

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
2 COMMISSION

3 In the Matter of the Proposal by)  
4 PUGET SOUND POWER & LIGHT )  
COMPANY )  
5 ) DOCKET NO. UE-951270  
to Transfer Revenues from PRAM )  
6 Rates to General Rates. )  
-----)

7 In the Matter of the Application)  
of )  
8 )  
9 PUGET SOUND POWER & LIGHT )  
and )  
10 WASHINGTON NATURAL GAS COMPANY ) DOCKET NO. UE-960195  
For an Order Authorizing the ) VOLUME 5  
11 Merger of WASHINGTON ENERGY ) Pages 520 - 722  
COMPANY and WASHINGTON NATURAL )  
12 GAS COMPANY with and into PUGET )  
SOUND POWER & LIGHT COMPANY, and)  
13 Authorizing the Issuance of )  
Securities, Assumption of )  
14 Obligations, Adoption of )  
Tariffs, and Authorizations )  
15 in Connection Therewith. )  
-----)

16  
17 A hearing in the above matter was held on  
18 August 2, 1996, at 9:00 a.m. at 1300 South Evergreen  
19 Park Drive Southwest, Olympia, Washington before  
20 Commissioners RICHARD HEMSTAD and WILLIAM R. GILLIS and  
21 Administrative Law Judge MARJORIE R. SCHAER.

22  
23  
24 Cheryl Macdonald, CSR  
25 Court Reporter

1           The parties were present as follows:

2           WASHINGTON UTILITIES AND TRANSPORTATION  
3 COMMISSION STAFF, by ROBERT CEDARBAUM, Assistant  
4 Attorney General, 1400 South Evergreen Park Drive  
5 Southwest, Olympia, Washington 98504.

6           FOR THE PUBLIC, ROBERT F. MANIFOLD,  
7 Assistant Attorney General, 900 Fourth Avenue, Suite  
8 2000, Seattle, Washington 98164.

9           PUGET SOUND POWER & LIGHT COMPANY, by JAMES  
10 M. VAN NOSTRAND, Attorney at Law, 411 - 108th Avenue  
11 NE, Bellevue, Washington 98004.

12           WASHINGTON NATURAL GAS COMPANY, by MATTHEW  
13 R. HARRIS, Attorney at Law, 6100 Columbia Center, 701  
14 Fifth Avenue, Seattle, Washington 98104.

15           NORTHWEST INDUSTRIAL GAS USERS, by  
16 EDWARD FINKLEA, Attorney at Law, 101 SW Main, Suite  
17 1100, Portland, Oregon 97204.

18           INDUSTRIAL CUSTOMERS OF NORTHWEST  
19 UTILITIES, by CLYDE H. MACIVER, Attorney at Law, 601  
20 Union Street, 4400 Two Union Square, Seattle,  
21 Washington 98101.

22           WASHINGTON WATER POWER COMPANY, by R. BLAIR  
23 STRONG, Attorney at Law, 1200 Washington Trust  
24 Building, Spokane, Washington 99204.

25           PUBLIC POWER COUNCIL, by SHELLY RICHARDSON,  
Attorney at Law, 1300 SW Fifth Avenue, Suite 2300,  
Portland, Oregon 97201.

          SEATTLE STEAM COMPANY, by FREDERICK O.  
FREDERICKSON, Attorney at Law, 33rd Floor, 1420 Fifth  
Avenue, Seattle, Washington 98101.

          WASHINGTON PUD ASSOCIATION, by JOEL MERKEL,  
Attorney at Law, 1910 One Union Square, 600 University  
Street, Seattle, Washington 98101.

          CITY OF SEATTLE, by WILLIAM H. PATTON,  
Director Utilities Section, 10th Floor Municipal  
Building, 600 Fourth Avenue, Seattle, Washington 98104.

25

1 APPEARANCES (Cont'd.)

2 PUD NO. 1 OF SNOHOMISH COUNTY, by ERIC E.  
3 FREEDMAN, Associate General Counsel, 2320 California  
4 Street, Everett, Washington 98201.

5 IBEW LOCAL 77, by LEWIS ELLSWORTH, Attorney  
6 at Law, 27th Floor, One Union Square, 600 University  
7 Street, Seattle, Washington 98101.

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

2 JUDGE SCHAER: Let's be on the record.

3 This is the third day of hearing in dockets No.

4 UE-951270 and UE-960195. I will note the appearances

5 today are the same as they were yesterday except for

6 Mr. Strong has joined us. Would you like to make your

7 appearance Mr. strong.

8 MR. STRONG: Yes. R. Blair Strong, from

9 the law firm of Paine Hamblen Coffin Brooke & Miller

10 representing the Washington Water Power Company.

11 JUDGE SCHAER: Thank you. And Mr.

12 Frederickson will not be with us today. We appear to

13 have some other faces missing but no one else has told

14 me that they will not be here so we may have people

15 joining us in a few moments.

16 Our first task this morning will be

17 concluding the cross-examination of Mr. Torgerson. As

18 soon as the commissioners join us we will begin with

19 cross-examination by Mr. MacIver. Mr. Torgerson, I

20 will remind you that you are still under oath, and Mr.

21 MacIver, you may proceed with your questions.

22 MR. MACIVER: I have no questions for this

23 witness, Your Honor.

24 JUDGE SCHAER: Mr. Merkel or Ms.

25 Richardson.

1 MR. MERKEL: No questions.

2 MS. RICHARDSON: No questions.

3 JUDGE SCHAER: Mr. Freedman.

4 MR. FREEDMAN: No questions.

5 JUDGE SCHAER: Mr. Strong.

6 MR. STRONG: No questions.

7 JUDGE SCHAER: Mr. Ellsworth.

8 MR. ELLSWORTH: Clean sweep this morning.

9 JUDGE SCHAER: You had said you had two  
10 minutes.

11 MR. ELLSWORTH: I'm just trying to speed  
12 the process up in our own small little way.

13 JUDGE SCHAER: Then that brings us to  
14 questions from the commissioners.

15 COMMISSIONER HEMSTAD: I have no questions.

16 COMMISSIONER GILLIS: I just have one.

17 Whereupon,

18 JAMES TORGERSON,

19 having been previously duly sworn, was called as a  
20 witness herein and was examined and testified  
21 further as follows:

22 EXAMINATION

23 BY COMMISSIONER GILLIS:

24 Q. WNG mangement has done some rather  
25 impressive work over the last couple of years, as far

1 as turn around, and in particular the management has  
2 made some real tough choices including reducing the  
3 dividend as a part of the package, and will those  
4 kind of tough choices also be something that the new  
5 management of the new company would undertake? Would  
6 reducing the dividend would be an option that would be  
7 on the table to be considered if necessary?

8       A.     I think, since we said initially that the  
9 dividend would be paid at the level of Puget's current  
10 dividend it's something that was in our prospectus,  
11 something we have to carry out. I think you would  
12 take some time, and we would have to look at our  
13 financial performance going into the future, and I  
14 fully believe we'll meet the objectives we've set out  
15 and the stretch goals we've put down which should  
16 allow us to continue paying that dividend. However,  
17 the board is going to look at it on an ongoing basis.  
18 I think management, if they have to make tough choices  
19 in the future we've done it as part of Washington  
20 Natural Gas in the past, and I believe that would very  
21 well carry over to the Puget Sound Energy Company,  
22 that if choices have to be made that it will be  
23 carried out.

24       Q.     Would you agree that its return to the  
25 investor is the yield plus the growth in the share



1 price, both those returned to the investor?

2 A. Yes. That's what the investor is looking  
3 for. Those are the things -- we even measure our own  
4 performance against these today but it is the yield  
5 and the appreciation on the stock price that they're  
6 looking for.

7 Q. So then it's reasonable then to think about  
8 the share price growth as complementary or not  
9 necessarily an alternative to continue high  
10 dividends, but there is some trade-off between to  
11 admit that the investors can expect an increase in  
12 share price and a reduction in dividend would not  
13 leave them necessarily worse off?

14 A. Well, in theory, yes. You have to also  
15 look at the make-up of our shareholders. For both  
16 companies about 75 percent of the people that own the  
17 stock are individuals, and the number of them are  
18 retirees, so many of our people depend on the dividend  
19 for their fixed income, and we really take that into  
20 consideration when we're looking at it, and as you  
21 said making a dividend cut is a very, very tough  
22 choice knowing that the owners of the company are  
23 depending on that for their income in a lot of cases,  
24 so you're correct that shareholders look for both.  
25 The makeup of our shareholders would dictate that

1 they're really looking for the dividend than  
2 necessarily share appreciation, and that's why many  
3 people invest in utilities.

4           Now, moving into the future, I'm not sure  
5 that the utility -- the safety that was in the past  
6 for utilities is going to be there in the future  
7 because of the changing nature of the industry. As  
8 things become more competitive, and even Moody's  
9 mentioned it, they're going to start rating utilities  
10 more as unregulated industrial companies. They're  
11 going to be looking at the kind of coverage ratios,  
12 debt to capitalization ratios that are needed by  
13 industrial companies which are more competitive  
14 markets, so I can see where the expectations perhaps  
15 of shareholders may change in the future.

16       Q.     In the case of Washington Natural where you  
17 did undertake a dividend cut as a part of your package  
18 of turning the company around, I would assume you had  
19 the same type of shareholders that would be present in  
20 the combined company, so why would that make any less  
21 sense for the combined company as an option than it  
22 did for Washington Natural Gas as a stand alone  
23 company?

24       A.     Washington Energy definitely has, like I  
25 said, 75 percent of the shareholders are individuals.

1 It was a tough choice, I admit. And going forward if  
2 we saw the same circumstances where we knew we could  
3 not maintain the dividend and the future prospects of  
4 the company were such that it didn't make sense to be  
5 paying out in excess of our earnings, if that were the  
6 case -- I'm not convinced that is the case but if it  
7 were then we would have to make those tough choices.  
8 You cannot run a business forever or even for a very  
9 long period of time where you're paying out a dividend  
10 in excess of what your earnings capability is, and if  
11 that were the case those tough choices would be made.

12 Q. Just one other. A number that jumped out  
13 at me in your testimony that you may not really have  
14 details on the background of but it was surprising  
15 that the \$13 million investment in geographic  
16 information system seemed rather high. Do you have  
17 any explanation of why it would be so high?

18 A. Certainly. The cost of the geographic  
19 information system is not so much in the application  
20 software. That is probably -- I would be guessing  
21 about a one to two million dollar investment. The  
22 cost is in digitizing all the maps that you have, and  
23 it's a very expensive process. We're actually looking  
24 at another process now where we wouldn't digitize the  
25 maps. We would just scan them into a system as they

1 are, and you wouldn't have as much capability but it  
2 would be far less expensive, so that's one thing we're  
3 looking at. The problem, as I said, you don't have as  
4 much capability with the nondigitized maps as you  
5 would with those that are actually digitized so that's  
6 why it's so expensive.

7 Q. You would be digitizing the data on I  
8 believe a map that was an exhibit under Mr. Sonstelié?

9 A. Right. That would be what it would cost, I  
10 believe, to our whole service territory. Some of the  
11 things you can do with a geographic information system  
12 is you tie it into your customer service and dispatch  
13 systems and also your customer information systems and  
14 you have an integrated package that would allow you  
15 to do quite a bit of things, and the technology is  
16 there, and it's very impressive. Unfortunately, it's  
17 also very expensive.

18 Q. Were you planning on as a part of that  
19 package entering in this data for energy service  
20 management, those kind of load usage of particular  
21 customers, load patterns? Was that a part of the  
22 package?

23 A. Not necessarily for the gas business. I  
24 think some of the things we're looking at would be in  
25 load management area. More on the electric business

1 though right now. I think that assuming you end up  
2 with a retail wheeling in the gas business we're going  
3 to have to have the capability to do some more load  
4 management on a more timely basis, metering on a more  
5 timely basis, perhaps on a daily/hourly, so there's a  
6 lot of technology that would be needed.

7           COMMISSIONER GILLIS: Thank you. That's  
8 all my questions.

9

10   EXAMINATION

11 BY JUDGE SCHAEER:

12           Q. I have just a couple of questions, Mr.  
13 Torgerson. Looking at page 2 of your testimony you  
14 discuss that you're going to need approvals by  
15 shareholders and others, other kinds of approvals as  
16 you go forward. And have your shareholders of both  
17 companies now approved the merger?

18           A. Yes. On March 20 both companies had  
19 shareholder meetings and the vote was rather  
20 overwhelming to approve the merger for both companies.

21           Q. And has any information on those  
22 shareholder approvals, other than your testimony just  
23 now, been included in this record?

