that the growth management  
17 act and the decisions by local governments as to where  
18 growth ought to occur in the next succeeding periods  
19 of time forms a pretty logical basis for you to look  
20 at that as a Commission. There may be better ways,  
21 but if you look at the facts over the last ten years  
22 where gas has been available at least for single  
23 family homes in Puget Sound it's been used  
24 overwhelmingly, 90 plus percent.

25

We as a society want to probably encourage

(WALDO - EXAM BY COMMISSIONER CASAD)

2942

1 that because the efficiency of the use, number one,  
2 and, number two, it takes some strains off the  
3 electrical generation system that in my view are  
4 significant and are going to get worse before they get  
5 better. The only other way that's going to happen is  
6 we're going to build generation for gas faster. We're  
7 going to make use of gas. They're going to make use  
8 at the end tip or build generation. We're not going  
9 to build coal. We're not going to build nuclear  
10 renewable, other than hydro it is still in the early  
11 developmental stage. And I believe we're pushing  
12 conservation in the electrical side as fast as you can  
13 cost effectively push it.

14 I think the fear of some of the committee  
15 members is that we would end up building generation,  
16 perhaps more generation, using gas than need be  
17 because it wouldn't be as readily available for an  
18 end-use in a timely fashion.

19 That's really the issue I guess I was  
20 trying to get at, and maybe, Jeff, back to your  
21 earlier question, that's what I was trying to poke out  
22 of the testimony is the timing question becomes, I  
23 think, real important from a societal perspective.

24 In terms of the line extensions, I would

25 suggest focusing on of the various problems we

(WALDO - EXAM BY COMMISSIONER CASAD)

2943

1 described the one about the rapidly growing edge  
2 communities in Puget Sound. That's where the biggest  
3 swing is going to be in terms of impact.

4 COMMISSIONER CASAD: Thank you. I didn't  
5 necessarily mean to turn this into a discussion of the  
6 strategy but I think the point is important.

7 Would it be true that as a matter of  
8 interest that on the strategy committee there were  
9 representatives of industrial gas users, consumer  
10 groups, a broad spread of interests of those who are  
11 involved in energy matters across the spectrum?

12 THE WITNESS: Yes. I would say we had a  
13 good cross section of very able people.

14 COMMISSIONER CASAD: Thank you very much.

15 THE COURT: Mr. Hemstad?

16

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

18 BY COMMISSIONER HEMSTAD:

19 Q. Mr. Waldo, can you paraphrase for my  
20 benefit the thrust of WAC 490-90-043?

21 A. It is a restriction on advertising.  
22 And the particular one that seems to be at issue here  
23 is defining promotional advertising. And essentially  
24 prohibits a utility from recovering other than from

25 shareholders for promotional advertising, which is for

(WALDO - EXAM BY COMMISSIONER HEMSTAD)

2944

1 the purpose of encouraging any person to select or use  
2 a service of a utility.

3 Q. In your testimony on page 8, I take it  
4 you don't necessarily disagree with the interpretation  
5 of the rule, but you disagree with the rule?

6 A. I think it's very easy for the staff to  
7 have come to the decision they came to based on the  
8 rule. I think you could potentially if you really  
9 wanted -- felt it was important, you could probably  
10 lean the other way some distance. But fundamentally  
11 it would be more appropriate to take the issue up as a  
12 matter of policy so that you don't put either your  
13 staff or a utility in the position of having to guess.  
14 That's the cleanest way I think to confront the issue.

15 Q. But isn't that what a rulemaking  
16 proceeding does is address the policy question?

17 A. Yes. And I think that's the best  
18 long-term solution regardless of what you do in this  
19 hearing.

20 Q. Then turning it around, do you think  
21 that the rule should state the other way around, that  
22 promotional advertising is permissible?

23 A. I would -- in order to have this policy  
24 work, yes. Now, there are some questions about how to

25 define that so -- I think there could be points of

(WALDO - EXAM BY COMMISSIONER HEMSTAD)

2945

1 diminishing return and where I think it would have  
2 limited value versus the dollars expended.

3           But if essentially as I understand the  
4 thrust of this rule, it says don't go out and tell  
5 them that you have a better price advantage and a  
6 better product. It's hard to fit that with an energy  
7 strategy saying utilize market forces to keep it cost  
8 effective. I think those have to be reconciled or the  
9 Commission has to say we don't have to agree with that  
10 element of the strategy which was our pitch  
11 to the state decision makers. If you don't adopt this  
12 one, adopt your own. But pick one. The absence of a  
13 strategy will hurt us as a society far more than the  
14 exact details of any particular strategy.

15       Q.     Is it a fair characterization of your  
16 general view that the staff position in this  
17 proceeding would be an impediment to dissemination of  
18 information about conservation in the end choices?

19       A.     There is an exception where under the  
20 current rule, Commissioner, for informing customers  
21 how they can conserve energy or reduce energy. And so  
22 that would -- that particular one aspect of energy  
23 policy would not appear to require a change.

24       Q.     But my point is the position of the staff

25 is taking in this case would be an impediment to the

(WALDO - EXAM BY COMMISSIONER HEMSTAD)

2946

1 positive aspects from your perspective of  
2 disseminating information about conservation and  
3 choice?

4 A. I would think from a utility perspective,  
5 the answer would be yes. I would not be encouraged as  
6 a utility executive to go pursue those avenues with  
7 the current rule and the approach that the staff has  
8 taken as they see the policy direction today.

9 Q. Are you aware of the scenario of ANB  
10 that the company addressed in its cost study?

11 A. Not other than what I heard this morning  
12 as I was listening to testimony.

13 THE COURT: Anything else from the  
14 Commissioners?

15 CHAIRMAN NELSON: Just one thought only:

16

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

18 BY CHAIRMAN NELSON:

19 Q. On this advertising and who should pay for  
20 it and so on question: It seems to me recent history,  
21 in any event, as monopoly firms become more -- faced  
22 with more competition, their managements tend to want  
23 to jettison social costs that get factored into  
24 prices. We have seen in the telecom world at least

25 charitable contributions dry up, even basic research

(WALDO - EXAM BY CHAIRMAN NELSON)

2947

1 and development goes away as they try to become more  
2 competitive with new market entrants.

3                   So, I guess to follow up on where  
4 Commissioner Hemstad was going is this industry faces  
5 more gas on gas competition, for example.

6           A.       Right.

7           Q.       The rule might be actually benefit to  
8 some managements to not take on the, quote unquote,  
9 governmental purposes of promoting conservation, but  
10 would only be in their self interest to promote LDC  
11 consumption rather than, say, pipeline consumption and  
12 so on with the industrial and commercial customers.

13           A.       I think that that's why I was hesitating a  
14 little bit in answering the question because I think  
15 it is going to become a much more multi-sided question  
16 if you were sitting in the position of an LDC what you  
17 would want to advertise and who would be the  
18 beneficiaries I think is what you're getting at. And  
19 that clearly is going to be a very different world  
20 than it has been.

21                   It's still at some point I think you're  
22 going to see the same system-wide rationale apply to  
23 natural gas that applies to our current electrical  
24 system: That, given the incremental costs of

25 additional interstate pipeline capacity and so forth,

(WALDO - EXAM BY CHAIRMAN NELSON)

2948

1 we're going to reach a point at what the conservation  
2 option if applied throughout the system is going to be  
3 pretty cost effective. Maybe not compared to the next  
4 round of interstate or international pipeline  
5 investments, but the one following that. And at that  
6 point much like the electrical utilities that changed  
7 to perceive it to be in their interests that the  
8 natural gas companies may, too. But that's several  
9 plays out down the road.

10                   And that's why it is -- I guess the  
11 question as to what degree do you give them the  
12 options, realizing that this is going to be a much  
13 more competitive, interactive environment. That's  
14 what I meant earlier in trying to respond to one of  
15 Jeff's questions about I think a lot of this rule was  
16 based on a clearly static sort of semi monopoly that  
17 you could regulate for certain things and you assume  
18 you don't need to carry out any advertising and you'll  
19 get your share, whatever it is, of what's within your  
20 geographic base. I don't think that's assumptions that  
21 necessarily apply in the future.

22                   THE COURT: Anything else? All right.

23 Anything on redirect?

24                   MR. GRANT: No redirect.



25

MR. GOLTZ: I have one question in

(WALDO - EXAM BY CHAIRMAN NELSON)

2949

1 response to an answer given to Commissioner Hemstad.

2 THE COURT: Go ahead, Mr. Goltz.

3

4 CROSS-EXAMINATION

5 BY MR. GOLTZ:

6 Q. Did I hear you testify where gas is  
7 available it is used by 90 percent of the people?

8 A. In the new single family home construction  
9 in I think it was the last ten years -- I could check  
10 that time frame. But it was over a fairly significant  
11 period of time -- where it was available, new single  
12 family construction, it was being utilized at a range  
13 in the 90 percent range.

14 Q. Could one deduce from that that under  
15 those facts that the message of the economics of gas  
16 has been fairly well communicated?

17 A. I think you can deduce that it has to  
18 builders and, therefore, if you have certain line  
19 extension policies, that will work.

20 I think that the questions that the  
21 committee was left with, Jeff, were twofold: What do  
22 you do about multi-family structures which were  
23 nothing comparable to that. It's very expensive to go  
24 back and retrofit if one determined that was a good

25 thing to do. And, secondly, when you talked about

(WALDO - CROSS BY GOLTZ)

2950

1 people such as myself who aren't on gas, but who could  
2 perhaps switch to using gas, there were several  
3 limited experiments going on with various utilities  
4 while the committee was meeting. And it showed a  
5 fairly significant response rate to communication in  
6 terms of causing people to utilize gas. And the costs  
7 were pretty minimal to achieve those changes.

8 That was compared to the people in the  
9 committee who were arguing we ought to start paying  
10 millions subsidized out of the electrical system to  
11 cause that behavior to occur. So that advertising  
12 costs appeared pretty small by comparison.

13 MR. GOLTZ: Thank you. I'm done.

14 MR. ADAMS: Just one follow-up.

15 THE COURT: Good, Mr. Adams.

16

17 CROSS-EXAMINATION

18 BY MR. ADAMS:

19 Q. One of the blocks, if you will, in the  
20 multi-family area, though, is not just -- it may be a  
21 lost opportunity, but it's structural. It's cost, is  
22 it not?

23 A. Yes.

24 Q. Certainly in the testimony from Puget,

25 there is extra cost of putting in gas in particularly

(WALDO - CROSS BY ADAMS)

2951

1 multi-story, multi-family buildings with fire codes  
2 and a lot of other things. It's not as much knowledge  
3 as the cost of building those kinds of structures for  
4 gas?

5 A. That's correct. Today? Yes. That was  
6 one area that the committee discussed that, if you  
7 were to look at any cross utility payment, if you were  
8 to take this idea of integrated resource development  
9 the next step, that's probably where you take the next  
10 increment if you wanted to have more end-use of gas  
11 would be to offset that cost differential in  
12 multi-family.

13 MR. ADAMS: Thank you.

14 THE COURT: Is that it for this witness  
15 then?

16 Thank you, Mr. Waldo, for your testimony.  
17 You may step down.

18 I think we'll go ahead and take an  
19 afternoon recess before we begin with the next  
20 witness. Mr. Grant, the next witness will be --

21 MR. GRANT: -- Catherine Thompson.

22 THE COURT: We'll come back with her on  
23 the stand then. Fifteen minutes, please.

24 (Recess.)

25 THE COURT: Let's be back on the record.

(WALDO - CROSS BY ADAMS)

2952

1 While we were off the record Catherine  
2 Thompson took the witness stand, and we identified her  
3 exhibits. Her testimony is now identified as  
4 Exhibit T-323, and her Exhibit CTT-1 which is  
5 contained in a separate three-ring binder is  
6 identified as Exhibit 324.

7 (Marked Exhibits T-323 and 324.)

8 Whereupon,

9 CATHERINE THOMPSON,

10 having been first duly sworn, was called as a  
11 witness herein and was examined and testified as follows:

12

13 DIRECT EXAMINATION

14 BY MR. GRANT:

15 Q. State your full name for the record,  
16 please?

17 A. Catherine P. Thompson.

18 Q. What is your occupation?

19 A. Partner with the accounting firm of Arthur  
20 Anderson.

21 Q. Miss Thompson, have you testified  
22 previously before this Commission?

23 A. No, I have not.

24 Q. Have you testified previously before other

25 utility regulatory commissions in the United States?

(THOMPSON - DIRECT BY GRANT)

2953

1 A. Yes, I have.

2 Q. In this proceeding, Miss Thompson, have  
3 you prepared prefiled rebuttal testimony?

4 A. Yes. That's been marked as Exhibit T-323.

5 Q. And does the prefiled testimony that's  
6 been marked as Exhibit T-323 accurately reflect your  
7 testimony as you would give it today?

8 A. Actually, I haven't seen a copy of the  
9 exhibit.

10 Q. Handing you what has been pre-marked as  
11 Exhibit T-323, can you review that and indicate  
12 whether that is an accurate copy of the testimony that  
13 you have prefiled in this proceeding.

14 A. It is.

15 Q. In addition, Miss Thompson, have you  
16 prefiled an exhibit which has been marked as Exhibit  
17 324 in this proceeding?

18 A. I have.

19 Q. And do you have any corrections or  
20 amendments to make to Exhibit 324?

21 A. Again, I don't have the actual exhibit.  
22 But I do have a copy of what I believe has been marked  
23 as 324.

24 Q. Let me hand you a copy of what has been

25 pre-marked as Exhibit 324.

(THOMPSON - DIRECT BY GRANT)

2954

1 A. I do have a correction to the exhibit.

2 Under the tab marked 3, results --

3 THE COURT: Let's all take a minute and  
4 get there.

5 THE WITNESS: III, and on the summary page  
6 it's a rounding correction. Where in the first line  
7 of the second paragraph we refer to \$1.8 million --  
8 this is on 3-1, the second paragraph, at the end of  
9 that line, that should read \$1.7 million.

10 And then in the third paragraph again it  
11 should read \$1.7 million. I'll go ahead and mark the  
12 actual exhibit.

13 Q. Miss Thompson, with those two corrections  
14 you have made, does Exhibit 324 appear to be true and  
15 accurate to the best of your knowledge?

16 A. Yes.

17 MR. GRANT: Your Honor, the respondent  
18 would move for admission into evidence of Exhibit  
19 T-323 and Exhibit 324.

20 THE COURT: Mr. Goltz, do you have any  
21 objection?

22 MR. GOLTZ: No.

23 THE COURT: Mr. Adams?

24 MR. ADAMS: No objection.

25 THE COURT: These exhibits will be

(THOMPSON - DIRECT BY GRANT)

2955

1 admitted as identified.

2 (Admitted Exhibits T-323 and 324.)

3 MR. GRANT: Miss Thompson is available for  
4 cross-examination, Judge.

5

6 CROSS-EXAMINATION

7 BY MR. GOLTZ:

8 Q. Good afternoon, Miss Thompson.

9 A. Good afternoon.

10 Q. The study that you prepared was done at  
11 the request of Washington Energy Company; is that  
12 correct?

13 A. Yes. We were contacted by the company,  
14 and they requested us to do an independent study.

15 Q. And are you personally responsible for the  
16 study?

17 A. I am personally responsible for presenting  
18 the results of the study.

19 Q. You personally did not do the study?

20 A. It was done under my direction and  
21 supervision. I physically did not conduct the study  
22 personally.

23 Q. And is it your understanding that the  
24 study was done in response to the concerns of the

25 staff of the Commission?

(THOMPSON - CROSS BY GOLTZ)

2956

1 A. That's -- my understanding of the study,  
2 we were contacted I believe at the end of April, and  
3 one of the issues raised, I believe it was Mr. Russell  
4 in his testimony dealt with the need for an  
5 independent study. At that time I believe -- it might  
6 be better to ask Mr. Torgerson this question, who will  
7 be on later, I believe.

8 But one of the things the company wanted  
9 was to know just what the costs should be. And that's  
10 when they asked us to perform this study.

11 Q. You wanted to do what the costs should be  
12 as a result of the concerns raised by Mr. Russell in  
13 his testimony?

14 A. That's probably a better question to ask  
15 of Mr. Torgerson. I know what our specific  
16 arrangements were with the company, but the specific  
17 reasons why we were requested to do the study and the  
18 other factors, it might be best to ask the company.

19 Q. I gather, then, that the -- you reviewed  
20 Mr. Russell's testimony?

21 A. I did read his testimony. Yes, I did.

22 Q. And in general do you agree with the  
23 concerns that staff raises through his testimony?

24 A. I would say in reading his testimony, it's



25 certainly not unusual to see affiliated costs and

(THOMPSON - CROSS BY GOLTZ)

2957

1 allocation of costs as a concern of many Commissions  
2 these days. Certainly his efforts that went in caused  
3 him to have some concerns as to whether or not the  
4 costs allocated to merchandising were appropriate.

5           Based on our study, I would say that we  
6 came up with additional costs that should be, in fact,  
7 taken out of the utility.

8           Q.       Additional costs above and beyond what Mr.  
9 Russell suggested?

10          A.       No.   Actually, they are above and beyond  
11 the original filing of the company.

12          Q.       And that is on the basis of sound  
13 accounting principles that you made that suggested  
14 adjustment?

15          A.       I think it's on the basis of a very  
16 rational and systematic approach to cost allocation.

17          Q.       This morning you may have heard Mr. Thorpe  
18 defer some questions to you.

19          A.       I did.

20          Q.       What has been introduced as Exhibit 317,  
21 which is attachment to that is the engagement letter  
22 between Arthur Anderson and the company. Do you  
23 recall that?

24          A.       I don't have a copy of that exhibit.

25 THE WITNESS: Thank you.

(THOMPSON - CROSS BY GOLTZ)

2958

1 Yes?

2 Q. Is this in essence your agreement with the  
3 company?

4 A. Yes. That's a good way to characterize  
5 it.

6 Q. And I don't see in here an overall cost.  
7 Is that correct?

8 A. That's correct.

9 Q. So, there was no ceiling put on this  
10 project?

11 A. The arrangements that we had with the  
12 company as laid out were based on our per diem rates  
13 and the level of effort required.

14 Q. The rates are from \$90 to \$300 per hour  
15 plus expenses?

16 A. Yes. That's on Page 2.

17 Q. Was there a projection as to what such a  
18 study would cost prior to engaging in it?

19 A. Not to my knowledge.

20 Q. And do you know -- and if you need to  
21 refer to staff data request 724 -- am I correct that  
22 through June 15, 1993, there was an estimated \$350,000  
23 expended for this or charged on this project?

24 A. I'm not sure that I have data request 724

25 with me. But that does sound in the order of

(THOMPSON - CROSS BY GOLTZ)

2959

1 magnitude to be appropriate.

2 Q. Do you at this point have an overall  
3 estimate for the cost of the project?

4 A. Through completion?

5 Q. Yes.

6 A. No.

7 Q. It will be above \$350,000?

8 A. Yes. That was through June 15. And my  
9 being here today will make it higher.

10 Q. This morning we got into a number of  
11 questions about scenario A and scenario B. And am I  
12 correct that the company asked you to develop both  
13 scenarios?

14 A. Yes, that's correct.

15 Q. Why did they ask you to develop both  
16 scenarios as opposed to just scenario B?

17 A. Again, I would have to refer to  
18 Mr. Torgerson as to the real rationale behind it. But  
19 I think at the time we initiated the study the company  
20 had not reached the decision to set up the separate  
21 subsidiary for the merchandising function.

22 Q. So, scenario B was designed to preserve  
23 that option of separate subsidiaries?

24 A. I think it was designed to capture the

25 cost information if that, in fact, was done.

(THOMPSON - CROSS BY GOLTZ)

2960

1 Q. And the purpose of scenario A then was  
2 what?

3 A. The purpose of scenario A is to again to  
4 do a comprehensive cost allocation as if the  
5 merchandising operation remained a part of the utility  
6 and the costs be allocated accordingly and that  
7 different utility functions or different utility  
8 operations would also be performing merchandising  
9 functions as contrasted to B where, in  
10 fact, that will not happen.

11 Q. So, were both scenarios designed to be, in  
12 effect, tools for the company's decision making?

13 A. I think both of them were designed to  
14 determine what the test period costs for 1991 would be  
15 from an independent objective basis if you assumed,  
16 one, the merchandising operations remained part of the  
17 utility or, B, the merchandising operations were put  
18 into a separate subsidiary.

19 Q. The scenario B would look at the, in  
20 effect, test year, and scenario B would, in effect, be  
21 looking beyond?

22 A. Both of them are looking at test year  
23 costs, 1991.

24 Q. Scenario B looked at a possible future

25 series of events, some of which have come to pass?

(THOMPSON - CROSS BY GOLTZ)

2961

1 A. Scenario B said what costs would need to  
2 be removed from utility operations on a 1991 test year  
3 if the merchandise function were in a separate  
4 subsidiary. So, there is a different set of  
5 assumptions. And we did the cost allocation based on  
6 the '91 data accordingly.

7 Q. If in scenario B it was stated would be  
8 accurate if you were to say that, if the merchandising  
9 functions were in 1991 a separate subsidiary?

10 A. If the decision had been reached in 1991  
11 for the merchandising to be a separate subsidiary, the  
12 utility costs in 1991 would have been lowered by the  
13 amount that we have suggested in scenario B they be  
14 lowered by.

15 Q. Now, understand scenario B -- correct me  
16 if I'm wrong -- but were you -- do you know how many  
17 employees would be or what is the assumption on the  
18 number of employees that would be moving from the  
19 regulated operation or from Washington Natural to the  
20 separate subsidiary?

21 A. No, I don't.

22 Q. And so you don't know the salaries of  
23 those people?

24 A. No. What we looked at were cost pools.

25 The activities in those cost pools, obviously there is

(THOMPSON - CROSS BY GOLTZ)

2962

1 payroll dollars in the cost pools, which is -- we  
2 determined which activities they were tied to. And  
3 then we allocated total dollars either to the utility  
4 or the merchandising function.

5 But it's again looking at what costs would  
6 be removed from the utility, not necessarily would go  
7 to the merchandising function.

8 Q. If I can refer you to Tab 42 of Exhibit  
9 324. Go to Page 2 of 5.

10 You state there that the measurements were  
11 taken at certain major sites and that the measurements  
12 of staff were used for all other sites.

13 Is that correct?

14 A. Yes, that's what's stated there.

15 Q. You accepted the staff measurements for a  
16 number of the sites?

17 A. Yes, we did.

18 Q. And for the other sites that you actually  
19 measured, did you find the measurements of staff to be  
20 substantially different than those that you performed?

21 A. I don't have that information with me. I  
22 would have to look at it. I don't know the  
23 differences between the staff --

24 Q. Would you accept subject to check that

25 there are no substantial differences between those

(THOMPSON - CROSS BY GOLTZ)

2963

1 measurements?

2 A. Sure.

3 Q. Looking back further in this same tab --  
4 this may get confusing for references because you have  
5 exhibits within tabs within your exhibit.

6 But looking at Exhibit 2 behind Tab 42 --

7 A. Right.

8 Q. -- you show a number of percentages in the  
9 second line of boxes down that says plant percentage.  
10 Do you see that?

11 A. Yes, I do see that, yes.

12 Q. And am I correct that those percentages  
13 are an accumulation of the various allocation  
14 percentages?

15 A. Yes. They were derived from the  
16 percentages.

17 Q. That's an accumulation of them?

18 A. Yes.

19 Q. Would you agree that with regard to the  
20 building and land costs that the page differences in  
21 your study scenario A and that of the staff is due to  
22 the allocation percentages applied to each department  
23 or function as opposed to the costs assigned to each  
24 department or function?

25           A.       I didn't contrast the results of our study

(THOMPSON - CROSS BY GOLTZ)

2964

1   to the staff's.  So, I can't tell you the reason for  
2   the differences.  We didn't look at what the staff  
3   actually did, nor did we look at what the company  
4   actually did.  We did our own allocations and derived  
5   what the total dollars would be.

6                    So, I haven't performed that analysis.

7           Q.       Accepting the allocation percentages  
8   particularly in the marketing area are different, if  
9   the Commission were to accept the staff's adjustment  
10  in regards to marketing and, therefore, the allocation  
11  percentage for the marketing department, could the  
12  Commission flow the effects of accepting that  
13  percentage into your cost allocation study?

14          A.       I think if you could clarify for me what  
15  you mean by the staff's adjustment to marketing.  Does  
16  it relate to the allocation of marketing or the other  
17  adjustments of the staff?  Could you clarify that?