24           A. I don't know if it's in the record. I  
25 don't think we've -- probably our most recent

1 quarterly report or our quarterly report from the  
2 March quarter would include the results of the votes,  
3 and I am not sure it's in the record. As a matter of  
4 fact, it couldn't be because it hadn't occurred when  
5 we filed our prefiled testimony.

6 Q. Next is just kind of a follow-up to one of  
7 Commissioner Gillis's question where you were  
8 discussing the comparison between a traditional  
9 utility company and a more competitive company  
10 -- expect that energy companies will be in the future.  
11 Is there a difference in level of retained earnings  
12 that you can generalize about between the more  
13 competitive companies and the utility companies?

14 A. Not necessarily just retained earnings but  
15 equity in total. Typically in the more  
16 industrialized, unregulated companies they have a  
17 higher level of equity or a much lower level of debt.  
18 The companies I'm familiar with would more likely  
19 have, let's say, a 30, 35 percent debt and the balance  
20 would be equity. Very little preferred stock. Maybe  
21 five to seven percent, so they would have -- if it  
22 were from retained earnings, yes. So generally they  
23 will retain much more of their earnings, that is true.

24 Q. So they won't be paying out around 100  
25 percent of their earnings like --

1           A.     No.  Not in a very competitive environment.  
2  And it depends where our industry goes.  I think the  
3  company we're going to be, which is primarily a  
4  distribution company, which will still be regulated,  
5  will probably pay out -- have a higher payout ratio  
6  than a typically industrial company or even in some of  
7  the utilities that may be in the future where they  
8  still have, let's say, some generation transmission,  
9  Puget Sound Energy will have some generation, very  
10 little, and very little transmission.  It will be  
11 primarily a distribution company which will be  
12 regulated.  So regulated utilities will probably still  
13 have relatively higher payout ratios but not 100  
14 percent certainly.

15          Q.     What do you think, just as kind of an  
16 example figure, a typical payout ratio or appropriate  
17 payout ratio for that kind of company might be?

18          A.     Oh, for not having studied it, just giving  
19 my off-the-top idea would be 70, 80 percent range I  
20 think would be appropriate.

21          Q.     Finally I would like you to look at JPT-9,  
22 sheet 4, which is Exhibit 12 in this proceeding.

23          A.     Yes, I have that.

24          Q.     Looking at the Smith Barney analyst report,  
25 there's nothing in this report about Puget's higher

1 than average energy costs, is there?

2 A. No. This was written by the natural gas  
3 analysts for Smith Barney and he was really looking at  
4 Washington Energy Company and talking about the  
5 merger, and he is most familiar with the gas  
6 companies. He's really not very familiar with Puget  
7 Sound Power and Light.

8 Q. Well, let me just ask this more general  
9 question. Would dividend reductions be a potential  
10 way for shareholders to contribute to making the new  
11 company's cost of power more competitive?

12 A. I don't really see how. The dividend is  
13 paid out of earnings or retained earnings and  
14 reductions related to power costs would have to be  
15 actions with the parties where the contracts are with,  
16 and I can't see how a dividend reduction would really  
17 equate to that.

18 JUDGE SCHAEER: Okay. Thank you. That's  
19 all I had. Did you have any redirect for this  
20 witness, Mr. Harris?

21 MR. HARRIS: A few questions, Mr.  
22 Torgerson.

23

24 REDIRECT EXAMINATION

25 BY MR. HARRIS:



1 Q. Mr. Torgerson, for the last several days  
2 you were asked a number of questions about the  
3 financial figures contained in TS-33 and TS-34. My  
4 question is were those figures calculated on a  
5 Commission basis?

6 A. No, those figures were not.

7 Q. Why is that important?

8 A. Well, it's important -- when we're doing  
9 our financial forecasts we look more at the industry  
10 standards, try to compare ourselves on weather, at  
11 least to what other utilities use, which is primarily  
12 a 30-year weather for reporting purposes. So that was  
13 one difference, the 30-year weather we used versus  
14 the 20-year that the Commission uses. Also, on a  
15 Commission basis there are adjustments to the capital  
16 structure, to the assets, and to perhaps expenses, and  
17 those all have to be taken into consideration, so the  
18 operating income and revenues from a Commission basis  
19 would be significantly lower than what we would show  
20 in our forecasts.

21 Q. I believe you characterized the assumptions  
22 underlying the figures in TS-33 and TS-34 as  
23 aggressive. Would you use the same aggressive  
24 assumptions if you were calculating those figures on a  
25 Commission basis?

1           A.       Probably not.  I mean, they were goals,  
2 stretch goals.  I mean, that's what I was  
3 characterizing those as aggressive, and looking at a  
4 Commission basis, as I said, there would be a number  
5 of adjustments to not only the capital structure but  
6 the assets and the expenses too.

7           Q.       Just a few more questions here.  I want to  
8 change subjects.  Do you think it would be appropriate  
9 to judge the financial performance of PSE based on any  
10 one particular year during the rate stability period?

11          A.       No, I don't think so.  We were looking at a  
12 five-year stay-out period, five-year period there, and  
13 there are going to be changes in the earnings.  It  
14 could be volatile based on weather conditions.  Our  
15 ability to actually achieve the savings in any one  
16 particular year is going to be -- it's going to vary  
17 from what we forecasted.  The timing is going to be  
18 different, and I think looking at one year and saying  
19 either we over earned or significantly under earned, I  
20 think both those are possibilities in any one  
21 particular year, and I think if we look over time it  
22 would be a better judgment of that.

23                   MR. HARRIS:  Thank you.  No further  
24 questions.

25                   JUDGE SCHAEER:  Is there any further cross

1 for this witness? Mr. Cedarbaum.

2 MR. CEDARBAUM: Yes, Your Honor.

3

4 RE-CROSS-EXAMINATION

5 BY MR. CEDARBAUM:

6 Q. Just following up on those questions from  
7 Mr. Harris, Mr. Torgerson, could you as the next  
8 record requisition in order please provide us with the  
9 financial forecasts that were included in Exhibits  
10 TS-33, 34 and 35. If you could recast those on a  
11 Commission stated basis and also reconcile that record  
12 requisition material with the exhibits themselves, in  
13 other words, tell us the differences.

14 A. We'll do our best to do that.

15 Q. Well, you indicated in your testimony that  
16 you thought on a Commission restated basis the  
17 information would show a more negative profile and so  
18 it seems to me like you ought to be able to come up  
19 with that information exactly. Otherwise I wouldn't  
20 know the basis for that statement of yours; is that  
21 right?

22 A. I think -- as I said, we will try. The  
23 difference -- one big difference is in weather. 30-  
24 year weather has roughly 47, 4800 degree days. 20-  
25 year weather would be down in the I think it's

1 probably 4300. So that alone will have a significant  
2 change in the revenues, and as I said we will do our  
3 best to do that.

4 JUDGE SCHAER: That would be record  
5 requisition 19.

6 (Record Requisition 19.)

7 Q. You were also asked some questions from  
8 Commissioner Gillis with respect to the dividend cut  
9 of Washington Energy Company. And is it correct that  
10 that dividend cut was from \$1.40 a share to a dollar?

11 A. Yes, that's correct.

12 Q. You also indicated I think during your  
13 testimony over the past three days that NewCo intends  
14 to continue Puget's dividend per share of \$1.84; is  
15 that right?

16 A. Yes. We said in the proxy that the initial  
17 dividend would be \$1.84.

18 Q. And so for Washington Energy Company  
19 stockholders that would be the equivalent of a \$1.58  
20 per share at the .86 exchange ratio?

21 A. Yes, that's correct.

22 Q. And so Washington Energy Company  
23 shareholders relative to their -- the cut in the  
24 dividend will have a higher dividend than they did  
25 before the cut?

1           A.       Yes, if you're comparing \$1.58 to \$1.40,  
2   yes.

3           MR. CEDARBAUM:  Thank you.  Those are all  
4   my questions.

5           JUDGE SCHAEER:  Any other counsel have more  
6   questions for Mr. Torgerson?

7           MR. MANIFOLD:  Just one.  In some of your  
8   previous testimony, and I don't recall which day it  
9   was, you appeared to distinguish between a write-down  
10  and a write-off.  What's the difference that you make  
11  between those?

12          THE WITNESS:  A write-down would be where  
13  the carrying value of the asset is taken from one  
14  level to a lower level.  A write-off, at least my  
15  interpretation, is where you write the investment down  
16  to zero, so you've totally eliminated the investment  
17  on your books.

18          MR. MANIFOLD:  Thank you.

19          JUDGE SCHAEER:  Any other questions?  I have  
20  one further question.  Would NewCo consider a rate  
21  true-up at the end of the five-year stability period?

22          THE WITNESS:  I think we would have to look  
23  at that.  I'm not certain that -- I think it depends  
24  on where we would have to look at where our earnings  
25  are.  Obviously if we were significantly overearning

1 we would, I think, be willing to do that. If we're  
2 somewhat overearning or slightly underearning I think  
3 we would have to evaluate that as to whether or not it  
4 would be appropriate. But I can tell you that if we  
5 were significantly overearning I think we would be.

6 JUDGE SCHAER: Thank you. That's all I  
7 have, and thank you for your testimony. Go off the  
8 record briefly to change witnesses.

9 (Recess.)

10 JUDGE SCHAER: Let's be back on the record.  
11 At the pre-hearing conference the following documents  
12 were marked for identification. Exhibit T-13, which  
13 is Mr. Flaherty's testimony, Exhibit 14, Exhibit 15  
14 and Exhibit 16.

15 In addition, the following documents would  
16 be marked for identification as -- marked as Exhibit  
17 40 will be the telephonic deposition of Thomas  
18 Flaherty. Marked as Exhibit 41 for identification  
19 will be a multi-page document entitled Response to  
20 Staff Flaherty Deposition Request No. 1, and marked as  
21 Exhibit 42 is a document entitled Costs to Achieve,  
22 single page document.

23 (Marked Exhibits 40, 41 and 42.)

24 MR. VAN NOSTRAND: Your Honor, I should  
25 note on the bottom of page 42 there's a notation

1 confidential in the lower left-hand corner. That can  
2 be disregarded.

3 JUDGE SCHAEER: Thank you, Mr. Van Nostrand.  
4 I'm going to cross that out on the official copy so  
5 that it's clear in the future.

6 MR. CEDARBAUM: With regard to that, I  
7 never assumed that this document was confidential  
8 because it had that notation. I was looking for the  
9 confidential stamp which references this docket  
10 number.

11 MR. VAN NOSTRAND: Yeah.

12 MR. CEDARBAUM: I will make sure in the  
13 future I can keep on making that same assumption.

14 JUDGE SCHAEER: I believe that if you look  
15 in Exhibit 41 on the second page, 41 for  
16 identification on the second page of text upper  
17 right-hand corner, there's also a notation that says  
18 privileged and confidential. I assume that should  
19 also be disregarded since there is not a  
20 confidentiality stamp as provided by this proceeding.

21 MR. VAN NOSTRAND: Yes, Your Honor.

22 JUDGE SCHAEER: And I will also cross that  
23 out on the official copies of this document. You may  
24 call your next witness, Mr. Van Nostrand.

25 MR. VAN NOSTRAND: Joint applicants call

1 Thomas Flaherty.

2 Whereupon,

3 THOMAS FLAHERTY,

4 having been first duly sworn, was called as a witness

5 herein and was examined and testified as follows:

6

7 DIRECT EXAMINATION

8 BY MR. VAN NOSTRAND:

9 Q. Can you state your name and spell it for  
10 the record, please.

11 A. My name is Thomas J. Flaherty, F L A H E R  
12 T Y.

13 Q. And you have before you what's been marked  
14 for identification as Exhibit T-13?

15 A. Yes, I do.

16 Q. Do you recognize that document as your  
17 prefiled direct testimony in this case?

18 A. Yes, I do.

19 Q. And if I asked you the questions set forth  
20 in Exhibit T-13 today, would you give the answers as  
21 set forth in that exhibit?

22 A. Yes, I will.

23 Q. And do you also have before you what's been  
24 marked for identification as Exhibits 14 through 16?

25 A. Yes, I do.



1 Q. And do you recognize those as the exhibits  
2 accompanying your direct testimony in this case?

3 A. Yes, I do.

4 Q. Are they true and correct to the best of  
5 your knowledge?

6 A. Yes, sir.

7 Q. Were they prepared under your direction and  
8 supervision?

9 A. Yes, they were.

10 MR. VAN NOSTRAND: Your Honor, I move the  
11 admission of Exhibits T-13, 14, 15 and 16.

12 JUDGE SCHAEER: Are there any objections?  
13 Those documents are admitted.

14 (Admitted Exhibits T-13, 14, 15 and 16.)

15 MR. VAN NOSTRAND: Mr. Flaherty is  
16 available for cross-examination.

17 JUDGE SCHAEER: Mr. Cedarbaum.

18

19 CROSS-EXAMINATION

20 BY MR. CEDARBAUM:

21 Q. Hello, Mr. Flaherty.

22 A. Good morning.

23 Q. Just to begin with, referring you to what's  
24 been marked for identification as Exhibit No. 40, does  
25 that document constitute your deposition in this

1 docket that was taken on June 13, 1996?

2 A. Yes, it appears to.

3 Q. And the answers that are written on this  
4 document are the answers that you gave during that  
5 deposition?

6 A. Yes, sir.

7 Q. No corrections have been communicated to  
8 staff with regard to this document.

9 A. I believe there may have been some  
10 typographical corrections that were communicated but  
11 nothing substantive.

12 MR. CEDARBAUM: Your Honor, I would offer  
13 Exhibit No. 40.

14 JUDGE SCHAEER: Any objection?

15 MR. VAN NOSTRAND: No objection, Your  
16 Honor. We did transmit the correction page with the  
17 typographical errors last week which we could probably  
18 tuck in with this exhibit someplace at some point.

19 MR. CEDARBAUM: I overlooked that, Your  
20 Honor. I don't have any objection to just stapling it  
21 on to this exhibit. We can arrange for that during  
22 the break.

23 JUDGE SCHAEER: All right. Exhibit 40 will  
24 be admitted and I will note now that in addition to  
25 what is before us there will be added a page of

1 typographical corrections.

2 (Admitted Exhibit 40.)

3 Q. Mr. Flaherty, referring you to page 19 of  
4 your testimony where you discuss the methodology that  
5 you used to capture capital deferral and avoidance  
6 savings?

7 A. Yes, sir.

8 Q. You state that you use a levelized fixed  
9 charge; is that right?

10 A. That's correct.

11 Q. And is it correct that you used a 15  
12 percent general levelized fixed charge rate and a 30  
13 percent management information systems levelized fixed  
14 charge rate?

15 A. That's correct.

16 Q. And these again would be applied to the  
17 1997 to year 2006 forecasted period?

18 A. In the respective areas, yes, sir.

19 Q. You state on this page of the testimony  
20 that the fixed charge rates are cost of capital -- the  
21 components of those rates are cost of capital and  
22 depreciation; is that right?

23 A. That's correct.

24 Q. In staff data request No. 88 we asked you  
25 to -- for the actual calculation of the rates and your

1 answer did not provide us with that information. Can  
2 you state on the record now how those rates were  
3 calculated or if not on the record now can you provide  
4 that by record requisition?

5 A. I can certainly provide it by requisition,  
6 yes, sir.

7 Q. You can't do that today?

8 A. Are you referring to the specific  
9 calculation itself? I can tell you generally what  
10 would go into it but if you're looking for the  
11 calculation for the exact number I would need to  
12 provide that to you separately.

13 Q. Why don't we make that as No. 20.

14 JUDGE SCHAEER: Yes. Record requisition No.  
15 20.

16 (Record Requisition 20.)

17 Q. Is it correct that the capital deferral and  
18 avoidance savings would extend beyond the ten-year  
19 savings period that you've been analyzing?

20 A. With respect to those nonMIS areas, that's  
21 correct.

22 Q. Is it also correct with respect to the  
23 avoided or deferred revenue requirement of those  
24 capital expenditures or the assets involved with that  
25 would be on an actual basis, in other words, it would

1 decline from year to year until it reaches zero at the  
2 end of the life of the asset?

3 A. That's correct.

4 Q. And so by using a levelized fixed charge,  
5 the revenue requirements savings have been levelized  
6 in your analysis?

7 A. They would be lower in the early years  
8 relative to an annual revenue requirement calculation,  
9 yes, sir.

10 Q. And higher in the later years relative to a  
11 levelized calculation?

12 A. That's correct.

13 Q. Let me ask you as record requisition No. 21  
14 to provide a recalculation of the merger savings on an  
15 unlevelized basis, in other words, to show the actual  
16 decline over the period of time.

17 A. Sure, be happy to.

18 JUDGE SCHAEER: That would be record  
19 requisition 21.

20 (Record Requisition 21.)

21 Q. Turning to another topic, is it true that  
22 the \$370 million merger savings that you've estimated  
23 are in nominal dollars?

24 A. That's correct.

25 Q. You have not present discounted them?

1 A. That's correct.

2 Q. You were asked in staff data request No. 25  
3 for a detailed explanation as to why you estimated  
4 savings in nominal dollars; is that right?

5 A. I don't recall specifically that data  
6 request, but perhaps.

7 JUDGE SCHAEER: Let the record show that a  
8 copy has been provided to the witness.

9 Q. Is it correct that the staff data request  
10 No. 25 asked you to provide detailed explanation of  
11 the reasons you did not calculate estimated merger  
12 savings by using the present discounted value of any  
13 future cost savings?

14 A. That's correct.

15 Q. And your answer was that nominal costs are  
16 appropriate because they represent actual amounts,  
17 actual costs are also the basis for establishing and  
18 setting rates by regulatory commissions and agencies?

19 A. Yes, sir.

20 Q. With respect to the first point that you  
21 make that nominal costs represent actual amounts, is  
22 it true that the nominal savings amounts would be more  
23 compatible with financial forecasts that look at  
24 future year by year implications of the merger?

25 A. Yes, they would.

1           Q.     Would you agree that to make those  
2 forecasts compatible with your analysis that the  
3 assumptions that you use with respect to your savings  
4 analysis such as the escalation rates and  
5 capitalization ratios should be compatible with those  
6 same assumptions in the financial forecast?

7           A.     They should, and we tried to do that during  
8 the development period.

9           Q.     I shouldn't say yesterday -- it may have  
10 been on Wednesday I asked Mr. Torgerson if the  
11 companies had compared those assumptions in their  
12 financial forecasts with your savings estimates and he  
13 said they did not.  You're saying that you made the  
14 comparison?

15          A.     Well, I wouldn't call it a comparison.  
16 When we requested information from the companies to  
17 help develop the assumptions the intent was to have  
18 specific assumptions that would be consistent with  
19 those contained in the financial forecast or those  
20 used by the companies in their normal accounting and  
21 financial processes.  The responses that came back  
22 from the companies across the variety of areas that  
23 requested that information, it would be tried to check  
24 with the companies to make sure we were synchronized  
25 with the assumptions used for purposes of the

1 synergies quantification with those that would be used  
2 within the company's normal financial forecasting  
3 process or budgeting process.

4 Q. From your answer you said that that attempt  
5 was made with respect to certain areas but not with  
6 others?

7 A. Well, what I meant to infer by that is that  
8 to the extent that we could discuss specific  
9 assumptions with the companies and that the  
10 representatives within the working group had specific  
11 knowledge of those areas then we would be able to  
12 confirm. To the extent that there were specific  
13 assumptions made that they might not have had  
14 visibility into, we might have been able to do the  
15 comparison at that point.

16 Q. Would it be possible for you to provide us  
17 which areas that comparison was made and which areas  
18 the comparison was not?

19 A. It would be difficult to reconstruct it. I  
20 think generally for the major assumptions, to begin  
21 with, were utilizing information provided by the  
22 company, which ostensibly would then be the  
23 information they would also then use in the  
24 forecasting process. I don't know that we could  
25 reconstruct which assumptions were fully confirmed in



1 terms of synchronization with the forecasts and which  
2 were not, but we try to be consistent because the  
3 composition of the working group that did include  
4 chief financial officers.

5 Q. Let me ask by the next record requisition  
6 22 for you to attempt to provide us with the  
7 information that shows which areas the comparison was  
8 made and which areas the comparisons were not made,  
9 and in areas where they were not made, if that can be  
10 determined, what impact that would have on your  
11 savings estimates.

12 (Record Requisition 22.)

13 A. Okay, we'll try.

14 Q. Referring you to what's been marked for  
15 identification as Exhibit 41, do you recognize this  
16 document as your response to deposition request No. 1  
17 that was asked of you during the deposition that is  
18 now in the record in Exhibit 40?

19 A. Yes, sir.

20 Q. And referring you to page 2 of the exhibit,  
21 under the Payton heading, is it true that the Puget  
22 revenue-related tax rate that you used in your savings  
23 calculation was amended in this document by adding  
24 2.45 percent for municipal taxes?

25 A. Yes, sir, that's correct.

1 Q. And likewise in the Largent section it's  
2 shown a change for revenue-related tax rate for a  
3 .20 percent WUTC fee; is that right?

4 A. That's correct.

5 Q. And so the resulting blended tax rate of  
6 6.47 would be more accurate in terms of your savings  
7 estimate; is that right?

8 A. With those additions, that's correct.

9 Q. And the impact of this correction, then,  
10 would you agree, is to increase your savings estimate  
11 from \$370 million to \$377 million, which is shown on  
12 the last page?

13 A. Reflecting just this change, that's  
14 correct, yes, sir.

15 MR. CEDARBAUM: Your Honor, I would offer  
16 Exhibit 41.

17 JUDGE SCHAER: Any objection?

18 MR. VAN NOSTRAND: No.

19 JUDGE SCHAER: Exhibit 41 will be entered.  
20 (Admitted Exhibit 41.)

21 Q. It doesn't appear that you have your work  
22 papers up there. Do you have access to them?

23 A. I have access to them.

24 Q. Could you get them, please. I think that  
25 would help the next few questions go smoother. If you

1 could look at page 315 of your work paper.

2 A. My work papers aren't sequentially numbered  
3 perhaps like yours are. Which area would that be in?

4 Q. This has to do with professional services.  
5 At least the copy of the work papers that we've been  
6 working with were paginated at the company just 1  
7 through several hundred something or other. What I am  
8 looking at is a work paper entitled Professional  
9 Services Sheet 3.

10 A. Does it contain several columns  
11 starting "category" at the left?

12 Q. Yes, and Largent Payton.

13 A. Yes, I have that.

14 Q. Under the legal category --  
15 Are we on the same page now?

16 A. Yes, sir.

17 Q. -- you list a savings of \$1.8 million; is  
18 that right?

19 A. That's correct.

20 Q. There's also a footnote B in this line  
21 which states, "eliminates smaller." Is that right?

22 A. Item B, yes, sir, that's correct.

23 Q. Do you know what that means?

24 A. In terms of the savings quantification  
25 approach, several approaches may have been used for

1 different areas. Either the identification  
2 of specific, duplicative areas that would be avoided,  
3 the utilization approach that would combine the two  
4 companies' expenditures and reduce a portion of those  
5 for what might be duplicative or overlapping or  
6 otherwise avoided, or where the scale differences were  
7 significant, and the kind of work that was being  
8 performed was different to provide for maybe the  
9 avoidance of the entire category of expenditure and  
10 the assumption or absorption of that activity of those  
11 expenditures within the larger company or new company.

12 Q. Well, with respect to the information  
13 that's shown for legal and the \$1.8 million savings  
14 that's shown, would the footnote "eliminate smaller"  
15 mean that those savings should have been calculated by  
16 removing the \$1,093,000 figure for Largent which  
17 refers to Washington Natural?

18 A. I would say that would be the base number  
19 and other items might be added to that. Or other  
20 items would be avoided.

21 Q. I guess I'm not clear. Are you stating  
22 that the \$1.8 million savings is the correct number or  
23 that we should recalculate it by removing the 1.093  
24 million figure for Washington Natural?

25 A. I'm saying that the 1.8 would be correct.

1 I may have to give you additional information beyond  
2 what you see on the sheet.

3 Q. Why don't you provide that then as record  
4 requisition 23.

5 A. Certainly.

6 (Record Requisition 23.)

7 Q. Turning to page 18 of your testimony,  
8 beginning on line 1 you mention that an escalation  
9 rate of 4.5 percent was used for salary benefits and  
10 information system costs, and a 3.5 percent rate was  
11 used for all other cost savings categories; is that  
12 right?

13 A. That's correct.

14 Q. For all cost categories, did you also use  
15 either the 3.5 percent or 4.5 percent escalation rates  
16 to calculate base year to 1997 savings?

17 A. I believe the answer to your question is  
18 correct if I got your question correctly.

19 Q. I guess I should clarify what you show in  
20 your testimony was used for the January '97 to  
21 December 2006 period; is that right?

22 A. For that ten-year period, yes, sir.

23 Q. Now, if we were to look in your work papers  
24 again, and this would be what we paginated as page --  
25 was paginated for us I think as page 341 and 230 but

1 the tables -- the pages are entitled Project Largent  
2 Shareholder Services and then Insurance Summary. It  
3 shows that when the base year to 1997 savings were  
4 computed 3 percent was used for shareholder services  
5 and 3 percent was used for insurance.