18          Q.       If a hundred percent of the marketing were  
19  out, how would you incorporate that into your study?

20          A.       What you could do when you're looking at  
21  -- when you say a hundred percent of the costs were  
22  out and you would conclude then a hundred percent of  
23  marketing should go to merchandising?  Is that the  
24  question?



25 Q. Okay.

(THOMPSON - CROSS BY GOLTZ)

2965

1 A. Is that your hypothetical for me?

2 Q. Fine.

3 A. The way our study works is it's based on  
4 responsibility codes as contrasted, I believe, to  
5 marketing objectives. So, we would have to identify  
6 what the responsibility codes are, what the dollars  
7 are, and then mechanically, yes, it could be flowed  
8 through the workpapers and through the results of the  
9 study.

10 Q. What are the first two steps that you  
11 identified? Identified your responsibility codes?

12 A. Right. If you look at the company's books  
13 and records, the costs that are captured by  
14 responsibility code, when we did our study, we wanted  
15 to get to a level of detail to come up with what we  
16 felt was a good and accurate cost allocation study.  
17 And what we did is starting with the organization  
18 chart we then looked to the responsibility codes as  
19 opposed to the Uniform System of Accounts.

20 The responsibility codes is a lower level  
21 of detail, and it does -- we needed to group the  
22 responsibility codes back into the organization. And  
23 so what happens is your groupings of responsibility  
24 codes is slightly different. So, there is a

25 mechanical process you have to go through.

(THOMPSON - CROSS BY GOLTZ)

2966

1 Q. Does that relate to marketing costs or  
2 marketing plant, the plant associated with --

3 A. Marketing costs.

4 Q. How would you do marketing plant?

5 A. One of the things when you looked at the  
6 plant allocation is there is an inter-relationship of  
7 both plant as it relates to the dollars allocated in  
8 other areas. We did the same thing with  
9 transportation. There is other things that end up  
10 building off of other allocators. And before I answer  
11 specifically, I think what we would have to do is take  
12 the dollars and work them through mechanically the way  
13 the study flows. It can be done.

14 Q. Based on what you filed, how could we --  
15 and I don't mean me. I mean some other people here at  
16 the Commission -- do that same thing or replicate that  
17 function? Would that be possible from what you filed?

18 A. Relatively speaking, I know that we have  
19 had all of the workpapers available in our offices.  
20 We have about six binders of the detailed workpapers.  
21 This was a very large effort as you can imagine.

22 The staff of Miss Thomas and Mr. Russell  
23 -- and I'm afraid I can't recall the other staffers  
24 who actually --

25 Q. Mr. Parvinen?

(THOMPSON - CROSS BY GOLTZ)

2967

1 A. Yes -- did in fact, come to our offices  
2 and members of the team walked them through in detail  
3 the workpapers. I believe they requested over 900  
4 copies of the workpapers. I don't know which ones  
5 they got copies of, but --

6 Q. 900 copies of different pieces of paper?

7 A. I would hope so, yes.

8 A. Yes. It could be with all that  
9 information the staff has gotten they could make that  
10 calculation.

11 Q. What you're saying is in order to make  
12 such a calculation, one would have to go outside the  
13 four corners of the record in this case and dive into  
14 the workpapers, the 900 pages or so at least that you  
15 provided staff or made available to staff? Is that  
16 correct?

17 A. What I would like to do is make sure as we  
18 go through and talk through as I understand the  
19 question: There are instances where I would believe  
20 that to allocate the dollars, if you wanted to choose  
21 marketing, there are certain dollars that are  
22 inter-related and calculated off of other allocators,  
23 the details of which are contained in the workpapers  
24 or in various models that we developed.

25

If you looked, though, to the total

(THOMPSON - CROSS BY GOLTZ)

2968

1 dollars we're talking about here, they are \$30,000.

2 But, again, you would need to go through that

3 calculation, we probably would need to do it through

4 our model or through the workpapers you would have to

5 walk. The dollars at issue here are quite small.

6 Q. I understand that. But I'm looking more  
7 to process questions.

8 A. All right.

9 Q. You're saying in addition to workpapers,  
10 if the staff were to duplicate this, in addition to  
11 workpapers that you have provided, they would have to  
12 have access to a computer model?

13 A. Part of this is on a PC. I don't think  
14 you would need access to that as much of the  
15 calculations ended up having to be done manually just  
16 in the process of putting the report together.

17 But I can check specifically with what all  
18 you would need access to to make that particular  
19 adjustment.

20 Q. You're saying it's a computer model that  
21 you have?

22 A. There are certain PC spreadsheets that we  
23 developed to summarize information. I don't know  
24 whether or not that particular adjustment that you're

25 referring to, which is the plant-related as it relates

(THOMPSON - CROSS BY GOLTZ)

2969

1 to marketing, will require the use of a computer model  
2 because some of the calculations we made were also  
3 manual.

4 But certainly we would make everything  
5 available to the staff.

6 Q. How can I find the \$33,000?

7 A. It was actually \$30,000. I happened to be  
8 open to scenario B when I made that statement. So,  
9 it's Exhibit 3 on the next page.

10 Q. So, where is that figure?

11 A. The total promised, \$30,338. Are you on  
12 Exhibit 3, Tab 42?

13 Q. No. I'm sorry.

14 A. I just happened to have the book opened up  
15 and I looked down. And scenario B, if I recall, is  
16 what the company is suggesting they would do.

17 Q. Is the figure at the bottom 30338?

18 A. Yes.

19 Q. Wouldn't you add three 0s to that so it  
20 would be \$30 million?

21 A. I'm sorry. Yes.

22 Q. Out of \$30 million, how much is the  
23 marketing plant?

24 A. I believe that's correct. Will you hold

25 on just a minute, please? The property related, I

(THOMPSON - CROSS BY GOLTZ)

2970

1 apologize, that is \$30 million.

2 Again, the marketing question?

3 Q. I'm sorry. Exhibit 3 is expenses, and

4 Exhibit 4 is plant. Isn't that true?

5 A. (Reading.) Yes, that's correct.

6 Q. So, how do I get -- it's \$51 million that

7 would be allocated to plant? I'm sorry. The plant to

8 be allocated?

9 A. (Reading.)

10 And your question?

11 Q. The question is: How much of that \$51

12 million is related to marketing which is left in the

13 regulated operations under your scenario B?

14 A. And you're referring specifically to the

15 total plant dollars?

16 Q. To the plant dollars, yes.

17 A. I don't have that information.

18 Q. Okay. So, using this as an example, in

19 order to get that information, if I wanted to have our

20 staff accountants get that information, I would have

21 to ask them to do what?

22 A. They would need our workpapers.

23 Q. And then what would be the process they

24 would have to go through within those workpapers to

25 do that?

(THOMPSON - CROSS BY GOLTZ)

2971

1 A. It's my understanding that we would  
2 actually walk them through the detailed workpapers of  
3 that and certainly, if they need to go back through  
4 them again, we will take them back through them again.

5 Q. I gather you have had the meeting and  
6 appreciate that. But what I'm trying -- I'm not just  
7 asking for information. I'm trying to get some  
8 information into the record here.

9 A. That's fine.

10 Q. What I wanted to know is: For the  
11 Commission and its advisors to hear is how that  
12 allocation would be made, how that determination would  
13 be made, using your workpapers. And at least some  
14 general terms.

15 A. Specifically as it relates to this without  
16 looking at the workpapers on this specific area, I  
17 cannot answer your question.

18 Q. And I gather, if the Commission were to  
19 choose an allocation factor different from what you  
20 have used in order to make an adjustment in this case,  
21 the Commission also would have to look outside the  
22 four corners of your study which is filed as an  
23 exhibit?

24 A. If the Commission were to choose a

25 different allocation factor?

(THOMPSON - CROSS BY GOLTZ)

2972

1 Q. Yes.

2 A. As it relates to --

3 Q. -- marketing plant.

4 A. They would again need the information in  
5 the workpapers to do that calculation.

6 Q. So, am I correct that the study which is  
7 now Exhibit 324 is not really a tool for the  
8 Commission to use in developing an allocation as it  
9 sees fit, but would be more appropriately  
10 characterized as a proposal which the Commission must  
11 either accept or reject as is?

12 A. I believe that what we have done is a very  
13 rational and systematic cost allocation study dealing  
14 with all costs at a very detailed level. We have also  
15 had the staff there and walked them through it.  
16 We met with the staff in the process of doing that.

17 For the Commission to want to go in and  
18 make changes within the study on some basis, you would  
19 need to roll that through the study. And, yes, as it  
20 stands today, what this is is a total comprehensive  
21 cost allocation study which I think is a very rational  
22 and systematic approach. It is certainly based on  
23 what our judgment is and the methodology that we  
24 employed in doing it.



25 Q. But basically the study that you presented

(THOMPSON - CROSS BY GOLTZ)

2973

1 is a conclusion and the tools, as it were, are in your  
2 workpapers?

3 A. The way in which we derived the study and  
4 the information is in our workpapers.

5 Q. Now, am I correct that the -- that Arthur  
6 Anderson was not instructed by the company to address  
7 recommendations for improvements in the company's  
8 recordkeeping?

9 A. It's my understanding that we were asked  
10 to perform an independent, objective cost study. And  
11 there was no specific request for recommendations as  
12 to recordkeeping or process.

13 Q. And have you read the staff  
14 recommendations with regard to the need for an  
15 independent study?

16 A. I read those. I believe they are  
17 contained in Mr. Russell's testimony.

18 Q. Are you aware of the suggestions for what  
19 it should contain and address according to staff?

20 A. I don't specifically recall, but I did  
21 read his testimony.

22 Q. Are you aware that staff envisioned that  
23 such a study would result in identification of  
24 appropriate allocation methods which would be used in

25 this case and in future cases?

(THOMPSON - CROSS BY GOLTZ)

2974

1 A. I think it's played out in Mr. Russell's  
2 testimony what he is recommending.

3 Q. I'm asking if you're aware of that?

4 A. I don't recall the specifics in his  
5 testimony. I did read his testimony. I'll be happy  
6 to look at it again.

7 Q. You did or did not?

8 A. I did read his testimony. I just don't  
9 recall the specifics of it.

10 Q. I gather that in the course of conducting  
11 your study, Arthur Anderson team members did have some  
12 contact with Commission staff members as you  
13 testified?

14 A. Yes. I think they had two meetings.

15 Q. And are you aware as to whether staff  
16 communicated to the Arthur Anderson employees on the  
17 team that it was staff's desire that the study should  
18 also address how the various operations should charge  
19 one another for work performed for one another?

20 A. I was not present at any of the meetings.  
21 And the comments that were relayed to me that I can  
22 recall dealt more with the staff's desire that this be  
23 a fully allocated and comprehensive cost allocation  
24 model, which this clearly is.

25

And quite frankly those are the nature of

(THOMPSON - CROSS BY GOLTZ)

2975

1 the comments that I recall. We did try to take those  
2 into consideration. The specific one you mentioned to  
3 me was not mentioned to me. So, I'm not aware of  
4 that.

5 Q. Does the Arthur Anderson study set forth  
6 any methodology that can be followed in the future for  
7 determining appropriate allocation factors?

8 A. I believe so because, if you look to the  
9 recommendation, the company is now following what I  
10 would say is scenario B. That is, they have now  
11 decided to set up a separate merchandising subsidiary  
12 and not share the cost with the utility on certain  
13 functions. So, what you're dealing with at that point  
14 are certain functions that we listed up in the top  
15 section that we would recommend be allocated  
16 multi-factor formula.

17 Q. What about pricing of -- assuming a  
18 separate subsidiary, in other words, implementation of  
19 scenario B, does your study set forth any methodology  
20 for determining appropriate pricing of transfers or  
21 services performed by one affiliate for the other?

22 A. No. Again, the purpose of this study was  
23 to look at the test period cost in '91 and make  
24 recommendations as to which costs were going to be

25 removed by the utility under either scenario A or B.

(THOMPSON - CROSS BY GOLTZ)

2976

1 It did not get into transfer pricing issues or  
2 anything else. My understanding of scenario B is the  
3 company, we would still have the common governance  
4 functions.

5 Q. Meaning --

6 A. Governance functions -- external reporting  
7 is a classic example because they are part of  
8 Washington Energy. That impacts all shareholder is a  
9 governance function, legal, internal audit, treasury,  
10 by being a publicly traded company or part of a  
11 holding company, there is a common pool of costs that  
12 should be shared by all members of the holding  
13 company.

14 Q. And so even after this splitting out of  
15 this subsidiary, there will be allocation issues?

16 A. There will be allocation issues. They  
17 should be quite minor compared to scenario A. But  
18 certainly the formula and the application of it, if  
19 that's accepted by the Commission, it wouldn't  
20 surprise me to see continued issues as it relates to  
21 that.

22 Q. And those allocation issues would be both  
23 as to costs and as to plant?

24 A. Possibly.

25 Q. And why isn't your answer yes to that?

(THOMPSON - CROSS BY GOLTZ)

2977

1 A. It's hard for me to contemplate what  
2 issues this Commission will have before it in the  
3 future.

4 Q. I didn't mean to say a regulatory issue.  
5 I meant to say an accounting issue. There will be  
6 allocation of costs? Or won't there be?

7 A. Oh, sure. Your governance costs and  
8 things like that will be allocated again out on a  
9 factor. Those will be fairly straightforward,  
10 however. But certainly anytime something is included  
11 in a test period cost of service I would imagine that  
12 it then comes under review of the Commission.

13 Q. Then you would have to allocate, for  
14 example, costs of the legal department to the  
15 subsidiary --

16 A. Those that can't be directly assigned.

17 Q. So then in the course of that, you would  
18 either have to have some internal recordkeeping by,  
19 say, the legal department or the accounting department  
20 or the public relations department or in the absence  
21 of that you would have to have an allocation factor?

22 A. What you would typically have is, one, you  
23 have the setup right now for direct assignment of  
24 costs. So, we'll take legal if you want to deal with

25 that one.

(THOMPSON - CROSS BY GOLTZ)

2978

1                   You have the ability obviously with the  
2 direct assignment of costs for the cases they are  
3 working on. And then you have the general  
4 administrative costs that I would contemplate being  
5 used. Again, in our recommendation through a  
6 multi-factor formula. And that's just a calculation.  
7 It is not again that complicated, but you still have  
8 to do it.

9           Q.       But I gather that the line between what  
10 you are talking about is governance functions, that  
11 is, these common functions that will still be present  
12 after the separation, the line between that and at  
13 some point as you go down in the company, you're going  
14 to actually split off physically the employees.

15                   Where that line is drawn has not yet been  
16 determined; is that correct?

17           A.       Not to my knowledge.

18           Q.       Your study doesn't do that?

19           A.       No.

20           Q.       Now, in the course of your study, isn't it  
21 true that Arthur Anderson did find some recordkeeping  
22 shortcomings?

23           A.       There were several instances where we  
24 noted that we would have used a different allocator if

25 the data had been available. Since it wasn't

(THOMPSON - CROSS BY GOLTZ)

2979

1 available, we did something else.

2 MR. GOLTZ: I would like to have this  
3 marked.

4 THE COURT: I have been handed a  
5 single-page document, which has as a heading  
6 description. I'll mark that for identification as  
7 Exhibit 325.

8 (Marked Exhibit 325.)

9 Q. Miss Thompson, am I correct that what's  
10 been marked as Exhibit 325 was prepared by an Arthur  
11 Anderson employee under your supervision?

12 A. Yes.

13 Q. And can you identify what this document  
14 is?

15 A. Yes, I will be happy to.

16 I believe we were requested by the staff  
17 to summarize this. This is actually going through the  
18 report. And where there is a mention of lack of  
19 documentation or where we have a recommendation on  
20 recordkeeping, we pulled together those comments in a  
21 single page, really for ease of being able to see  
22 where they were.

23 MR. GOLTZ: I would like to offer this  
24 into evidence.

25 THE COURT: Is there any objection to

(THOMPSON - CROSS BY GOLTZ)

2980

1 Exhibit 325?

2 MR. GRANT: No objection by the company.

3 MR. ADAMS: No objection. But I would  
4 like to ask for clarification of one word. The word  
5 staff. I'm assuming that's staff of the company, not  
6 the Commission staff?

7 THE WITNESS: That's correct. There is  
8 also a change to this exhibit if I could make it.

9 Q. Please.

10 A. That is on cost 20, Page 2, my copy of  
11 that particular item has been deleted because it's  
12 really not a mention of lack of documentation. I'm  
13 not sure why it's contained on there.

14 Q. I'm sorry.

15 A. Cost pool study, Page 2. If you see that  
16 line that says the nature and intent. That is not a  
17 reference to a lack of documentation. I would delete  
18 that line if you would.

19 Q. It's not consistent with the other items  
20 in the document?

21 A. That is correct.

22 THE COURT: Still no objection to Exhibit  
23 325?

24 MR. ADAMS: No.



25 THE COURT: It will be admitted as

(THOMPSON - CROSS BY GOLTZ)

2981

1 identified.

2 (Admitted Exhibit 325.)

3 Q. I gather you put this together. But you  
4 did not have the charge by the company to discover  
5 recordkeeping shortcomings; is that correct?

6 A. No. That was not the objective of the  
7 study.

8 Q. And if you had had such a charge, do you  
9 believe you may have found others?

10 A. I don't know. I will say in going through  
11 the information and discussing with the various teams  
12 the information they were able to get from 1991,  
13 actually, quite a bit of the information was readily  
14 available.

15 These were instances where, again, we  
16 think there would have been a preferable way to  
17 allocate it had the information been available. And  
18 pretty well laid those out.

19 So, I don't know if we would have found  
20 others.

21 Q. If there had not been these -- this lack  
22 of documentation that's described in Exhibit 325, do  
23 you believe that the allocation factors would change?

24 A. It's difficult to say if they would --

25 they potentially could change somewhat. I think we

(THOMPSON - CROSS BY GOLTZ)

2982

1 felt comfortable that the alternative way to allocate  
2 cost was the best that we could do given the  
3 information, and we were comfortable that that did  
4 result in a reasonable level of cost.

5 Q. Now, you testified briefly as to the cost  
6 of the study to date. My next question is: Do you  
7 have an opinion whether if Arthur Anderson had been  
8 asked to develop recommendations for appropriate  
9 allocation factors and to identify recordkeeping  
10 issues or shortcomings rather than provide an  
11 alternative to the staff's study, do you believe the  
12 overall Arthur Anderson study would have been done in  
13 a less costly manner?

14 A. I don't know that.

15 Q. Would the approach of Arthur Anderson had  
16 been different had that been the charge to Arthur  
17 Anderson?

18 A. It's difficult to say given the level of  
19 detail that we ended up getting into. Actually in  
20 some other studies that I have been involved in, we  
21 actually end up going through a process very similar  
22 to this and then adding on as we go through because  
23 it's important to understand and then develop as a  
24 prime what the costing looks at. I have done studies

25 which ultimately do both. This is the step which, in

(THOMPSON - CROSS BY GOLTZ)

2983

1 fact, that we go through. Whether or not that would  
2 have been necessary for this particular case, I don't  
3 know. I do think there is quite a bit of meaningful  
4 information coming from the report that can be used.

5 Q. If we were to assume that scenario B was  
6 not adopted and we still just remained with one  
7 company, would the study that you have prepared --  
8 would it be useful in a subsequent rate case as a  
9 source of appropriate allocation factors? Or would  
10 one have to revisit the allocation factors to reflect  
11 the actual activities that employees may be performing  
12 at the time of a future rate case?

13 A. It would depend upon the timing. But I  
14 would anticipate if you went to scenario A, this is  
15 based on '91 information. And it does lay out I think  
16 a very useful and rational approach.

17 But certainly all studies of this nature  
18 need to be updated for current events and activities.  
19 And I would expect that would be the case if, in fact,  
20 scenario A were followed. In each case you would do  
21 that.

22 Q. I gather that a substantial part of your  
23 study was interviewing employees to see what they were  
24 doing?

25 A. Yes.

(THOMPSON - CROSS BY GOLTZ)

2984

1 Q. As opposed to looking at data that they  
2 had, which served as a proxy for what they were doing?

3 A. Actually, no, we did both.

4 Q. I understand you did both. But you had to  
5 do your study and engage in on-the-scene interviews?

6 A. Of course. You need to interview. But  
7 quite a few of the employees do keep some type of time  
8 information and we also went with them and observed  
9 them performing their jobs.

10 Q. Are you aware that staff urged the Arthur  
11 Anderson Seattle staff to address their study in a  
12 manner that the synergies or cost efficiencies  
13 experienced would be identified and preserved in the  
14 resulting cost allocation?

15 A. No, I'm not aware of that.

16 Q. Would you accept that subject to check  
17 with members of your Seattle office?

18 A. Yes.

19 Q. If one were to -- if you were to accept --  
20 to attempt to measure those synergies and  
21 efficiencies, would you say that one way to look for  
22 them would be to look for the difference between costs  
23 left in the regulated operations in scenario A instead  
24 of scenario B?

25 A. I don't understand the question. Could

(THOMPSON - CROSS BY GOLTZ)

2985

1 you repeat it or rephrase it?

2 Q. Would you agree that one of the benefits

3 -- let me go back -- would you agree that one of the

4 benefits of Scenario A is that there would be some

5 efficiencies or I'll use the term synergies of

6 operations between the regulated and non-regulated

7 operations that would benefit both regulated

8 ratepayers and the non-regulated operations?

9 A. Certainly. That's why you have the

10 allocation because they are basically benefitting

11 both.

12 Q. And Scenario A would do that?

13 A. Yes.

14 Q. And the staff's allocation would do that,

15 but it was a different approach?

16 A. The staff's allocation was a different

17 approach. And I would say not as detailed as our

18 approach.

19 Q. But the purpose of the staff's allocation

20 was to do just that?

21 A. I believe the purpose of the staff

22 allocation was their attempt to allocate costs between

23 the utility and the non-utility.

24 Q. And if one were to attempt to measure

25 under scenario A those efficiencies, could one look at

(THOMPSON - CROSS BY GOLTZ)

2986

1 them as the difference between the costs left in the  
2 regulated operations in scenario A instead of scenario  
3 B?

4 A. I will try to be responsive. I have a  
5 little bit of difficulty with the way the question is  
6 phrased:

7 What I would say the difference is between  
8 scenario A and scenario B is because there are  
9 certain costs that are currently being shared between  
10 the utility and the non-utility that would not be  
11 eliminated from the utility because it's not, for  
12 instance, a full-time equivalent employee or that the  
13 utility would still have to perform it if, in fact,  
14 the merchandising subsidiary becomes a separate  
15 subsidiary.

16 So, you end up having those functions  
17 needing to be performed in the utility at the full  
18 level of effort as they are being performed at the  
19 level of cost, as they are being performed under  
20 scenario A. And that's roughly the \$1.7 million  
21 difference.

22 Q. You mentioned \$1.7 million?

23 A. Yes.

24 Q. That's the difference?



25 confidential number as an answer, let us know

(THOMPSON - CROSS BY GOLTZ)

2988

1 beforehand or if you suspect so. If you think you can  
2 get the -- phrase the question and get the answers you  
3 need without touching on that, then we don't have to  
4 make everyone leave.

5 MR. GOLTZ: I'm talking about Pages 1  
6 through 3 of Exhibit 222.

7 MR. GRANT: The witness is going to --

8 MR. GOLTZ: I know. I'm looking at you,  
9 Mr. Grant, because I want to know if there is a  
10 problem with my getting into that. It's a  
11 confidential exhibit.

12 MR. GRANT: I understand that. The  
13 company doesn't have an objection as long as the Judge  
14 has already pointed out it's conducted in accordance  
15 with our confidentiality agreement. If you're going  
16 to need to discuss information that's confidential,  
17 then, of course, we would expect adherence to that.  
18 As a further matter, something on the practical side,  
19 I think the witness is going to need copies of those  
20 exhibits.

21 JUDGE ANDERL: Mr. Goltz, can you provide  
22 her with that?

23 It's late in the afternoon. We'll all  
24 be on our toes. If you hear anything, speak up.



25 MR. GRANT: It's very hard to respond any

(THOMPSON - CROSS BY GOLTZ)

2989

1 more than I have, your Honor. I don't know what Mr.  
2 Goltz wants to ask.

3 MR. GOLTZ: The only thing is it's my  
4 understanding that pages 4 and after that contain  
5 information from the company's confidential documents.  
6 Pages 1 through 3 do not. But it is a confidential  
7 exhibit, and I wanted to let the -- make the company  
8 aware of that.