6 A. Are you referring to a document?

7 Shareholder services category, that's again a multi-  
8 column document?

9 Q. Yes. It's again at the upper left-hand  
10 corner says Project Largent. Then in the middle,  
11 shareholder services, then starting from left to right  
12 it says description 1994-95 rationale cost per  
13 shareholder?

14 A. I have it. If you look at the page  
15 preceding that, which would be a summary page, you  
16 will see that the escalation rate was 3.5 percent.

17 Q. So you used 3.5 percent not 3 percent?

18 A. Yes, sir.

19 JUDGE SCHAEER: Mr. Cedarbaum, it appears to  
20 me that Mr. Van Nostrand has a copy of the work papers  
21 that are numbered in the same manner as the one that  
22 you have, and I am wondering if it might speed up this  
23 questioning if he were to share those with the witness  
24 so that you could be referring to same pages without  
25 having to go through and describe each page.

1           MR. VAN NOSTRAND:  If I could just sneak up  
2 there and confirm with him.

3           JUDGE SCHAEER:  It would be fine with me if  
4 you were to stand next to the witness, Mr. Van  
5 Nostrand.  In fact, it looks to me like there may  
6 be another set with page numbers magically appearing  
7 from the back of the room and that both you and the  
8 witness could have one of those.

9           Q.     Let me just try to clear up something on  
10 the 3 percent versus 3 and a half percent.  Looking at  
11 your work paper 341 which is the shareholder services  
12 page, at the lower right hand part of the table, there  
13 is a number \$567,247, is that right, for fiscal 1995?

14          A.     That's correct.

15          Q.     Now, if you multiply that using the 3  
16 percent escalation factor you get the \$601,792 figure  
17 that's shown for 1997 savings.  So I guess my question  
18 is, if this document is to show the savings for  
19 shareholder services, it appears that the 3 percent  
20 escalation rate was used and not 3 and a half percent  
21 rate?

22          A.     Well, I haven't made the recalculation, but  
23 what I was referring to on the preceding page would  
24 show the escalation rate for 1997 to 2006 at 3.5  
25 percent.

1 Q. And I am talking about the base year to  
2 1997 if that wasn't clear from my original question.

3 A. The footnote does say 3 percent. I have to  
4 recalculate to see whether it was 3.0 or 3.5.

5 Q. Well, accepting my calculation, do you know  
6 any reason why shareholder services would be treated  
7 differently for the base to 1997 period using 3  
8 percent rather than 3 and a half percent which was  
9 used for other categories?

10 A. Not off the top of my head, no, sir.

11 Q. Should they be consistent?

12 A. I would think so, from what I would  
13 understand about this particular area, yes.

14 Q. Would that be true for insurance as well?

15 A. Which pages did you refer me to on that?

16 Q. Page 230. Again, that shows about just  
17 above the top half of the page, just above the middle  
18 of the page, escalation rate 3 percent?

19 A. Yes, I see it.

20 Q. And so with respect to insurance cost  
21 savings, are your answers the same as they were for  
22 shareholder services?

23 A. I think my answers would be the same. I am  
24 not aware of a factor right now that would indicate a  
25 difference in the escalation rate. I would have to



1 inquire further about that between '95 and '97,  
2 whether the 3.5 was used from '97 forward.

3 Q. In staff data request No. 60 you were asked  
4 to provide FERC account information for corporate and  
5 administrative programs. Do you recall that?

6 A. I don't recall the specific request, but  
7 perhaps you have it.

8 JUDGE SCHAEER: Let the record show that a  
9 copy of the request and response have been handed to  
10 the witness.

11 A. Yes, sir, I have it now.

12 Q. And the corporate administrative programs  
13 would be broken down into nine categories, is that  
14 right, or do you accept that subject to check?

15 A. I believe that sounds right. If you're  
16 referring to, I guess, part of Exhibit 15.

17 Q. We also asked -- I'm sorry.

18 A. That's correct.

19 Q. We also asked in staff data request for  
20 FERC account information for the facilities categories  
21 as well; is that right?

22 A. That's correct.

23 Q. Now, your response says that "no specific  
24 valuation of the impact on the various FERC accounts  
25 was performed during the conduct of the merger

1 synergies analysis." Is that right?

2 A. That's correct.

3 Q. In the request itself we didn't really ask  
4 for the valuation. We just asked for the FERC account  
5 information which was not provided in this response.

6 A. It was not -- you're correct, it was not  
7 provided. We did not identify savings, areas or  
8 categories, nor evaluate them or quantify them on a  
9 FERC primary or sub account basis, and that's the  
10 purpose of the response. We dealt with the savings  
11 areas by type.

12 Q. Now, in staff data request No. 85, which  
13 Mr. Story responded to, he provided supporting  
14 documents showing FERC account information for  
15 corporate administrative general, which is one of the  
16 nine categories that we were covering in data request  
17 No. 60, and so I guess what we're looking for would be  
18 for you to provide the remaining eight -- the  
19 information on the remaining eight categories in a  
20 similar fashion that Mr. Story did in response to  
21 staff data request 85. Is that doable?

22 A. I wouldn't have it available to me. I  
23 haven't seen Mr. Story's response but perhaps what  
24 that does is show the allocated costs across those  
25 FERC subaccounts. And again, we were dealing with a

1 total category, and elements within that component, so  
2 account 921, for example, is one of the components of  
3 the corporate administrative programs. I think it's  
4 the offices supplies account which has a variety of  
5 items in it, but we were not working with other FERC  
6 accounts beyond that. We were working with specific  
7 categories or types of expenditures.

8 Q. So you're saying then that the information  
9 we requested in No. -- staff data request No. 60  
10 doesn't exist or if I were to ask for it by record  
11 requisition it could be provided?

12 A. It could probably be provided, but what it  
13 would represent would be just the allocation of the  
14 individual savings categories on whatever basis the  
15 company allocates those types of costs into the FERC  
16 subaccounts. And we did not deal with anything at  
17 that level, so it can probably be provided but we did  
18 not have access to allocation factors nor were we  
19 dealing with those allocation factors.

20 Q. Well, let me make the record requisition in  
21 any event which would be 23 --

22 JUDGE SCHAEER: No. 24.

23 Q. -- 24 for you to provide us with -- to  
24 respond to staff data request No. 60 with respect to  
25 the remaining eight categories that Mr. Story did not

1 cover in his response in data request 85 and to  
2 provide that information the best you can in a similar  
3 way that Mr. Story did and if you can't, explain why.

4 (Record Requisition 24.)

5 A. We can try and work with the company on  
6 that, but really the information would have to come  
7 from the company.

8 Q. And it may be that he's the one who  
9 responds to it but you're the one that's on the stand  
10 so I will make that request of you with that  
11 understanding.

12 A. Okay, thank you.

13 Q. In staff data request No. 59 we asked for  
14 supporting documentation of a table that was contained  
15 in your work papers, and your response was, after you  
16 corrected a reference to a person, as follows: "Due  
17 to the confidential nature of the synergies analysis  
18 access to supporting work papers was restricted during  
19 the development of the savings estimate." Is that a  
20 part of your response?

21 A. Let me just read the request I have down.  
22 Yes, sir, I have it.

23 Q. So I take it from your response that  
24 supporting work papers do exist?

25 A. Well, I think what we're referring to in

1 the response is while we have verbal confirmation of  
2 what the component cost would be, source documentation  
3 was not available at the time because of the  
4 limitation within the working group. Source  
5 documentation would exist within the company, we were  
6 just not able to obtain it without perhaps asking for  
7 -- without having to extend the circle or asking the  
8 type of question which might have invited speculation  
9 by other people within the company. So the  
10 information would be obtainable. By the time we were  
11 doing the analysis that was, I think, determined to be  
12 too particular a piece of information that couldn't be  
13 attained by the working group naturally.

14 Q. Why don't I ask you as record requisition  
15 No. 25, and granted that you may not be the one that  
16 provides it, sounds like you won't be, but to provide  
17 the supporting papers that is referenced in the  
18 response to staff data request 59.

19 A. If we can be happy to.

20 (Record Requisition 25.)

21 Q. If you could now look at your work paper 24  
22 which references benefits loading rate summary.

23 A. Yes, sir, I think I have it.

24 Q. Under the column for Puget which says  
25 Payton, it shows a total of 32.8 percent; is that

1 right?

2 A. That's correct.

3 Q. We added the percentages in that column and  
4 we came up with 33.4 percent. Would you accept that  
5 subject to check?

6 A. I will accept it subject to check while I'm  
7 looking at it, yes.

8 Q. If we're right and this table is wrong, is  
9 that just a mathematical error that's on the table, do  
10 you think?

11 A. I would say it might be a printing error in  
12 terms of what's on here but I will look back into it.

13 Q. Why don't I as record requisition 26 ask  
14 you to reconcile the 32.8 percent figure with the  
15 components on that page which appear to add up to a  
16 different number, and if it turns out that our 33.4  
17 percent is correct and 32.8 percent is wrong for you  
18 to update the insurance and benefits work papers in  
19 your data -- in your work papers.

20 A. Sure, be happy to.

21 (Record Requisition 26.)

22 Q. In your response to staff data request 124  
23 -- actually, in the request we asked you to break down  
24 into components a 25.8 percent figure that appears on  
25 page 27 of your work papers; is that right?

1 A. Yes, sir, I have the request.

2 Q. And the subject we're talking about is  
3 employee benefits, overhead rate, employee benefits?

4 A. Loading rate, that's correct.

5 Q. In your response to that data request the  
6 breakdown of the components of the 25.8 percent was  
7 not provided; is that right?

8 A. In the response it doesn't appear to be  
9 provided, that's correct. I think it refers to page  
10 28 of the work papers though.

11 Q. Right. And if we look at page 28, again,  
12 the 25.78 percent -- 25.7 -- 25.8 percent figure is  
13 not broken down into its various components, for  
14 example, retirement plan, investment plan and so on?

15 A. The calculation shows the 25.8 based on the  
16 addition of the individual components on a dollar  
17 basis. The percentage, you're correct, was not broken  
18 down.

19 Q. And so as the next record requisition 26 --  
20 JUDGE SCHAEER: Record requisition No. 27.

21 Q. -- if you could please provide the  
22 percentage components of the 25.8 figure.

23 A. Yes, we will.

24 (Record Requisition 27.)

25 Q. Do you have your response to our deposition

1 request No. 6?

2 A. Not this second but I believe I will get it  
3 shortly.

4 JUDGE SCHAEER: Let the record show that  
5 this document has been provided to the witness.

6 A. Yes, sir, I have it now.

7 Q. And just for the record, in that deposition  
8 request No. 6 we asked you to recalculate facilities  
9 savings -- your work paper for that facilities savings  
10 using \$4.98 per square foot rather than the dollar of  
11 nonlabor expenses; is that right?

12 A. That's correct.

13 Q. Turning to your response, is it correct  
14 that the taxes are estimated at 1 percent of market  
15 value for a total tax expense of \$280,000?

16 A. That's correct.

17 Q. Now, I don't know that you need to look at  
18 it, but in your response to staff data request No. 50,  
19 it appeared that the market value for the locations  
20 that's covered by your facilities savings worksheet  
21 was less than the previous estimates. Would you  
22 accept that? Again, if you need to take a look at  
23 that, that's fine.

24 A. I'm sorry, what's your question?

25 Q. My question is, isn't it correct that the



1 market value information of various properties  
2 provided in response to staff data request No. 50 is  
3 less than what you show in your facilities savings  
4 work paper that you gave in response to your  
5 deposition request No. 6?

6 A. Well, the response to staff request No. 50  
7 was prepared by Mr. Torgerson, and it apparently  
8 reflects an actual appraisal done on all the company  
9 properties as of a particular point in time, and it  
10 looks like it was toward the end of January of 1996,  
11 and just glancing at a couple of the summarized  
12 categories on page 2 of the attachment, it would  
13 appear that some of those are different.

14 Q. And so my question then is, should the  
15 property taxes that you show in your response to the  
16 deposition request be lower than the \$280,000 that is  
17 actually shown on that page?

18 A. Well, the market values that were reflected  
19 in the original calculations in the work papers did  
20 not reflect appraisal values. So to the extent that  
21 an appraisal was done by an outside appraiser which  
22 would affect the market values, then whatever impact  
23 on market values there were would flow through  
24 whatever other factors that would be affected by that,  
25 taxes of course being one.

1 Q. Let me ask you as record requisition 28 to  
2 recast your response to deposition request No. 6 with  
3 the information that was provided on market values in  
4 the response to data request No. 50.

5 A. Sure.

6 (Record Requisition 28.)

7 Q. Let me now ask you to look at what's been  
8 marked for identification as Exhibit No. 42, and ask  
9 you if you recognize this as page 424 from your work  
10 papers with respect to separation costs?