9 BY MR. GOLTZ:

10 Q. Are you aware that these exhibits support  
11 staff witness Thomas' marketing expense adjustment?

12 A. I'm aware this is an exhibit filed with  
13 her testimony. That's all I know.

14 Q. Let me then go down to an example. On  
15 Lines 36 through 40 on page 1, it's called Builder  
16 Event. Do you see that?

17 A. Yes.

18 Q. And that was charged to accounts 908 and  
19 912-15?

20 A. I believe as shown on this exhibit it's  
21 908 and 912.

22 Q. Would you accept subject to check that  
23 it's 912-15?

24 A. Yes.

25 Q. And that account is residential off main

(THOMPSON - CROSS BY GOLTZ)

2990

1 marketing? Would you accept that subject to check?

2 A. Yes.

3 Q. Now I want you to go over to -- it is in

4 the confidential area but I'm being very careful --

5 look at lines 15 and 16 of Page 5.

6 A. Okay.

7 Q. Lines 15 and 16, spring builder breakaway

8 event, and that flows into the total of the

9 disallowance?

10 A. I have not seen this page of this exhibit.

11 Just give me a few moments, please.

12 Q. Sure.

13 A. (Reading.) Based on the review, it

14 appears to be part of the total of 908-15 and 912-15

15 on page 5.

16 Q. If you turn over to Exhibit 222, which is

17 Exhibit KLT-17.

18 A. I don't believe I have that.

19 Q. It's coming.

20 JUDGE ANDERL: I think they are going to

21 provide you with a copy of that.

22 Q. Would you accept subject to check that the

23 sum of lines 5 and line 15 you will come to that same

24 616.835 total?

25           A.       Line 5 and line 15.

(THOMPSON - CROSS BY GOLTZ)

2991

1                   Subject to check.

2           Q.       Can you tell us where in your cost  
3 allocation study the costs of this builder breakaway  
4 event are included and how much of such costs, if any,  
5 are included in the company's requested level expense  
6 -- of expense based on scenario B? Is it possible for  
7 you to do that?

8           A.       I believe it will be possible to go  
9 through that. I don't believe I can do that here at  
10 the stand with the information that I have brought up  
11 with me. We have again sat down with Miss Thomas and  
12 walked through her exhibit, walking it through the  
13 responsibility codes and then tying it out to our  
14 report. And with the specific example that you have  
15 given me here, again, we can walk through that. I  
16 just don't have the information readily available to  
17 do that.

18          Q.       So, basically, it's not within the four  
19 corners of the documents which you have filed in this  
20 case, it's not possible to do that?

21          A.       Again, the approach that we did is looking  
22 at responsibility codes. The dollars in our study,  
23 the total dollars in our study agreed with the books  
24 and records of the company, as -- the same source of

25 information as what Miss Thomas used. But certainly

(THOMPSON - CROSS BY GOLTZ)

2992

1 we can reconcile them. Looking at the report on a  
2 stand-alone basis, I think it would be difficult to  
3 say specifically where those dollars are.

4 Q. So, am I correct, then, if the Commission  
5 wanted to reflect a disallowance of costs which  
6 promoted the use of gas or apply a different  
7 allocation factor for such expenses than as used in  
8 your study, it would first have to know which cost  
9 pool it's included in?

10 A. Yes.

11 Q. And then the category of costs it was  
12 included in?

13 A. That's correct.

14 Q. And then --

15 A. -- the allocations.

16 Q. -- and then the allocation factor. To get  
17 those you have to go to your workpapers?

18 A. To get those you walk through the  
19 responsibility codes and the build-up of the report,  
20 which we have done with Miss Thomas. But, yes, that  
21 is procedurally the process you would go through.

22 Q. What I'm getting at is eventually we have  
23 to go up or have the workpapers come down here and  
24 work through those?

25           A.       Right.  But, again, the intent of the

(THOMPSON - CROSS BY GOLTZ)

2993

1   study was to arrive at an independent objective cost  
2   allocation and not develop a working model that could  
3   be adjusted.

4           Q.       So, again, where we were earlier with  
5   regard to plant in case we have some costs, if the  
6   Commission wanted to adjust or modify the approach, it  
7   can't do that based on the record that you have  
8   provided?

9           A.       Based on the specific exhibits that are in  
10  the -- I think it would be difficult to do without  
11  being able -- you have to be able to walk through the  
12  responsibility codes and the cost pools to assure  
13  yourself that you're making the right adjustment.

14          Q.       And you need your workpapers to do that?

15          A.       Yes.

16          Q.       And the workpapers are not in the record?

17          A.       Yes.

18          Q.       Did the Arthur Anderson study attempt to  
19  identify what marketing or advertising costs which  
20  were left in regulated operations were recoverable  
21  under Commission advertising rules and prior precedent  
22  for marketing costs?

23          A.       No, we did not.

24                   MR. GOLTZ:  I would like to have these

25 marked.

(THOMPSON - CROSS BY GOLTZ)

2994

1 JUDGE ANDERL: Mr. Goltz, are you handing  
2 out one exhibit or two?

3 MR. GOLTZ: It can be either one. Why  
4 don't we make them two just because they are not  
5 stapled.

6 JUDGE ANDERL: Okay. I'm being handed  
7 items which are responses to data request, and marked  
8 for identification as Exhibit No. 326 the Request No.  
9 770. And I'll mark Request No. 775 or the response to  
10 that as Exhibit No. 327.

11 (Marked Exhibits 326 and 327.)

12 Q. Miss Thompson, did you prepare these data  
13 request responses?

14 A. Yes, they were prepared under my  
15 supervision.

16 MR. GOLTZ: I would like to offer these  
17 into evidence.

18 JUDGE ANDERL: Any objections from the  
19 company?

20 MR. GRANT: No objection.

21 JUDGE ANDERL: Mr. Adams?

22 These two documents will be admitted as  
23 identified then.

24 (Admitted Exhibits 326 and 327.)

25 BY MR. GOLTZ:

(THOMPSON - CROSS BY GOLTZ)

2995

1 Q. Did the Arthur Anderson study intend to  
2 distinguish between the costs left in the regulated  
3 operations those costs that were provision of  
4 information to customers with regard to gas rates and  
5 those costs incurred for gas sales or gas marketing?

6 A. No. We only looked at the cost as to  
7 whether or not they would -- they were utility,  
8 leasing, or merchandising affiliates. Not beyond  
9 that.

10 Q. The company adopted Arthur Anderson's  
11 study findings in scenario B to reflect adjustment to  
12 eliminate the ratemaking costs associated with its  
13 merchandising and jobbing operations and affiliated  
14 companies; is that correct?

15 A. It's my understanding that Mr. Corbin, I  
16 believe, is making an adjustment to reflect scenario  
17 B.

18 Q. And Arthur Anderson also looked at the  
19 costs associated with the company's leasing  
20 operations; is that correct?

21 A. One of our allocators was leasing, yes.

22 Q. But the company did not make an adjustment  
23 to eliminate the costs of the leasing operation;  
24 correct?

25           A.       That's correct. That's my understanding.

(THOMPSON - CROSS BY GOLTZ)

2996

1           Q.       And you're aware that the Commission staff  
2 did make such an adjustment to eliminate the costs of  
3 the company's leasing operation?

4           A.       No, I'm not aware of the staff's  
5 adjustment for leasing.

6           Q.       Do you know the amount of dollars the  
7 Arthur Anderson study assigned to leasing operations  
8 under scenarios A and B?

9           A.       I can refer you to tab III.

10          Q.       Roman III?

11          A.       Yes, III of the exhibit. Are you with me  
12 there? You see the total allocated to leasing under  
13 scenario A is 8 million 329 and under scenario B is  
14 \$8,259,000.

15                   MR. GOLTZ: Can we give her a copy of  
16 Exhibit 213?

17                   JUDGE ANDERL: You're giving that to her  
18 now?

19          Q.       Referring to Exhibit 213, which is Exhibit  
20 No. 7 to the testimony of staff witness Thomas, it's  
21 the line right below Line 19. It should be Line 20,  
22 but whatever the spreadsheet was, the computer program  
23 ended up with Line 12. But do you see that  
24 maintenance expense?



25           A.       Yes, I do.

(THOMPSON - CROSS BY GOLTZ)

2997

1           Q.       Do you accept subject to check -- and that  
2 number is \$1,782,748?

3           A.       Yes, it is.

4           Q.       Would you accept subject to check that the  
5 level of expense included therein is based upon the 53  
6 -- based upon the company's actual maintenance  
7 expenses, 53.5 percent of the company's allocated  
8 costs in its cost-of-service study for leased plant  
9 tariff schedules?

10          A.       Subject to check.

11          Q.       And the cost the Arthur Anderson study  
12 identifies as leased plant costs includes other kinds  
13 of plant such as marketing costs and other  
14 non-administrative costs?

15          A.       The costs that are allocated under our  
16 study are total cost. We did not take into account  
17 any of the previous allocations. We then did what we  
18 felt was the appropriate comprehensive allocation.

19          Q.       So, if the Commission wanted to eliminate  
20 the amount of allocated costs for the leasing program  
21 which you have identified consistent with staff's  
22 recommendation, but also consistent with the allocated  
23 dollars in your study, they would have to adjust the  
24 costs shown on Miss Thomas' exhibit to the amount

25 shown for operating maintenance, marketing, general,

(THOMPSON - CROSS BY GOLTZ)

2998

1 and taxes consistent with those shown in your Schedule  
2 Roman 4-4, and then apportioned by the amount of the  
3 equipment and installation costs which were set forth  
4 in Mr. Parvinen's exhibits to his testimony?

5 A. I am unfamiliar with Miss Thomas' exhibit  
6 and how it relates to the cost-of-service in the  
7 company's filing. So, I would be hesitant to tell you  
8 how to work these numbers together. I'm just not  
9 familiar enough with her exhibit to answer that  
10 question.

11 Q. Is the base cost included in your  
12 analysis, did Arthur Anderson attempt to apply the  
13 wage and benefits adjustment to per books cost in  
14 order to obtain the amount of costs included for  
15 ratemaking in each cost pool in this study?

16 A. We started with the 1991 test year cost.  
17 So, that would be -- and it actually ties into their  
18 books and records for 1991.

19 Q. So, there is no ratemaking adjustments to  
20 that?

21 A. That's my understanding.

22 Q. Would you accept subject to check -- and,  
23 again -- well, relating to Miss Thomas' adjustment,  
24 that her adjustment did not disturb the company's

25 assignment of marketing employees' salaries and other

(THOMPSON - CROSS BY GOLTZ)

2999

1 expenses to accounts for a number of items? And I'm  
2 just going to list them off here. I'm asking you to  
3 accept this subject to check.

4 A. Start that over again, please.

5 Q. Look at KLT 17, which is --

6 A. 17?

7 Q. 223.

8 A. Okay.

9 Would you accept subject to check that her  
10 adjustment did not disturb the company's assignment of  
11 marketing employees' salaries and other expenses to  
12 the following accounts: Mains and services expense,  
13 874; meter and house regulator expense, 879; serving  
14 domestic and commercial and industrial customers,  
15 customer billing and accounting, 903; credit and  
16 collection also 903; customer inquiries and orders,  
17 also 903; miscellaneous customer accounts expense,  
18 905; maintenance expense, 885 to 884, and  
19 merchandising accounts among others. Would you accept  
20 that subject to check?

21 A. Can we check among others? Can you be  
22 more specific?

23 Q. Well, this is not an exclusive list.

24 A. I just hesitate checking something I

25 can't.

(THOMPSON - CROSS BY GOLTZ)

3000

1 Q. Okay. Then let's strike among others.

2 A. Subject to check.

3 Q. You understand both scenario B and  
4 scenario B of the cost study, it was assumed that  
5 jobbing was a utility function; correct?

6 A. That is correct.

7 Q. And jobbing would include work on  
8 equipment service contracts and parts work on  
9 customer-owned equipment?

10 A. Yes.

11 Q. And the costs associated with performing  
12 the service contract work was brought above the line  
13 in both scenarios?

14 A. I believe that's correct, yes.

15 Q. And that would include the costs in  
16 account 416.31, service contract costs?

17 A. I'll have to check that again because of  
18 our costs being total costs. We didn't look at above  
19 and below the line classifications. We looked at  
20 total costs and determining whether they were utility,  
21 leasing, merchandising, or affiliate. And so when you  
22 say you start giving me account numbers we worked off  
23 of responsibility codes, I would answer I believe that  
24 to be correct. But I would like to check that. But

25 we didn't look at the above and below the line split.