11 A. It's a summary page on that, yes, sir.

12 MR. CEDARBAUM: Your Honor, I would offer  
13 if I haven't on 41 and 42.

14 JUDGE SCHAEER: Exhibit 41 has been  
15 admitted. Is there any objection to admission of  
16 Exhibit 42? That document is admitted as well.

17 (Admitted Exhibit 42.)

18 Q. Looking at Exhibit 42, the first portion  
19 labeled separation-related cost to achieve, this shows  
20 the calculation of total severance payments for three  
21 classes of employees, union, nonunion and executive;  
22 is that right?

23 A. That's correct.

24 Q. And was the basic data that comes off this  
25 -- that is shown on this sheet data provided to you by

1 both Washington Natural and Puget?

2 A. Yes, it was.

3 Q. On the fourth line where it says net union  
4 reductions, it shows an assumption that 115 union  
5 employees will be laid off between 1987 and 1988; is  
6 that right?

7 A. I think you're referring to 1997, 1998.

8 Q. I'm sorry, I misspoke.

9 A. They are not referred to as layoffs, just  
10 reduced positions.

11 Q. Sorry. Now, the next couple of lines show  
12 that these people will receive two weeks' severance  
13 pay for an average of \$1372; is that right?

14 A. That's correct.

15 Q. And at the far right under the total column  
16 the total expected payout for those employees is the  
17 \$158,333 figure?

18 A. That's correct.

19 Q. In the next section for nonunion reductions  
20 under the net nonunion reduction area it shows  
21 reductions of 133 people in 1997 and 27 people in 1998  
22 for a total of 160; is that right?

23 A. That's correct.

24 Q. And the severance package for these people  
25 is a bit more complicated but the resulting expected

1 payout for 1997 and 1998 is the 5.171 million figure  
2 again in the total column on the right?

3 A. That's correct.

4 Q. And is it correct that the average  
5 severance payment for these 160 nonunion employees  
6 subject to check is \$32,300? Just dividing the five  
7 --

8 A. Subject to check.

9 Q. The last group shown are for executive  
10 reductions. Do you see that?

11 A. Yes, sir, I do.

12 Q. It is assumed that four executives will  
13 leave the companies?

14 A. That's correct.

15 Q. And it is also assumed that each of these  
16 four received \$208,375 in average salary plus 27.8  
17 percent in other benefits times one and a half years?

18 A. That's correct.

19 Q. And the \$208,000 figure is the average of  
20 the salaries of the top four executives of each at  
21 Puget and Washington Natural?

22 A. Unloaded, that's correct.

23 Q. And again, if we look at the total then for  
24 those four people, the total severance payment is the  
25 1.597 million, again total column on the right-hand

1 side of the page?

2 A. That's correct.

3 Q. And so each of those four executives  
4 receives about \$400,000 in severance pay?

5 A. May not be the specific executives that it  
6 relates to but it's a surrogate for some executive  
7 positions, that's correct.

8 Q. You can put that work paper away now. With  
9 respect to transaction costs you've estimated those  
10 costs of about \$13 million; is that right?

11 A. That's correct.

12 Q. And that's based on bankers' fees of 1.6  
13 percent times the market value of Washington Natural  
14 just prior to the merger?

15 A. Plus some legal costs.

16 Q. And then that's doubled -- I guess getting  
17 into your statement that's doubled for projected legal  
18 fees?

19 A. It's approximately half for each of the  
20 components between bankers' fees or outside legal  
21 costs.

22 Q. And that gets us to the 13 million?

23 A. That's correct.

24 Q. And have you used that method in prior  
25 merger proposals that you testified at?

1           A.     If there wasn't information with respect  
2 specifically to any contractual arrangements among any  
3 of the other advisors beyond the bankers.

4           Q.     After a merger is completed, have you ever  
5 gone back and compared the actual incurred banker and  
6 legal fees to the estimate?

7           A.     I don't believe that I've done that, no.

8           Q.     Turning to a different subject,  
9 information systems staff. Is it correct that your  
10 analysis included a reduction in that staff from 125  
11 -- 125 from the current 175 total staff?

12          A.     Net reduction was 50. I don't have that  
13 number in front of me quite yet, but the net reduction  
14 was 50, I remember.

15          Q.     Would you accept subject to checking your  
16 work paper 34 that the 50 employee reduction for  
17 information systems was a reduction from 175 to 125?

18          A.     Yes, I have it now.

19          Q.     And the assumption is that there's a 20  
20 person reduction in 1997 and a 30 person reduction in  
21 1988 -- 1998?

22          A.     That would be correct.

23          Q.     And that the savings for these layoffs --  
24 these reductions in information systems employees is  
25 over \$1,248,000 in 1997 and then \$1,958,000 in 1998,

1 and that would be if we look at your work paper 36.

2 A. I believe you have the numbers right,  
3 that's correct.

4 Q. Given those estimates, would you accept  
5 subject to your check that the average loaded salary  
6 for staff reduced to '97 is about \$62,400 and for  
7 staff reduced in 1998 it's about \$65,200?

8 A. The 1995 number is about \$59,000 so those  
9 numbers with escalation would sound in the ballpark,  
10 so I would accept that subject to check.

11 Q. Is it correct that with respect to costs to  
12 achieve the merger you show an expense of \$6 million  
13 for systems integration?

14 A. Yes, sir.

15 Q. And that systems integration involves the  
16 cost to merge the two computer systems of Puget and  
17 Washington Natural Gas?

18 A. That's correct.

19 Q. Do you believe that that type of work  
20 couldn't be done by existing personnel at Puget and  
21 Washington Natural Gas?

22 A. The assumption is that it's a type of work  
23 that requires different personnel to be able to  
24 convert the systems, and to incorporate data from one  
25 company to the next you need to use more programming

1 assistance than perhaps applications development type  
2 or systems analysis personnel, so the assumption was  
3 that those individuals that would be normally  
4 responsible for designing and developing systems would  
5 be replaced by some contract programmers in the  
6 short-term to assist the companies in transferring  
7 information and then the contract programmers would be  
8 terminated, but the original assumption was that the  
9 type of individuals that would presently exist within  
10 other areas besides program would be overlapping and  
11 duplicative so they would not be transferable to the  
12 kind of work that we would be talking about that the  
13 contract programmer is doing.

14 Q. With respect to these contract programmers  
15 you assumed that the companies would need to hire 15  
16 consultants for two years; is that right?

17 A. Individual practitioners, whatever, to help  
18 them with data conversion.

19 Q. So the answer is yes?

20 A. Yes.

21 Q. And is it also assumed that each of those  
22 15 outside people would receive \$200,000 each per  
23 year? Would you accept that subject to your check in  
24 your work papers?

25 A. Let me look at that a little closer.



1 Q. Let me ask you to look at work paper 431  
2 which shows -- relates to systems integration. Shows  
3 the 15 outside contractors at an annual charge of  
4 \$200,000.

5 A. Yes, I have it.

6 Q. And so it's your testimony that there is no  
7 one at Washington Natural or Puget currently employed  
8 who could do systems integration work, that there's a  
9 necessity to hire \$6 million worth of outside  
10 contractors to perform that work.

11 A. No, that's not the conclusion based on the  
12 information with the calculation.

13 Q. The \$6 million we've been talking about  
14 does not include money for new hardware? It's just  
15 the -- or does it?

16 A. The \$6 million is principally the labor  
17 component associated with it -- associated with  
18 integration.

19 Q. So any component other than labor is  
20 insignificant?

21 A. Well, the assumption was that the capacity  
22 that would exist at Payton or Puget Sound Power would  
23 be sufficient to absorb the additions to that in terms  
24 of operating requirement, particularly when you had  
25 approximately 33 percent of Puget Sound's customers

1 overlapping with those of Washington Energy's, so the  
2 capacity would be consistent with what your overall  
3 operating requirement would be, and then the savings  
4 would incorporate any reductions to the existing level  
5 of expenditures for unnecessary software or hardware,  
6 so it would be an addition or increment to the  
7 existing level of Puget as opposed to a determination  
8 that there would be additional hardware required.

9 Q. You've also -- switching gears now. You've  
10 also estimated costs to achieve the merger as \$30  
11 million, is that right, about?

12 A. That's correct.

13 Q. And that amount has been estimated  
14 presumably with a number of assumptions that you've  
15 applied and based on your experience in doing this  
16 kind of thing?

17 A. With the principal component being the  
18 labor separation costs as well as then the transaction  
19 costs.

20 Q. And you use your experience in applying  
21 those assumptions?

22 A. Well, the separation costs reflects a  
23 specific package that was considered with respect to  
24 the other categories. It relates to experience from  
25 the general tax of expenditures and the level of

1 expenditures that were made and then what the bankers'  
2 cost was related to the specific assumed rate based on  
3 total market value.

4 Q. In your opinion is the \$30 million -- I  
5 mean, these are all -- these are estimates so we can't  
6 be sure it's exact but is it close enough estimate in  
7 your opinion?

8 A. Recognize it reflects the cash costs, and  
9 this number is not inconsistent with what's been used  
10 other places. One determinant that can affect this  
11 cost might be the duration or the length of time  
12 between an announcement and the closure of the  
13 transaction, so to the extent that it's not a  
14 protracted time frame which involves some  
15 unanticipated activity by the companies and that the  
16 nature of the separation package is similar in  
17 construct to what we have here, I believe those  
18 numbers would not be unreasonable.

19 Q. And if we were in the ratemaking setting,  
20 though, would you agree that any factor that might  
21 impact that \$30 million estimate which would make it  
22 more accurate would be appropriate to do?

23 A. Well, if we had better knowledge today than  
24 we did in the October time frame it will be  
25 appropriate to reflect, and at the conclusion of

1 the transition period there will be better information  
2 available than was available a year and a quarter  
3 prior.

4 Q. So as actual data becomes known it should  
5 replace the estimates that you've used?

6 A. Well, that presupposes that there may be a  
7 proceeding, it seems to me, within which that  
8 information would be used. I don't believe the  
9 estimate is going to be order of magnitudes different.  
10 Some items may change both up and down in terms of  
11 what their individual components will be, but it  
12 depends for what purpose you would want to have more  
13 specific information.

14 Q. For ratemaking purposes wouldn't you want  
15 to have more specific information, if available you  
16 would use it?

17 A. If there were going to be a rate case  
18 then that's exact, that information might be  
19 appropriate. For purposes of this kind of transaction  
20 or proceeding, particularly in light of the company's  
21 regulatory plan or proposed regulatory plan, I don't  
22 believe it makes any difference.

23 Q. Finally at your deposition at pages 43 and  
24 44 you stated that your ten-year projection of salary  
25 escalation was based on a one-year forecast in a

1 Deloitte & Touche review paper and a study you had  
2 seen before; is that right? And then we request --

3 A. That's not wholly accurate. It's based on  
4 the study that was conducted over either the previous  
5 40 or 50 years, which indicated that the general rate  
6 of salary escalation was one percentage point above  
7 the rate of general inflation. And then in addition  
8 there was some information from a Deloitte & Touche  
9 document that indicated, I think over the last three  
10 or four years, that the salary escalation had been  
11 running about a point and a quarter above general  
12 inflation, and it did provide an estimate for I think  
13 1996, but it wasn't based solely on just looking at  
14 one year.

15 Q. But I guess the point of the question is  
16 that you referred to a study and in deposition record  
17 requisition No. 8 in your deposition we asked for that  
18 study. Is it correct that your response was as  
19 follows: "We were unable to locate a copy of the  
20 requested article. However, Mr. Flaherty recalls  
21 reading it in the Wall Street Journal within the last  
22 12 months." Is that your response?

23 A. I don't have it in front of me but that  
24 would sound familiar. We did not or were not able to  
25 relocate the article. I can visualize it and we did

1 make a copy of it but we're not able to put our hands  
2 on it presently.

3 MR. CEDARBAUM: Thank you. That's all my  
4 questions.

5 JUDGE SCHAEER: Let's take our morning  
6 recess at this time. Let's be off the record and  
7 please return promptly at quarter to 11, 10:45.

8 (Recess.)

9 JUDGE SCHAEER: Let's be back on the record.  
10 During the break Mr. Ellsworth distributed a document  
11 entitled Response to IBEW Data Request No. 29, one  
12 page cover sheet and appears to be a 26-page document  
13 attached. I'm going to mark this for identification  
14 as Exhibit 43.

15 (Marked Exhibit 43.)

16 MR. MACIVER: I didn't get one of those,  
17 Your Honor. Who distributed this document?

18 JUDGE SCHAEER: Mr. Ellsworth. Mr.  
19 Ellsworth, would you like to tell us about your  
20 agreement with the company regarding this document,  
21 please.

22 MR. ELLSWORTH: I believe the joint  
23 applicants have stipulated to the admission of Exhibit  
24 43 or will stipulate to that.

25 JUDGE SCHAEER: Is that correct, Mr. Van

1 Nostrand?

2 MR. VAN NOSTRAND: Yes, it is, Your Honor.

3 JUDGE SCHAER: And I believe you had  
4 indicated, Mr. Ellsworth, that you wanted to take this  
5 out of order right now and get it entered so that you  
6 might be able to leave this afternoon and take care of  
7 some other business.

8 MR. ELLSWORTH: That's correct, Your Honor.

9 JUDGE SCHAER: Would you like to offer  
10 Exhibit 43?

11 MR. ELLSWORTH: We would offer Exhibit 43  
12 at this point.

13 JUDGE SCHAER: Any objection to its  
14 admittance?

15 MR. MANIFOLD: You mean he gets to go  
16 home while we stay here?

17 JUDGE SCHAER: If you want to stop asking  
18 necessary questions and do this with your exhibit, Mr.  
19 Manifold.

20 MR. VAN NOSTRAND: Can we vote on that,  
21 Your Honor?

22 MR. MANIFOLD: No objection.

23 JUDGE SCHAER: Exhibit 43 is admitted.

24 (Admitted Exhibit 43.)

25 JUDGE SCHAER: Did you have questions for

1 Mr. Flaherty, Mr. Manifold?

2 MR. MANIFOLD: Yes, I have a few.

3

4 CROSS-EXAMINATION

5 BY MR. MANIFOLD:

6 Q. Good morning, Mr. Flaherty, my name is  
7 Rob Manifold --

8 A. Morning.

9 Q. -- assistant attorney general. I'm in the  
10 public counsel section of our office. You've  
11 quantified in this morning's responses, said that the  
12 \$370 million number is a nominal number over a  
13 ten-year period?

14 A. That's correct.

15 Q. Do you know what the company's projected  
16 total expenses are over that period in nominal  
17 numbers?

18 A. When you refer to expenses, do you mean  
19 operating expenses?

20 Q. Yes. It's a \$370 million savings as  
21 compared to what?

22 A. I am not aware of what those numbers are in  
23 any particular year nor over the ten-year period.

24 Q. So you don't know whether that's a savings  
25 of 1 percent or 10 percent or 20 percent or anything



1 like that?

2 A. With respect to nonfuel O and M -- and we  
3 had made a calculation at one point in time showing  
4 nonfuel O and M estimated year 5 -- it was  
5 approximately 9.4 percent.

6 Q. Did you have a similar -- and that's, say,  
7 exactly what? That's a percent?

8 A. That would be the annual savings in year 5  
9 divided by the combined annual nonfuel O and M numbers  
10 in year 5 so it was not the cumulative number we were  
11 referring to originally.

12 Q. And the savings are different in different  
13 years so this is not necessarily an average number.  
14 It's just a spot one year number?

15 A. One of the things that does not occur here  
16 is there is no lumpiness in the savings, so to speak,  
17 where they fluctuate because of capital types of items  
18 to an appreciable degree, but they do change year to  
19 year as they escalate into the future.

20 Q. So is that a yes with that explanation?

21 A. I believe so, yes.

22 Q. And do you have a similar number for any  
23 other years of the savings that you've projected?

24 A. The only other number would have been in  
25 the -- just the total position reductions area which I

1 think was included within the work papers, at the  
2 front end of the work papers themselves.

3 Q. And what would that be?

4 A. It's approximately 8 and a half percent, I  
5 believe. If you would like to get me more exact I can  
6 look it up.

7 Q. Please do.

8 A. 8.3 percent.

9 Q. Are the savings that you have estimated, do  
10 they include any of what Mr. Torgerson has referred to  
11 as best practices savings?

12 A. No, they do not.

13 Q. Is it true that you have some experience in  
14 various other industries besides regulated utility  
15 industries?

16 A. Yes, sir.

17 Q. That includes construction, retail,  
18 publishing, health care, real estate and  
19 manufacturing?

20 A. Yes, sir.

21 Q. Are you familiar generally with the  
22 developments in those industries as they've met  
23 competitive pressures over the last several years?

24 A. Yes, sir.

25 Q. Would you agree that many of those firms

1 have faced unprecedented competitive pressures in the  
2 past 10 to 20 years?

3 A. Many of those industry segments as well as  
4 many of the individual competitors within those  
5 segments, yes, sir.

6 Q. Would you agree that very substantial  
7 levels of cost savings have been achieved by some of  
8 those companies and even some of those industries as  
9 they have faced increasing levels of competition?

10 A. Savings of a different nature than what  
11 we're talking about in my testimony, but, yes, that's  
12 correct.

13 Q. Could you expand on that? What do you mean  
14 by "of a different nature"?

15 A. Well, we're talking about merger-related  
16 savings in my testimony as opposed to other types of  
17 cost reduction which you may be referring to in terms  
18 of what the responses of those companies to increasing  
19 competition may have been.

20 Q. And how would you characterize those sorts  
21 in general -- the sorts of savings that those  
22 companies have found or had to find as they've faced  
23 competition?

24 A. Well, the savings that they were pursuing  
25 are consistent with the same kinds of initiatives that

1 both Washington Energy and Puget Sound Power and Light  
2 have taken to date in either downsizing the total work  
3 force, outsourcing certain operations, re-engineering  
4 existing processes. So the kind of responses are  
5 similar to those that both companies here have already  
6 taken to date.

7 Q. Would you agree that in those other  
8 industries companies have had to find ways to realize  
9 savings progressively as competition has -- as they  
10 have met competition?

11 A. I think it's been true in the electric  
12 industry and the natural gas industry as well, where  
13 there has been progressive cost reduction. That is, a  
14 single event typically has not reduced costs to the  
15 level people believe necessary to be successful  
16 competitors, so it's been done over time in -- on  
17 multiple occasions through multiple means.

18 Q. Again, I assume you're saying yes and  
19 that's the explanation?

20 A. I believe so, yes.

21 Q. You're not suggesting, are you, that the  
22 electric or natural gas industries face at this point  
23 -- have faced up to this point the sort of competition  
24 that the other industries you've worked in face, are  
25 you?

1           A.     Well, if you were to exclude the natural  
2 gas pipeline industry segment, just deal with the  
3 local distribution segment, I think it's fair that in  
4 both cases the degree of competition that has been  
5 experienced to date will be substantially exceeded by  
6 what appears in the future.

7           Q.     Do you know how much of your proposed  
8 savings relate to the gas side of the business as  
9 opposed to the electric side?

10          A.     No, sir, we did not look at it on a segment  
11 basis.

12          Q.     Do you know how much of your proposed  
13 savings accrue to the electric power supply function?

14          A.     Well, there's no electric power supply-  
15 related types of savings. The only impact would be if  
16 there were any allocations to that as a business unit  
17 from corporate expenditures.

18          Q.     So your answer might be yes and the number  
19 zero other than that qualification?

20          A.     That's correct.

21          Q.     Would you agree with me that generally the  
22 savings you've identified relate to areas where there  
23 are overlaps between the two companies?

24          A.     Yes.

25          Q.     And is it fair to state that those overlaps

1 largely occur in the electric and gas distribution  
2 customer accounting and administrative functions?

3 A. The answer is yes. I'm not sure of how  
4 you're using administrative. It's used specifically  
5 in our quantification as a general area,  
6 administrative support services, but if you're talking  
7 about that in a broader context of corporate and  
8 administrative services then that's correct.

9 Q. Did your study -- in doing your study, did  
10 you make any assumptions regarding the frequency with  
11 which the combined utility would render bills to  
12 customers?

13 A. There is an assumption with respect to the  
14 quantification of the postage category within  
15 corporate and administrative programs that it would be  
16 monthly for the overlapping customers that it referred  
17 to but it would not make a generic assumption beyond  
18 that.

19 Q. So for those roughly two thirds or three  
20 quarters of Puget's customers who are not in  
21 overlapping territories you assumed continuation of  
22 bimonthly billing for residential and commercial, for  
23 those residential and commercial customers who are  
24 currently bimonthly billed?

25 A. Perhaps more accurately we didn't make an

1 assumption about it at all. We just dealt with the  
2 overlapping customers, so perhaps by inference that's  
3 the answer but we made the assumption that for  
4 purposes of assuming postage savings reductions it  
5 would be monthly billing.

6 Q. And those postage savings were the only  
7 savings you identified from the overlap -- from  
8 changes in billing?

9 A. That's the only area that would come to  
10 mind in terms of any specific category of expense.

11 Q. Well, let me ask you then to accept that as  
12 a subject to check and then you can correct that  
13 subsequently if others come to mind.

14 A. Okay.

15 Q. And you have a specific number of days in  
16 which to do that as counsel will advise you.

17 A. Thank you.

18 Q. Am I correct that you did not attempt to  
19 capture any changes in capital costs as a result of  
20 receiving payments more frequently from customers?

21 A. That's correct. Any financial related  
22 impacts, cash flow impacts or otherwise were not  
23 captured. We didn't have the information necessarily  
24 available to do that accurately at the time of our  
25 field work.

1 MR. MANIFOLD: Thank you very much.

2 THE WITNESS: Thank you.

3 JUDGE SCHAEER: Thank you. It appears  
4 that Mr. Finklea is not going to need his ten minutes  
5 so we'll go to you, Mr. Patton.

6 MR. PATTON: Thank you.

7

8 CROSS-EXAMINATION

9 BY MR. PATTON:

10 Q. Mr. Flaherty, my name is Will Patton and I  
11 represent the city of Seattle in this proceeding.

12 A. Morning.

13 Q. Good morning. I want to refer you to  
14 Exhibit 42 that you had -- I'm sorry -- Exhibit 41  
15 which you were handed out this morning or was  
16 introduced this morning. I note on this exhibit on  
17 the second page beyond the cover page that in what I  
18 guess is the internal discussion of the merger before  
19 it was made public that code names of Payton and  
20 Largent were used?

21 A. That's correct.

22 Q. I assume that Payton refers to Gary Payton  
23 of the Seattle Supersonics and Largent, Steve Largent  
24 of the Seahawks; is that right?

25 A. I think that's a good assumption.



1 Q. To extend that sports analogy, is that  
2 because Puget plays basketball and the gas company  
3 plays football?

4 A. I don't know if I could make that  
5 characterization. They were selected before we got  
6 here and there certainly may be a reason behind that.

7 Q. Well, to extend that maybe inadvertent  
8 analogy further, you can get some of the same cost  
9 savings you've indicated in your testimony if two of  
10 these sports organizations combined. That is, if the  
11 Supersonics and Seahawks combined you'd get some  
12 savings of overlapping corporate functions, wouldn't  
13 you?

14 A. That's correct.

15 Q. And you would get presumably the same  
16 overlap of corporate savings if Puget decided to merge  
17 with another utility other than the Washington Natural  
18 Gas Company, for example, with General Telephone and  
19 Electric?

20 A. In your question did you say you would get  
21 the same percentage or the same type?

22 Q. Same type.

23 A. Yes, you would get some of the same type  
24 depending on what the nature of that organization was  
25 and its size.

1 Q. So if you look on page 20 of your testimony  
2 where you listed out the categories of overlap savings  
3 which accrue in this proposed merger, those kind of  
4 activities are common to most large organizations,  
5 aren't they?

6 A. Most utility organizations more  
7 specifically, yes, sir.

8 Q. And specifically for utility you have  
9 street crews and --

10 A. Or rates and regulation, some other  
11 functions like that, but the general corporate  
12 function most industrial corporations do have some  
13 form of.

14 Q. So if we focus on utilities, which is of  
15 course what we're doing here at the Utilities and  
16 Transportation Commission, you would expect to see all  
17 of these categories of savings if Puget decided to  
18 merge with G T and E?

19 A. Not perhaps all of these categories.

20 Q. What ones wouldn't you find?

21 A. Well, let me amend that. In the broadest  
22 sense, the answer is probably yes, but there would be  
23 certain of these items where the potential for the  
24 nature or level of savings would be reduced. For  
25 example, in skills training, the type of work that

1 might be underneath or directed -- to which training  
2 was directed could be different, so it would more be  
3 the corporate type of work where that training would  
4 apply. Same thing would be true in engineering and  
5 construction depending on the type of actual work that  
6 was done or the type of facility that was being  
7 designed or installed, and with those exceptions I  
8 think in the broadest sense, yes.

9 Q. Well, taking those exceptions that you  
10 outlined, Puget operates mostly an aerial overhead  
11 electric system, doesn't it?

12 A. I don't know the percentage. I know there  
13 is a large amount underground and more every day, but  
14 I don't know the percentage.