(THOMPSON - CROSS BY GOLTZ)

3001

1 Q. Can you accept that subject to check then?

2 A. That would be fine.

3 Q. And do you know if offsetting revenues  
4 specifically account 415.28, service contract billed  
5 associated with the service contracts was also brought  
6 above the line?

7 A. I believe -- now, in our study we dealt  
8 with the costs -- I do believe there is an adjustment.  
9 Mr. Corbin is making consistent with the staff  
10 recommendation that revenue derived from jobbing be  
11 brought above the line. He could probably better  
12 respond to that question.

13 Q. Parts work would include the repair and  
14 maintenance on customer-owned equipment? Is that your  
15 understanding of what that is?

16 A. Basically my understanding of what that is  
17 -- I'll just tell you the way it was explained to me  
18 was you go out. There is a service call. Someone  
19 goes out because either their house is cold or they  
20 smell gas or something else. And the serviceman goes  
21 out. And while they are there they determine that an  
22 appliance needs to be -- I think the thermocoupler was  
23 the one being mentioned. If they have the part they  
24 will go ahead and can replace it. That's basically

25 the example that I was given.

(THOMPSON - CROSS BY GOLTZ)

3002

1 Q. Under both scenarios, that account was  
2 brought above the line?

3 A. Again, when we looked at the allocation,  
4 jobbing was considered to be a utility function. We  
5 looked at total costs, not above and below the line  
6 costs. And, again, the revenue adjustment I would  
7 refer you to Mr. Corbin.

8 Q. Let me ask one final line of questions:  
9 Have you performed a reconciliation  
10 between staff's direct case and the results of the  
11 cost studies under scenarios A and B by cost pool?  
12 Have you?

13 A. Just a moment. We have done a comparative  
14 analysis of the merchandising allocation by cost pool  
15 between scenario A and B, the company and the staff.  
16 I guess the answer is yes.

17 Q. Would you agree that Arthur Anderson's  
18 scenario A is more similar to staff's cost study than  
19 scenario B is, scenario A merchandising is assumed to  
20 be a division of Washington Natural Gas rather than a  
21 separate affiliate?

22 A. I would say that the assumptions used by  
23 the staff and the assumptions used in scenario A  
24 certainly are similar. But you look at the dollars

25 derived between the staff and our scenario A. The

(THOMPSON - CROSS BY GOLTZ)

3003

1 staff's adjustment is \$72 million and our adjustment  
2 under scenario A was \$64 million.

3 Q. The document you're looking at, maybe I  
4 should see that to make sure it's the same one I'm  
5 looking at. I don't know if it is.

6 A. I doubt that it is. This is our -- you  
7 asked me if we had done one, and we have a comparison.

8 Q. You do have a comparison?

9 A. That we performed.

10 MR. GOLTZ: I would like to pass out an  
11 exhibit here which I think incorporates what you have.

12 MR. ADAMS: Could we go off the record for  
13 just a second?

14 (Discussion held off the record.)

15 JUDGE ANDERL: Let's be back on the  
16 record.

17 I have been handed a two-page document  
18 which I have marked for identification as Exhibit No.  
19 328.

20 (Marked Exhibit 328.)

21 JUDGE ANDERL: It indicates that it is a  
22 comparison. At least that's what it says near the top  
23 of the page.

24 BY MR. GOLTZ:

25 Q. Have you seen this document before?

(THOMPSON - CROSS BY GOLTZ)

3004

1 A. This appears to be a copy of a document I  
2 received from Mr. Russell this morning.

3 Q. Is it not a document prepared by Mr.  
4 Russell attempting to reconcile staff's cost  
5 allocation study results and those of Arthur  
6 Anderson's under scenarios A and B for --

7 A. I think it's a comparison of the two.

8 Q. And --

9 A. That's the attempt.

10 Q. And you have had some time to look at this  
11 exhibit?

12 A. Yes, we have.

13 Q. And would you agree that this exhibit  
14 reflects the differences between the parties' cost  
15 allocation studies?

16 A. We haven't been able to totally verify  
17 this exhibit. So, again, we'll have to accept that  
18 subject to check. There is still a few numbers that  
19 we would -- could not tie back to ours.

20 But if we can accept this subject to check  
21 and we'll go ahead and clear that up with Mr. Russell.

22 Q. I can't ask for anything more than that.

23 A. We'll just add it to the list.

24 Q. And just the first page of this



25 illustrates the difference between the staff's direct

(THOMPSON - CROSS BY GOLTZ)

3005

1 case and the results of Arthur Anderson's scenario A,  
2 cost allocation study?

3 A. Yes, that's what it says.

4 Q. And the reconciliation on lines 25 and 28  
5 gives the major difference between the parties under  
6 scenario A and the area of marketing advertising; is  
7 that correct?

8 MR. GRANT: Are you asking the witness to  
9 accept these statements subject to check also, Mr.  
10 Goltz?

11 MR. GOLTZ: Sure. That's fine if that's  
12 what she would like.

13 THE WITNESS: The document shows that on  
14 line 26 there is a difference of \$4.9 million and on  
15 line 27 there is a difference of \$1.9 out of a total  
16 difference of \$6.5 million.

17 Q. And the difference for -- looking up at  
18 line 25, which excludes the marketing and advertising  
19 which is referred to in this document Line 28 is Miss  
20 Thomas' issues, the Line 25 which is identified as Mr.  
21 Russell's issues is 542, is that correct?

22 A. That's what this document shows.

23 Q. And you're willing to accept this document  
24 -- the figures in this document subject to check?

25           A.       Yes.

(THOMPSON - CROSS BY GOLTZ)

3006

1           MR. GOLTZ:  Thank you.  I have nothing  
2 further.

3           JUDGE ANDERL:  Does the company have any  
4 objection to that exhibit?

5           MR. GOLTZ:  I would like to offer that  
6 subject to check.

7           MR. GRANT:  No objection.

8           JUDGE ANDERL:  Mr. Adams?

9           MR. ADAMS:  No.

10          JUDGE ANDERL:  I will admit Exhibit 328  
11 subject to check.

12          (Admitted Exhibit 328.)

13          JUDGE ANDERL:  I have a question on this  
14 exhibit as a point of clarification.

15          Are all of these documents -- numbers  
16 missing three zeroes on the end or only some of them?  
17 It doesn't look like net investment is.

18          MR. GOLTZ:  It's my understanding --

19          JUDGE ANDERL:  All of them, Mr. Goltz?

20          MR. GOLTZ:  I think that the answer to  
21 that is this was prepared in two pieces, and the  
22 expenses to answer your question is yes.  For net  
23 investment the answer is no.

24          JUDGE ANDERL:  That's the way it seemed.

25 But just so that it's clear. I don't like to assume

(THOMPSON - CROSS BY GOLTZ)

3007

1 anything.

2 Do you have further questions, Mr. Goltz?

3 MR. GOLTZ: No.

4 JUDGE ANDERL: Okay.

5 Mr. Adams, then, I guess we'll go to you  
6 for cross.

7 MR. ADAMS: Yes.

8

9

CROSS-EXAMINATION

10 BY MR. ADAMS:

11 Q. Miss Thomas, I have some little technical  
12 questions for you.

13 JUDGE ANDERL: Let me just interrupt. You  
14 had originally given me a 15-minute estimate. Does  
15 that still seem about right?

16 MR. ADAMS: Yes.

17 JUDGE ANDERL: Let's go then.

18 Q. At page 5 of your testimony, the very top  
19 of the page, you refer to FCC rules that were adopted  
20 in 1988.

21 A. Yes.

22 Q. Am I correct that that's a reference to  
23 FCC Order No. 86-111?

24 A. 86-111, yes.

25 Q. Is that a part 64?

(THOMAS - CROSS BY ADAMS)

3008

1 A. Following that the rules were part 64.  
2 It's been adopted, yes, and that's typically what it's  
3 referred to as now.

4 Q. Okay. Now, am I correct that you were  
5 stating on page 5 that Order No. 86-111 has cost  
6 allocation procedures which are comparable to the cost  
7 accounting standard board procedures which you  
8 followed in this case?

9 A. If you look at the actual cost allocation  
10 rules contained in part 64, they are similar when you  
11 go through the direct allocation, indirect allocation,  
12 and then some general allocator, yes.

13 Q. Isn't it correct or would you accept  
14 subject to check is that Order No. 86-111 also  
15 provides that in instances where a regulated telephone  
16 company provides services to a non-regulated  
17 affiliate, that such services should be priced at the  
18 higher of the cost of providing those services or  
19 market value?

20 A. That's correct.

21 Q. Turning to page 7 of your testimony,  
22 approximately line 10, you start discussion and as I  
23 understand it you have used what you characterize as  
24 an ABC approach? That is the activity based costing

25 approach?

(THOMAS - CROSS BY ADAMS)

3009

1 A. We have used an activity based costing  
2 approach, yes.

3 Q. Does the activity based costing approach  
4 consider any intangible benefits of a smaller  
5 affiliate being associated with a larger, well  
6 established business?

7 A. An ABC system looks to the products and  
8 services, the costs associated with those costs and  
9 services, and then the drivers. It's strictly a cost  
10 allocation of existing costs. And so intangibles that  
11 are not captured in a cost system would not be  
12 included in an ABC system.

13 Q. So, if the non-regulated entities of  
14 Washington Natural are enjoying any benefits vis-a-vis  
15 the established business practices of Washington  
16 Natural or the name and business reputation of  
17 Washington Natural, your study would not assign any  
18 costs or benefits associated with such good will; is  
19 that correct?

20 A. If the good will is not captured as a  
21 cost, it would not be allocated.

22 Q. Now, just going to the general study that  
23 you performed, you throughout your testimony have used  
24 the word we, for instance, when you were talking about

25 meeting with staff. And I think I understood from the

(THOMAS - CROSS BY ADAMS)

3010

1 answer -- from your answers that you personally did  
2 not meet with staff; is that correct?

3 A. That's correct, I did not.

4 Q. As I understand it, you're based in  
5 Dallas. So, was most of the study conducted here by  
6 Seattle -- the Seattle office of Arthur Anderson?

7 A. It was a group of folks. We had about  
8 thirteen people on the study. It was primarily the  
9 Seattle office. We had a staff person from Dallas, I  
10 believe one from Phoenix and folks from Los Angeles  
11 and then myself from Dallas.

12 Q. But when you refer to meetings being held,  
13 those were in Seattle; is that correct?

14 A. Olympia, I think. I will have to check  
15 it. It was this general area.

16 Q. Okay. There was extensive questions about  
17 workpapers. Why were the workpapers not brought to  
18 this proceeding?

19 A. Why were the workpapers not brought to  
20 this proceeding?

21 Q. Yes.

22 A. We had made them available for staff and  
23 did not contemplate needing them. Certainly they have  
24 been available in our offices and were available

25 through the data requests and have been so for at

(THOMAS - CROSS BY ADAMS)

3011

1 least three weeks.

2 Q. They are available in Seattle; is that  
3 correct?

4 A. Yes.

5 MR. ADAMS: That's all I have. Thank you.

6 JUDGE ANDERL: Thank you, Mr. Adams.

7 Commissioners, any questions for this  
8 witness?

9 CHAIRMAN NELSON: Yes.

10

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

12 BY CHAIRMAN NELSON:

13 Q. Miss Thompson, can you tell me as a  
14 non-accountant in your own words why the Commission  
15 should adopt your study in this case?

16 A. Should I be the non-accountant?

17 Q. I am. I'm sorry. The listener is a  
18 non-accountant.

19 A. I believe that one of the reasons it  
20 would make sense to adopt this, our study, is, one, we  
21 have extensive experience in conducting cost  
22 allocation studies;

23 Two, we literally did this study with a  
24 clean sheet of paper dealing with total costs, in

25 depth interviews were conducted, detailed information

(THOMAS - EXAM BY CHAIRMAN NELSON)

3012

1 was looked at, and it was a very independent and  
2 objective study which produced obviously different  
3 results from both the staff and the company.