15 Q. And likewise, taking my example of General  
16 Telephone and Electronics or telephone service in this  
17 same geographic area operates mostly an overhead  
18 telephone system although, as you point out,  
19 increasingly underground as well?

20 A. I can only surmise they might be installing  
21 more fiber but I don't have a feel for that.

22 Q. So to achieve these same cost savings in  
23 other arenas, if you take the cost savings that you've  
24 outlined and extend that to its logical conclusion,  
25 wouldn't it be a public policy benefit to encourage

1 multiple mergers of all the utilities in a geographic  
2 area?

3       A.     Well, I think there's competing influences.  
4 There certainly can be some benefits that would accrue  
5 to customers from those kinds of combinations. There  
6 may be other factors, though, that people would attach  
7 significance to that might balance against that, so I  
8 have a hard time speculating, I guess, depending on  
9 the nature and the size or the number of all of the  
10 entities that you might be referring to in terms of  
11 the combination.

12       Q.     Well, specifically on your testimony, on  
13 page 24 of your direct testimony, you talk about  
14 reductions in functional areas are possible only due  
15 to the overlapping gas and electric service territory  
16 created from the merger. Those savings that you're  
17 referring to there -- and I was reading at line 9 to  
18 12 or so -- those relate to the fact of overlapping  
19 geographic territory and not at all to the type of  
20 activity undertaken by the two companies; is that  
21 right?

22       A.     Well, it certainly relates to both. It's  
23 the territory in which the function or activity might  
24 be performed, but it does also relate to the nature of  
25 that activity or lend itself within that specific

1 geographical area.

2 Q. Can you be more specific about what  
3 specific characteristics of an electric utility and a  
4 gas utility you reference?

5 A. Well, as we're talking just generically  
6 here about the distinction between sort of the  
7 administrative and general and then perhaps the other  
8 field-related pieces, with respect to overlapping  
9 territory, you have a variety of functions including  
10 street crews, major facilities in construction,  
11 dedicated or assigned engineering support, meter  
12 reading, things of that nature, and other less  
13 directly related functions like customer service which  
14 would be dependent on the number of customers or calls  
15 that are handled.

16 Q. Again, to use the analogy that I asked you  
17 about before, you would achieve those same kind of  
18 savings, wouldn't you, if you had a combined territory  
19 of Puget and the telephone company in a certain area?

20 A. I think as I had mentioned or acknowledged  
21 that certainly in the areas, yes. There might be a  
22 difference to the extent to which they might be  
23 attainable but with the broad functional categories we  
24 talked about they would apply. Could also apply in  
25 part to water.

1           Q.     Which was -- thank you. That was going to  
2 be my other analogy. For example, if the city of  
3 Bellevue wanted to privatize its water distribution  
4 system you would have the same kind of -- and Puget  
5 bought it you would have the same kind of overlapping  
6 functions and savings?

7           A.     You potentially could. What we're  
8 referring to is just that in terms of identifying the  
9 cost reductions that are being contained within the  
10 testimony, they are related to the combination of the  
11 two companies as opposed to independent actions.

12          Q.     On your Exhibit TJF-2, you talked about  
13 your personal participation in a number of other  
14 utility mergers, and on the bottom of page 2 you  
15 talked about the fact that the majority of the  
16 transactions in which you've been engaged either  
17 ultimately were not pursued or are currently pending.  
18 Without undermining any confidential information that  
19 you have, can you explain why a number of those were  
20 not ultimately pursued?

21          A.     Well, there's two types of transactions  
22 that might fit into that category. Those were both,  
23 companies did engage in discussions but were not able  
24 to reach satisfaction with respect to any number of  
25 issues, or where a particular party was interested in

1 pursuing a combination with another party or perhaps  
2 more than a single party but elected not to proceed at  
3 that time.

4 Q. So is there any common theme in proposed  
5 gas and electric company mergers as to why many of  
6 them don't go forward?

7 A. Probably the most significant factor over  
8 time, and I am thinking back to the mid 1980s, my  
9 frame of reference, would have been corporate  
10 governance issues, and by corporate governance,  
11 composition of the board of directors in a merger of  
12 equals situation, which of the two companies' officers  
13 would be initially established as in leadership  
14 positions, name changes, locations of headquarters, a  
15 variety of those kind of things would be corporate  
16 governance. That's the single most significant factor  
17 over time.

18 Lately it's been -- it's probably been more  
19 related to economic considerations in 1996, that is,  
20 the inability to strike agreed upon exchange ratio.

21 MR. PATTON: Thank you. No further  
22 questions.

23 JUDGE SCHAEER: Mr. MacIver, did you have  
24 questions for this witness?

25 MR. MACIVER: I have no questions, Your

1 Honor.

2 JUDGE SCHAER: Mr. Freedman.

3 MR. FREEDMAN: I have no questions, Your

4 Honor.

5 JUDGE SCHAER: Mr. Merkel.

6 MR. MERKEL: No questions.

7 JUDGE SCHAER: Mr. Ellsworth.

8

9 CROSS-EXAMINATION

10 BY MR. ELLSWORTH:

11 Q. Good morning, Mr. Flaherty.

12 A. Good morning.

13 Q. Your analysis identified 301 positions that  
14 you believe could be reduced as being duplicative  
15 post-merger?

16 A. That's correct.

17 Q. At the time that you did that analysis,  
18 were you aware that between 1992 and 1995 Puget had  
19 already reduced its work force by 23 percent and  
20 Washington Natural Gas had reduced its work force by  
21 28 percent?

22 A. Yes, we were.

23 Q. And as part of your analysis, did you make  
24 any determination as to whether a reduction of another  
25 301 positions would affect existing quality and



1 reliability of service?

2           A.     That was one of the factors that we  
3 specifically considered in the development of the  
4 potential position reductions in the discussion review  
5 of those within the working group. One of the intents  
6 of the transaction was to make the combination  
7 transparent to customers in terms of any diminution to  
8 the current level of service, so the intent was that  
9 it would be at least at the current level of service  
10 if not improved through the combination.

11          Q.     Did you do an analysis as to what that  
12 level of service was?

13          A.     We did not focus on -- the answer is no,  
14 and we did not focus on specific service reliability  
15 metrics or factors or performance measures, but  
16 through the discussions with the working group did  
17 talk about the areas where impacts might occur and  
18 whether the nature of the reductions and the location  
19 of those reductions and the amount of those reductions  
20 was believed to have any impact on service quality or  
21 responsiveness in any form.

22          Q.     We've previously been given copies of your  
23 working papers as it relates to those 301 positions.  
24 Are there any other document that you're aware of that  
25 would analyze or deal with the issue of quality and

1 reliability of service?

2 A. Not that would be in our work papers or  
3 other information that was relied upon for the  
4 development of the savings. Certainly the companies  
5 would have other specific information about their  
6 respective situations.

7 Q. If you look at your prefiled testimony on  
8 page 26.

9 A. Yes, sir, I have it.

10 Q. I believe it's between line 19 and 20 you  
11 used the phrase "street crews." What's your  
12 definition of street crews?

13 A. It's construction crews.

14 Q. Is that the equivalent of line crews or is  
15 that a different term?

16 A. It can include the same.

17 Q. And you say that there was a determination  
18 that there could be significant reductions in street  
19 crews. Did you quantify what those significant  
20 reductions were?

21 A. Yes.

22 Q. And what was that? Was that included in  
23 that 301?

24 A. I believe that there was 36 positions of  
25 the 301.

1 Q. So those significant reductions are  
2 included in your 301 identified positions?

3 A. Yes, sir.

4 Q. And if you look at Exhibit No. 42, please.

5 A. Yes, sir, I have it.

6 Q. Do you see the line where it says  
7 "separation related to cost to achieve," where it says  
8 "net or average union salary"?

9 A. Yes, sir.

10 Q. And there's columns for 1997 and 1998. Did  
11 you make an assumption as to what union salaries would  
12 be in 1997 and 1998?

13 A. Not a specific assumption per se other than  
14 what the escalation rates would normally have provided  
15 for.

16 Q. Did you take those escalation rates out of  
17 existing labor agreements?

18 A. I don't recall whether they came directly  
19 from the agreements or not.

20 Q. Did you make any assumptions as to whether  
21 those labor agreements would continue into 1997 and  
22 1998?

23 A. No specific assumption.

24 MR. ELLSWORTH: I have nothing further.

25 JUDGE SCHAEER: Mr. Finklea, did you have

1 questions of this witness?

2 MR. FINKLEA: Yes, Your Honor. I just have  
3 about five minutes worth of questions and I have two  
4 exhibits.

5 JUDGE SCHAER: I will let you distribute  
6 those now, but throughout this proceeding we have  
7 agreed that we are going to distribute all exhibits  
8 for all witnesses at the time the witness takes the  
9 stand so I will ask you in the future to follow that  
10 proceeding.

11 MR. CEDARBAUM: Your Honor, while Mr.  
12 Finklea is doing that I have copies of the correction  
13 sheet for Mr. Flaherty's deposition. Can I hand those  
14 out?

15 JUDGE SCHAER: Yes. Why don't you go ahead  
16 and do that as well, Mr. Cedarbaum.

17 MR. FINKLEA: Your Honor, I have  
18 distributed and asked to have marked responses to two  
19 data requests. The first is a response to staff data  
20 request 25, and the second is a response to ICNU/NWIGU  
21 data request No. 39 revision No. 1. The responses  
22 were prepared by Mr. Flaherty.

23 JUDGE SCHAER: Okay. Before I identify  
24 those, please note that Mr. Cedarbaum has distributed  
25 one page which is signed at the bottom by Mr. Flaherty

1 and contains corrections and that this page should be  
2 included as a final page to Exhibit 40 and is admitted  
3 as that.

4                   Turning now to the documents distributed by  
5 Mr. Finklea --

6                   MR. CEDARBAUM: Your Honor, I'm sorry to  
7 interrupt for just a second. With respect to Mr.  
8 Finklea circulated staff data request No. 25, he was  
9 out of the room while I was questioning Mr. Flaherty,  
10 but this has already been read into the record so I  
11 don't know if you want to create another exhibit or  
12 not.

13                   MR. FINKLEA: If it's read into the record  
14 it doesn't have to also be an exhibit. That's fine,  
15 Your Honor, so it would only be the response to  
16 ICNU/NWIGU data request No. 39 that we would request  
17 to have marked.

18                   JUDGE SCHAEER: And I am going to mark for  
19 identification as Exhibit No. 44 a two-page document  
20 which is identified as response to ICNU and NWIGU  
21 data request No. 39 revision No. 1.

22                   (Marked Exhibit 44.)

23

24                   CROSS-EXAMINATION

25 BY MR. FINKLEA:

1 Q. Good morning, Mr. Flaherty. My name is Ed  
2 Finklea. I represent the Northwest Industrial Gas  
3 Users.

4 A. Good morning.

5 Q. We have marked for identification Exhibit  
6 44. Am I correct that this is a response that you  
7 made to a data request of the ICNU/NWIGU in this  
8 proceeding?

9 A. Yes, sir.

10 Q. And can you explain for the record what the  
11 second page of the document attempts to portray?

12 A. It reflects a compilation of generally all  
13 of the announced transactions since 1985 within the  
14 utility industry -- the electric utility industry or  
15 combination companies and captures relative impacts,  
16 and across those transactions is measured by two  
17 different bases, the first of which is just the level  
18 of position reductions and the second of which is the  
19 impact on nonfuel O and M in a prospective year.

20 Q. And again, concentrating on that second  
21 page, am I correct that the second from the bottom  
22 line is the line that shows your projections on the  
23 Puget Washington Energy proposed merger?

24 A. Yes, sir, that's correct.

25 Q. And could you explain to us then what the

1 -- what your figures -- first of position reductions,  
2 am I correct that what you're estimating is 8.7 percent  
3 reduction in positions in the companies as a result of  
4 the merger?

5 A. That's what that number would reflect and  
6 then the subsequent column would reflect the 9.4  
7 percent number with respect to O and M excluding fuel  
8 or gas supply, although in year 5 as opposed to at the  
9 announcement date as in column 1.

10 Q. And am I correct then in looking at this  
11 chart that I can conclude that your projection is that  
12 the synergies resulting in savings are approximately  
13 average among the ones that you have studied and shown  
14 on this response to a data request?

15 A. This particular chart would show that  
16 they're slightly above average with respect to the 21  
17 or so transactions that I think are on this list. If  
18 you were to look at the last ten transactions or last  
19 nine transactions perhaps, they're a lot closer to the  
20 average of those transactions.

21 MR. FINKLEA: Your Honor, I would move for  
22 the admission of Exhibit 44 and I have no further  
23 questions.

24 JUDGE SCHAEER: Is there any objection?

25 MR. VAN NOSTRAND: No.

1 JUDGE SCHAER: That document is admitted.

2 (Admitted Exhibit 44.)