4 I feel very comfortable that it was very  
5 rational and systematic in its objective. And what  
6 the Commission is trying to arrive at, I believe, is  
7 what is the reasonable level of utility costs. And if  
8 you look to the costs that we have on a fully  
9 comprehensive basis -- when I say fully comprehensive  
10 basis, what that means is we're allocating common  
11 costs as well, to the four groups -- what you end up  
12 with is the reasonable level of costs for the  
13 provision of utility services after these adjustments  
14 have been made.

15 So, I really think if you look, ours is  
16 very objective and also very comprehensive and  
17 detailed.

18 Q. I hear what your answer is, one, your  
19 expertise and, two, your independence should allow us  
20 to find the the middle way. What I heard in Mr.  
21 Goltz' questions were concerns about replicating it in  
22 the future. That is, by non-Arthur Anderson  
23 personnel.

24 A. Right.



25 Q. Do you have any way of allaying concerns

(THOMAS - EXAM BY CHAIRMAN NELSON)

3013

1 about costs of conducting rate cases of our  
2 administrative resources for a regulatory agency?  
3 What I understand is we have to have you employed  
4 in the next rate case, which presumably will be in a  
5 shorter period of time coming than this one was.

6 A. Okay. I think one of the ways that I  
7 would look at that is, actually, we have, if you look  
8 at it, two studies. We have a scenario A study and a  
9 scenario B study. If you follow the scenario B study,  
10 the costs that will need to be allocated again are  
11 going to be governance costs only. But if you look at  
12 what has actually been done in the work effort coming  
13 out of this, if you were to want them to follow this  
14 approach in the future for cost allocation, I think  
15 there has been a good foundation in the effort that  
16 then you could develop or the company could then  
17 develop the procedures to enable them to update the  
18 study.

19 Certainly as we mentioned, the  
20 information, the historical information that we built  
21 this off of, including the time information, the  
22 calling information, and other things was readily  
23 available for the most part at the company.

24 So, I don't think that that's an

25 insurmountable task, no. Has it been done yet? No.

(THOMAS - EXAM BY CHAIRMAN NELSON)

3014

1 But I think it could be.

2 CHAIRMAN NELSON: Thank you.

3 COMMISSIONER CASAD: I have no questions.

4

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

6 BY COMMISSIONER HEMSTAD:

7 Q. I take it from your comment about your  
8 expertise that Arthur Anderson has extensive  
9 experience in preparing cost studies in the utility  
10 industry?

11 A. We have a lot of experience in preparing  
12 cost studies or auditing cost studies, both, in the  
13 utility and telecom.

14 Q. How would you describe the methodology?  
15 What name do you give to the methodology that you have  
16 applied here?

17 A. It's an activity based costing, and it's a  
18 comprehensive allocation.

19 Q. Would that be a fully distributed cost?

20 A. That would be another terminology you  
21 could use.

22 Q. And is that the methodology that the  
23 staff has applied?

24 A. I think it's the methodology the staff

25 attempted.

(THOMAS - EXAM BY COMMISSIONER HEMSTAD)

3015

1 Q. But you would disagree with the details  
2 of how to apply it?

3 A. Well, I think what I would disagree with  
4 is the staff had limitations on the time they had to  
5 conduct the review. And I don't think they were able  
6 to get into near the level of detail we were. And I  
7 think that's one of the primary reasons for the  
8 differences other than the ratemaking adjustments that  
9 have been proposed.

10 Q. Now, if some other national accounting  
11 firm, say Ernst and Whinney, if that's the current  
12 name --

13 A. It's not.

14 Q. They seem to be changing so rapidly --  
15 were to do this same study, applying that technique,  
16 would -- and they had the kind of expertise which you  
17 do, would the results be essentially the same as  
18 yours?

19 A. It's Ernst and Young. And I actually  
20 do believe -- I don't think there is any question when  
21 you go through this type of process there is judgment.  
22 There has to be a degree of judgment involved.

23 But I do believe that the results of any  
24 firm doing a study like this using this approach and

25 applying reasonable judgment would come up with

(THOMAS - EXAM BY COMMISSIONER HEMSTAD)

3016

1 results very similar to ours. Would they be exactly  
2 the same? Probably not because there is judgment  
3 involved. But I think the results would be very  
4 similar.

5 Q. As you sit there and go through item by  
6 item, even though you describe them as objective, they  
7 are judgmental in measurement?

8 A. They are judgmental in deciding on what is  
9 the best way to measure the driver in the allocation.  
10 There is some judgment. Again it's a very reasonable  
11 basis. We challenged ourself on some of those and  
12 still kept coming up with differences but did not  
13 produce different results.

14 Q. How does this approach or compare or  
15 contrast with a long-run incremental cost study? I  
16 don't want a treatise answer.

17 A. There is a number of different terms  
18 that are used in cost allocation. Typically when you  
19 look at an incremental allocation, that is measuring  
20 only the incremental costs. Some view that as  
21 measuring the costs as if that service line were to go  
22 away is a way that measure the incremental costs and  
23 quite often it's only incremental costs and does not  
24 allocate your common costs or anything else. So it's

25 just strictly eliminating the costs that can be

(THOMAS - EXAM BY COMMISSIONER HEMSTAD)

3017

1 specifically associated with an activity.

2 Q. So, you went through a process of  
3 allocating costs and you come up with a total cost for  
4 -- in scenario B, I think, for a separate affiliate?

5 A. Actually, we didn't. In scenario B what  
6 we came up with is how many dollars would be removed  
7 from the utility. But the dollars allocated to  
8 merchandising are not necessarily the dollars  
9 necessary to run merchandising.

10 Q. I think I understand that. But under  
11 scenario A you would come up with the total allocated  
12 cost for that function within the company?

13 A. Right. Scenario A assumes merchandising  
14 is still part of the company. That's correct.

15 Q. In III of your cost study which is the  
16 results section, the third paragraph reads: "The 1.8  
17 million difference represents the incremental costs to  
18 WNG of providing services and use of facilities to  
19 merchandising segments of affiliates."

20 How does that reference to incremental  
21 costs relate to the cost allocation process that you  
22 have described?

23 A. Basically what that's saying -- let me  
24 give you as an example. I think it's probably best

25 served by example -- postage is probably a classic.

(THOMAS - EXAM BY COMMISSIONER HEMSTAD)

3018

1 When you go through and allocate out part of the costs  
2 because of the bills covering both merchandise and  
3 utilities, under scenario A you actually have an  
4 allocation. When you go to scenario B the bills are  
5 still going to have to be sent out. There is no  
6 allocation. The costs being removed from the utility  
7 is zero because that's still there.

8                   So, when we talk about the incremental  
9 costs, it's basically those services or costs that are  
10 shared of a utility in merchandising because  
11 merchandising is part of the utility. So, the term  
12 incremental may be somewhat of a misnomer relative to  
13 our most recent discussion. But that's all we were  
14 looking at is just that differential.

15           Q.     If you took the hypothetical of a company  
16 like Washington Natural Gas, which currently is not in  
17 the merchandising business, and it decides to enter  
18 that business and projects a level of activity  
19 comparable to that which Washington Natural Gas now  
20 has.

21           A.     All right.

22           Q.     Would its additional costs be the  
23 equivalent of the allocated costs in your scenario A  
24 to enter that as a new activity of the company?

25           A.       That's an interesting way to look at it.

(THOMAS - EXAM BY COMMISSIONER HEMSTAD)

3019

1    But the incremental cost relative to providing those  
2    services within the gas company, yes, would drive it  
3    back up to scenario A as it relates to the utility.  
4    It doesn't capture necessarily all of the cost, the  
5    difference between B, because we didn't  
6    look at merchandising. We looked at it from a  
7    different view.

8                    But, yes, I think it would show the  
9    additive cost to the utility to provide the  
10   merchandising function as it relates to the '91 cost  
11   pool that we already had.

12           Q.       So, in that sense are they essentially  
13   identical to an incremental cost analysis?

14           A.       I don't believe so. I don't believe  
15   so. And the reason I say that is in a pure  
16   incremental cost analysis, I would say that most  
17   people would suggest that an incremental cost analysis  
18   does not necessarily look at common cost, governance  
19   costs, all of those costs that would be there anyway  
20   would never be captured in an incremental cost  
21   analysis.

22                    If you look even at what scenario B was,  
23   we again looked at the cost that would still be in the  
24   utility even if the merchandise were to go away. Yet

25 there are still costs to be allocated over the

(THOMAS - EXAM BY COMMISSIONER HEMSTAD)

3020

1 merchandising recognizing that merchandising would be  
2 a separate subsidiary.

3 I don't think that it would be an  
4 incremental approach. I don't think it's that clean  
5 cut.

6 Q. Let me ask the question from a different  
7 direction then: Are the ratepayers going to be better  
8 off under scenario A or under scenario B?

9 A. That's a good question:

10 Under our analysis, there are more costs  
11 in the utility under scenario B than there are under  
12 scenario A.

13 Q. Therefore, which way will the ratepayer  
14 be better off?

15 A. If you measure it simply based on cost  
16 allocation, there is -- because of the costs being  
17 allocated over the merchandising function in scenario  
18 A and that sharing, if that's the only factor you  
19 consider, that would be the lower cost.

20 Q. Mr. Thorpe's testimony this morning would  
21 suggest that there are other problems with static.  
22 That's the way he put it.

23 A. I don't recall that word, but I was here  
24 for his testimony.



25 Q. That's my word.

(THOMAS - EXAM BY COMMISSIONER HEMSTAD)

3021

1 A. Okay.

2 Q. That would at least cause the company to  
3 recommend scenario B.

4 A. I believe there are other factors that  
5 enter into their decision.

6 Q. To make a complete separation even though  
7 your own opinion is it can't be complete because he  
8 still has common costs over executive salaries and  
9 executive oversight and the like.

10 A. There are still going to be costs in  
11 scenario B. I personally don't think those would be  
12 very difficult to overcome and I say that really based  
13 on my experience with other companies both that have  
14 allocations within the company themselves and those  
15 that have totally separate subsidiaries.

16 And the level of -- and this is truly  
17 based on my experience with other Commissions so I  
18 don't know what Washington would do.

19 You don't have near the level of effort in  
20 a regulatory proceeding when all you're dealing with  
21 is the governance functions in that allocation. When  
22 you're dealing with all the costs throughout the  
23 organization there is a whole different level of  
24 effort both from accounting as well as the regulatory

25 oversight which would be under scenario A. Does that

(THOMAS - EXAM BY COMMISSIONER HEMSTAD)

3022

1 offset the dollars we're talking about? I can't tell  
2 you that. But that's another fact that would lead to  
3 the decision.

4 Q. Under this kind of a cost allocation  
5 methodology and with a company that has mixed  
6 regulated and market based activities, does the  
7 company get the right pricing signals as to how to  
8 price above costs its competitive service?

9 A. It's an interesting question because  
10 I'll have to get into almost an esoteric answer. So,  
11 I'll try not to do that. Unfortunately when you get  
12 under competitive services, fully distributed costs  
13 does not produce the right pricing signals is my  
14 personal opinion.

15 Q. But that's what we're using here.

16 A. Actually what they are using here is  
17 they are shifting over and capturing the actual cost  
18 of what the merchandising function is and they will  
19 only have the cost of whatever the governance is  
20 because you won't even be utilizing the building and  
21 other things. So, there will be some that comes over  
22 which are the governance costs. On a true pricing  
23 decision you typically would not pick up those costs  
24 either if you were really looking at market based

25 pricing.

(THOMAS - EXAM BY COMMISSIONER HEMSTAD)

3023

1 Q. That's all the questions I have.

2 A. Okay.

3 JUDGE ANDERL: Commissioners, anything  
4 else for this witness? Commissioner Casad, you look  
5 like you might have something.

6

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

8 BY COMMISSIONER CASAD:

9 Q. Can you tell me why briefly, why scenario  
10 B is more -- costs more for ratepayers than scenario  
11 A?

12 A. Well, the reason scenario B -- scenario  
13 B leaves more costs in the utility than scenario A.  
14 And basically it's because -- in the instance that I  
15 gave you was postage -- I believe I gave you was  
16 postage.

17 What happens is you'll have postage in the  
18 utility. It will not decrease because you will still  
19 be mailing out the bills. So, the separate subsidiary  
20 of merchandising doesn't decrease that cost for the  
21 utility.

22 If merchandising and the bill was going  
23 out together with the utility bill, part of those  
24 costs would be allocated over to the merchandising

25 function. So, the remaining costs to be recovered

(THOMAS - EXAM BY COMMISSIONER CASAD)

3024

1 from the ratepayers would be less.

2 So, basically, it's the shared resources  
3 under scenario A and the allocation and  
4 merchandising.

5 Q. Under Mr. Thorpe's instance there is no  
6 cost impact to the other entity of that billing  
7 process. It costs you \$.23. And there is no shared  
8 allocation of costs in the present context. And  
9 you're saying that, if they were a separate  
10 subsidiary, they would not pick up --

11 A. Actually, your question is another way  
12 to look at this is not the comparison we have been  
13 making but, rather, under your hypothetical and you  
14 had a company that did not have a merchandising  
15 operation and they were to go and set up a separate  
16 subsidiary merchandising operation, totally  
17 separate and apart, your ratepayers would be  
18 unaffected.

19 Q. Right.

20 A. That's perhaps a better view of it because  
21 our comparison now is to the status quo as we know  
22 it today and the '91 costs versus what it would be if  
23 you were to set up a merchandising subsidiary separate  
24 and apart. The utility cost would still be what they

25 need to be to support your utility services.

(THOMAS - EXAM BY COMMISSIONER CASAD)

3025

1 Q. So, there is no cost impact there as far  
2 as the regulated utility is concerned. And whatever  
3 cost impact was felt would be felt by the new  
4 unregulated subsidiary, but it would not be felt by  
5 ratepayers?

6 A. In the hypothetical I just laid out for  
7 you, it would not be felt by ratepayers. In the case  
8 of our analysis of scenario A and scenario B, the  
9 remaining cost under scenario B in the utility are  
10 those costs necessary to provide the utility services.  
11 They are greater than the '91 costs would have been  
12 had the merchandising function remained by the order  
13 of magnitude of \$1.7 million.

14 Q. Essentially you're supporting Mr. Thorpe's  
15 testimony that the unregulated activities or the  
16 merchandising and jobbing activities of the company  
17 are subsidizing the regulated activities? That's not  
18 the proper term to use in the present context, but are  
19 supporting the other elements of the utilities  
20 operation.

21 A. I would say that there are certain areas  
22 that we looked at that based on our allocation of  
23 costs we would actually allocate less to merchandising  
24 than has currently been allocated. I would hesitate

25 to go the complete agreement with the statement just

(THOMAS - EXAM BY COMMISSIONER CASAD)

3026

1 simply because of the view that you take.

2 Now, if your view is the one I looked at  
3 which is the last one we talked about was if you had a  
4 utility and you created a separate subsidiary, the  
5 utility ratepayers would not be impacted if you're  
6 starting out from scratch.

7 Q. And, of course, there is another cost  
8 element which I have not heard mentioned, and those  
9 are the long-range costs which would occur. Mr.  
10 Thorpe's testimony was that we have a situation where  
11 we have had a constant battle regarding the M and J  
12 activities of the company.

13 So, in order to resolve that battle, we're  
14 going to establish a separate subsidiary which there  
15 will be no commingling of costs. There will be no  
16 cost allocation. It's a separate subsidiary which  
17 will operate in an unregulated environment on its own.  
18 Therefore, we will not have the future long-range  
19 costs of battling every year or every rate case about  
20 what is properly allocable to the regulated utility  
21 and what is allocable to the M and J functions.

22 And depending on how those costs are  
23 allocated, there is a substantial difference over time  
24 in the allocation of those costs. And by establishing

25 the separate subsidiary you simply won't have that in

(THOMAS - EXAM BY COMMISSIONER CASAD)

3027

1 the future.

2 A. You eliminate the need to allocate most  
3 of the cost. You still have the governance function  
4 that I talked about earlier. But certainly a separate  
5 subsidiary as suggested by the company would eliminate  
6 some of that concern.

7 Q. In Arthur Anderson's practice, it seems in  
8 the regulatory environment that the standard response  
9 to cross subsidies or alleged cross subsidies in  
10 utilities is the establishment of a separate  
11 subsidiary as the panacea for all these cross subsidy  
12 kinds of issues.

13 So, it's kind of interesting to look at  
14 this in the context maybe that's not the panacea.  
15 Maybe establishment of the separate subsidiary is not  
16 going to be cost effective.

17 What's the experience of Arthur Anderson  
18 in its practice regarding the viability of  
19 establishing separate subsidiaries? Does that solve  
20 those problems? And is it recommended?

21 A. It really depends on the facts and  
22 circumstances of each given client's situation. You  
23 know, the difficult thing when you go in to management  
24 deciding do they want to create a separate subsidiary

25 or do they want to continue operating out of the

(THOMAS - EXAM BY COMMISSIONER CASAD)

3028

1 utility takes on a whole -- there is a number of  
2 different dimensions. One is, is this a business line  
3 that you want to differentiate? Two, has the  
4 regulatory and the media pain gotten to the point that  
5 you have got to get through that because it's made  
6 things so difficult?

7                   And then, three, is there a fundamental  
8 business reason to set up a separate subsidiary for  
9 other reasons than I laid out.

10                   The tough thing that you have to overcome  
11 is looking to see whether or not that results in the  
12 most efficient utilization of your available business  
13 resources. And I think sometimes -- again, depending  
14 on the facts and circumstances, the creation of a  
15 separate subsidiary from a simple dollar standpoint  
16 may not result in the most efficient utilization of  
17 the business resources. It ends up duplicating some.

18                   Is that responsive?

19           Q.       It is. It's responsive and it's  
20 interesting. And I was going to make a comment. I'll  
21 reserve it and not make it.

22                   COMMISSIONER HEMSTAD: That's the  
23 \$1.7 million. That's the price of separation. Those  
24 are shared costs if, again, my phrase, putting aside



25 the static factor, the shareholders and the ratepayers

(THOMAS - EXAM BY COMMISSIONER CASAD)

3029

1 or society generally would be better off but for that  
2 dimension. Isn't that true?

3 THE WITNESS: Based on the '91 costs, I  
4 would agree with that.

5 COMMISSIONER HEMSTAD: That would be a  
6 question of who was going to pay, whether it was the  
7 ratepayers or shareholders?

8 THE WITNESS: I think that's probably the  
9 issue of just about everything before the Commission.

10 COMMISSIONER HEMSTAD: But that's the  
11 price of separation?

12 THE WITNESS: As measured based on the '91  
13 dollars and the measure based on the information that  
14 we had from '91, again considering only the cost  
15 factors and not the other factors.

16 JUDGE ANDERL: Anything else from the  
17 Commissioners for this witness?

18 I have one brief question:

19 Miss Thompson, referring to Exhibit 328,  
20 which is the comparison of of the Arthur Anderson  
21 study with --

22 THE WITNESS: This is the one accepted  
23 subject to check?

24 JUDGE ANDERL: Yes. Going down to Lines

25 30 and 31, you show allocations of 1.1 and \$1.4

(THOMAS - EXAM BY COMMISSIONER CASAD)

3030

1 million in the second column over? You don't show it,  
2 but the exhibit shows it.

3 Are you with me?

4 THE WITNESS: I'm with you on the line.

5 JUDGE ANDERL: Okay. My question is:

6 Turning to Page 2, those same lines, that same column,  
7 there are no allocations.

8 THE WITNESS: Right.

9 JUDGE ANDERL: What happened to those 1.1  
10 and \$1.4 million?

11 THE WITNESS: Basically when we looked at  
12 the investment in the buildings under scenario A we  
13 allocate part of the square footage to where you  
14 walked in and all the appliances are setting. Part of  
15 that is for the merchandising function.

16 When they set up the separate subsidiary  
17 and moved the merchandising function physically out of  
18 the utility, that space will not go away. And so  
19 there is no -- those dollars of the building must  
20 remain with the utility. Again, the focus was dollars  
21 removed from the utility was the purpose of our study.

22 JUDGE ANDERL: Okay.

23 I don't know if you can answer this or  
24 not. But does that space then become excess capacity

25 for the utility?

(THOMAS - EXAM BY COMMISSIONER CASAD)

3031

1 THE WITNESS: I believe Mr. Thorpe was  
2 asked that question this morning. And I don't have  
3 any different information than what he testified to  
4 this morning.

5 JUDGE ANDERL: All right. Thank you.  
6 Anything on redirect for this witness?

7 MR. GRANT: No, your Honor.

8 MR. GOLTZ: I have one question following  
9 up on what Commissioner Hemstad raised in the  
10 hypothetical, and let me twist the hypothetical a  
11 little bit about a hypothetical new company. Let's  
12 assume a new company undertakes merchandising  
13 functions only of a scope similar to that which is now  
14 undertaken by Washington Natural Gas. Isn't it true  
15 that its costs would exceed those allocated outside  
16 the utility under either scenario A or scenario B?

17 THE WITNESS: I don't have a basis to  
18 answer that question. I could answer as a  
19 hypothetical.

20 MR. GOLTZ: That's why I'm asking.

21 THE WITNESS: I would have to say yes. I  
22 would think so. But without knowing the new company  
23 and all that, I'll answer it as a hypothetical.

24 MR. GOLTZ: Thank you.

25

JUDGE ANDERL: Mr. Adams?

(THOMAS - EXAM BY COMMISSIONER CASAD)

3032

1 MR. ADAMS: Yes. Miss Thompson, I think I  
2 have lost sight of the ball in all of this discussion.  
3 If I look at your study, I guess it's the results No.  
4 3, Section 3, Page 2, and look at the costs under  
5 merchandise, I'm seeing the figures of basically 64.1  
6 and 62.4 for scenarios A and B; correct?

7 THE WITNESS: That's correct.

8 MR. ADAMS: How do those numbers  
9 correspond to the company's presented numbers that  
10 they filed in this case? I'm trying to figure out are  
11 your numbers larger or smaller than the company's  
12 initial presentation in this case?

13 THE WITNESS: The analysis that we  
14 actually prepared, which is different than the exhibit  
15 I have subject to check, would indicate that under  
16 scenario A and B the numbers which you have just read  
17 out, the company's amount that was removed was between  
18 \$55,351,000, our scenario A is rough 8.7 million more  
19 and under scenario B I believe it's 6. -- I have got a  
20 rounded number here which is 7, but I think that's too  
21 high. If you look at my testimony on Page 9, Lines 19  
22 through 25, you get the dollar impact of our  
23 adjustment over and above that proposed by the  
24 company.

25 MR. ADAMS: That's the .9 million?

(THOMAS - EXAM BY COMMISSIONER CASAD)

3033

1 THE WITNESS: The .9 is to the affiliates.  
2 The 6.9 million is to merchandising. That's Line 23.

3 MR. ADAMS: Are those costs?

4 THE WITNESS: They are greater than what  
5 the company allocated.

6 MR. ADAMS: Do you know what the revenue  
7 requirement difference is?

8 THE WITNESS: I believe Mr. Corbin has  
9 done an adjustment to reflect our scenario B and  
10 would probably be best able to calculate the revenue  
11 requirement.

12 MR. ADAMS: I could get an A and B revenue  
13 requirement from Mr. Corbin?

14 THE WITNESS: I hate to commit him to  
15 that.

16 MR. ADAMS: Feel free.

17 Finally, all of this is focused on the  
18 cost side. What are the revenues from these same  
19 operations?

20 THE WITNESS: It is focusing on the costs  
21 only, and I don't have the revenues readily available.  
22 We could get those for you.

23 MR. ADAMS: Would there be another company  
24 witness who could supply the number? The revenues

25 wouldn't change under either scenario?

(THOMAS - EXAM BY COMMISSIONER CASAD)

3034

1 THE WITNESS: No. We would have  
2 merchandise revenues, and I'm sure the Company would  
3 have that information. I would think Mr. Torgerson  
4 could furnish that information for the test year 1991.

5 MR. ADAMS: Would they be the equivalent  
6 revenues for the period of time that you analyzed  
7 costs?

8 THE WITNESS: He could provide you  
9 revenues for 1991.

10 MR. ADAMS: Thank you.

11 THE COURT: Anything further for this  
12 witness? Mr. Grant?

13 MR. GRANT: No questions.

14 THE COURT: Thank you, Miss Thompson, for  
15 your testimony. You may step down.

16 The Commission has a meeting at 9:00  
17 tomorrow morning. We'll reconvene at 9:30.

18 (At 5:10 p.m. the above hearing was  
19 recessed until Wednesday, July 7, 1993, at 9:30 a.m.)

20

21

22

23

24