3 JUDGE SCHAER: Commissioners, did you have  
4 questions for Mr. Flaherty?

5

6 EXAMINATION

7 BY COMMISSIONER HEMSTAD:

8 Q. Good morning, Mr. Flaherty.

9 A. Morning.

10 Q. A common pattern if not typical, at least  
11 recurring, pattern in some downsizing circumstances of  
12 a freestanding company is that downsizing occurs  
13 and there is a need for call-backs or for new-hires.  
14 Have you seen that pattern occur in the area of  
15 mergers and acquisitions?

16 A. I wouldn't call it common. I have seen it  
17 occur outside of mergers and acquisitions. Within the  
18 mergers and acquisitions area it will be dependent  
19 upon the kind of separation program which might be  
20 offered and whether those might be over-subscribed by  
21 the employee base, and in those situations there have  
22 been a couple that I am aware of where it was  
23 considered necessary to in fact rehire because the  
24 level of positions that were reduced exceeded those  
25 that were expected through the combination, because of



1 the component or the value of the package to the  
2 individual employees, the separation package I'm  
3 referring to.

4 Q. Are you prepared to make any estimate of  
5 the likelihood of that occurring here?

6 A. Well, no, I'm not. One of the issues that  
7 you often run into is where you have companies that  
8 might not share the same city or even state with  
9 respect to their corporate locations, and in those  
10 circumstances the number of employees which might  
11 elect to take advantage of a program would be greater  
12 because they do not envision themselves moving in one  
13 direction or the other. In a situation where you have  
14 the headquarters in the same general location, same  
15 close regional area, I would suspect that those kind  
16 of differences would be minimized.

17 And so I can't give you a definitive answer  
18 about what kind of opportunity there might be in this  
19 situation. I would suspect it would be less than in  
20 the other situations for that to occur, but it does  
21 depend on the nature of the program that is provided  
22 and what the employee base use as the level of  
23 uncertainty with respect to their future employment.

24 Q. In looking at the potential savings from  
25 the merger, did you address at all the nonregulated

1 activities of the merging companies?

2 A. No, sir, we did not.

3 Q. I assume there will be some savings along  
4 the lines of those that you project here in corporate  
5 and administrative activities?

6 A. We didn't address it because of the general  
7 embrionic nature of some of the businesses, the fact  
8 that they were not part of the core operations of the  
9 company. As the companies go forward and begin to and  
10 would have begun to get into similar lines of  
11 business, power marketing for example on the WNG side,  
12 if they went that particular path, as might Puget  
13 Sound, those kind of future activities would have  
14 yielded some of those potential opportunities.

15 Q. So had that area been looked at would any  
16 of the projected savings that are seen here be  
17 attributable to those nonregulated activities?

18 A. Not -- we did not look at those areas and  
19 none of the savings that are identified in my  
20 testimony would relate to those nonregulated  
21 operations.

22 Q. In the separation packages that are  
23 projected to be used here, there are different levels  
24 of compensation in those packages depending upon the  
25 category of the employee. Is the structure of those

1 packages here typical of what happens in the -- when  
2 mergers occur -- what I am really focusing on is  
3 management gets more generous packages than middle  
4 level employees or those going to nonunion or union  
5 workers. Is that the pattern that occurs in mergers  
6 and is the package here typical?

7       A.     The relationships that you speak of between  
8 management, executive and nonunion employees is  
9 consistent with what we've seen in other situations.  
10 The nature of each individual component as it would  
11 apply to those separate categories may be different,  
12 for example. For example, in some transactions the  
13 management separation package is three years, for  
14 example. And in other nonexecutive -- I should say  
15 the executive separation package was three years and  
16 in nonexecutive situations it can be structured a  
17 little bit differently. It could offer a sweetener  
18 for earlier acceptance. It might have a cap on the  
19 actual amount or it might have a minimum. So the  
20 components can be very different but the general  
21 relationship that you spoke to is correct.

22               COMMISSIONER HEMSTAD: Thank you. That's  
23 all I have.

24

25

EXAMINATION

1 BY COMMISSIONER GILLIS:

2 Q. I have a couple. It's rather complex  
3 trying to sort out what are the savings from the  
4 merger itself versus those that would have occurred  
5 from the individual companies striving for  
6 efficiencies in a competitive world. It appears that  
7 your analysis required a combination of professional  
8 judgment and accounting science. Is that a fair  
9 statement?

10 A. Some of the professional judgment, I'm not  
11 sure I would attribute it to accounting science. I  
12 think probably it would have been more operational  
13 experience with the individual functional areas.

14 Q. But it would be reasonable to assume that a  
15 different analyst might come up with a different level  
16 of merger savings depending on their assumptions and  
17 professional experience, et cetera?

18 A. That would not be unreasonable, although  
19 the manner in which we developed these particular  
20 savings was working closely with the working group, so  
21 the number of individuals who were part of that  
22 decision-making process, it was a consensus of as many  
23 as a dozen individuals or a group in its totality.

24 Q. I think that partially answers what I was  
25 interested in. Just like to ask you an open-ended

1 question of how you apply professional judgment in  
2 these situations to sort out what would be a savings  
3 that is appropriately attributed to the merger versus  
4 a savings that a rational company would make in trying  
5 to become more sufficient in a competitive  
6 environment.

7       A.     Sure. We have an approach that effectively  
8 separates potential savings into three different  
9 categories. Those that we call created by the merger  
10 -- that is they're directly related and would not  
11 occur but for a combination -- and that's the  
12 principal element of overlap and duplication as well  
13 as the economies of scale on the nonlabor side.

14             The second category are those we call the  
15 enabled which are somewhat indirectly related to the  
16 merger. They're accelerated or unlocked by the  
17 merger. Potentially the companies would have done it  
18 on their own but it would have been more expensive and  
19 taken longer.

20             And third category would be what we called  
21 developed savings that are those that are not related  
22 to the merger and companies could have pursued on  
23 their own. Examples of the latter types of savings  
24 would be the normal downsizing or re-engineering or  
25 process redesign efforts or outsourcing efforts that

1 many companies have undertaken.

2                   What we try to do to avoid capturing those  
3 particular savings was to look at -- and I will talk  
4 about later as an example was to look at the total  
5 complement of personnel, get it on line by function  
6 and subfunction to the extent possible. So within  
7 accounting and finance as an example there may be ten  
8 individual subfunctions, budgeting, taxes, general  
9 accounting, treasury, those kind of subfunctional  
10 areas. Then look at the relative staffing composition  
11 within each company for that subfunction, assess the  
12 nature of the work performed in that area, that is, is  
13 it something that would be a staff function, would be  
14 very much overlapping -- corporate planning is a good  
15 example. A lot of the functions are the same. Even  
16 if industry components might be different much of the  
17 effort might be the same. And then look at the nature  
18 of the activities that would be transaction or volume  
19 related, did it involve an interface with a customer,  
20 was it something that required the processing of  
21 multiple units. Processing of vouchers are and  
22 accounts payable or payroll checks and payroll. That  
23 kind of thing.

24                   And then looking at that staffing  
25 alignment, the size of the two companies and relative

1 staffing complement, the manner in which the company  
2 was going to be organized and operated going forward,  
3 looked at what the potential incremental staffing  
4 requirements would be to integrate or absorb the other  
5 company's additional workload and then validated that  
6 particular number against some industry experience in  
7 terms of what we've seen the range of those results to  
8 be.

9           By doing it in that way and trying to focus  
10 on the overlap and duplication areas we hoped that we  
11 were avoiding the kind of things the companies were  
12 doing anyway, and if the companies would have had  
13 planned position reductions we would have incorporated  
14 those into a reduction of the starting point prior to  
15 our analysis.

16           On the nonlabor side, the principal  
17 categories of savings would relate to either economies  
18 of scale or the opportunity to avoid certain  
19 expenditures in their entirety. And those economies  
20 of scale are hard to imagine being created without the  
21 combination. Companies may be able to get better unit  
22 rates from suppliers by continued renegotiation, but  
23 they will be able to get even greater benefit through  
24 a combination in the increase in the total amount of  
25 the volume.

1           Then to the extent that there are nonlabor  
2 expenditures which would be very similar --  
3 shareholders services is an example of that where both  
4 companies would publish an annual report, both  
5 companies would have the expenditures for an annual  
6 meeting, both companies would do the proxy  
7 solicitations, both companies would pay a New York  
8 stock exchange a registration fee. There would be  
9 transfer fees associated with agents and things of  
10 that nature. Those would be avoided expenditures.

11           So what we tried to do was to capture them  
12 discretely, and when we look at it by functional area  
13 or subfunctional area on the labor side and then  
14 in particular take the individual savings category on  
15 the nonlabor side we think we have good opportunity to  
16 exclude those particular elements that the companies  
17 might have done anyway.

18           An example of where we would have normally  
19 quantified merger savings because of the overlapping  
20 territory would have been in meter reading, but the  
21 companies had previously had an automated -- excuse  
22 me -- a joint meter reading project in Mercer Island,  
23 and we did not include those potential savings amounts  
24 that would have been legitimate in most normal  
25 situations because they specifically had initiated



1 effort in that area, so we tried to very specifically  
2 exclude the kind of nonmerger savings or those  
3 non-but-for types of savings that I referred to  
4 earlier.

5 Q. There's I believe some water in the  
6 canister next to you if you need that. So you  
7 excluded meter reading and also combination facilities  
8 outside the overlapping service territory. Is that  
9 right?

10 A. Yes, sir. There were some facilities as  
11 well that were proximate to one another which could  
12 have been consolidated, and if they were not in an  
13 overlapping service territory then we did not include  
14 those.

15 Q. Do you have any cost estimate of the  
16 savings from the joint meter reading and the combining  
17 facilities outside the common service area? Is that  
18 something that you had done?

19 A. I believe we had some initial estimates on  
20 the meter reading aspect of that but not on the  
21 consolidation of nonoverlapping territory facilities.

22 Q. Do you know, do those represent what the  
23 company witness was calling best practices savings for  
24 those?

25 A. Not wholly. The best practices area

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1 typically relates to ways of doing business that can  
2 be adopted by another company. Not so much other  
3 opportunities which might have existed. Companies  
4 could close facilities without any other kind of  
5 action if they believe that service would not  
6 deteriorate through the closure of that facility, so  
7 that's not really a best practice if that happens to  
8 happen outside of where there might be overlap to  
9 begin with.

10           If it were to relate to other functions,  
11 companies can outsource certain functions if they  
12 believe it to be more appropriate but the merger acts  
13 as a catalyst to bring together those areas where  
14 specifically there's overlap and duplication, so I  
15 think the best practices is really even a step removed  
16 from the consolidation of facilities that you might  
17 have referred to. Those might have been  
18 opportunistic, but best practices is taking those  
19 policies, procedures, practices or programs and  
20 adopting them within one or the other of the  
21 companies.

22       Q.     I have one other question referring to your  
23 summary chart on TJF-3.

24       A.     Yes, sir, I have it.

25       Q.     Just looking at the summary for labor

1 estimated from merger savings, it appears that the  
2 value goes up approximately 2 million per year over  
3 the ten-year period that you're looking at; is that  
4 right?

5 A. That appears to be correct, yes, sir.

6 Q. What are the reasons for the escalation?

7 A. Well, what it is reflecting principally is  
8 normal escalation, and the assumption that as general  
9 inflation increases salaries and wages would need to  
10 increase as well to compensate for that.

11 Q. But I guess I saw from the response to the  
12 staff data request that these aren't discounted.  
13 These are nominal values?

14 A. These are in nominal values escalating  
15 every year for whatever the assumed level of inflation  
16 is by category.

17 Q. That explains it mostly. I was wondering,  
18 did you also or do you also typically in these  
19 situations take account of reasonable probability of  
20 productivity gains over a period like that within  
21 function?

22 A. If we were dealing with the total dollars  
23 of O and M, then dealing with productivity would be a  
24 reasonable consideration. We're looking at extracting  
25 elements of the existing force, for example. And when

1 you take that position out of the work force it's  
2 priced out and what it actually costs you to provide  
3 it as opposed to something that reflects productivity.  
4 Productivity relates to whatever might be left as  
5 opposed to what is excluded.

6 Q. Well, I guess what I was wondering is that  
7 taking one category worker, an administrator who is  
8 preparing taxes, and I think in your testimony, as an  
9 example that you used of you only need less of those  
10 people because of the combined company, that person in  
11 most occupations would become more efficient over time  
12 because of the advances in technology and other  
13 equipment that the individual would have to work with  
14 and advances in practices, so it takes less people to  
15 do that function anyway. I don't know that that  
16 that's standard of practice in estimating -- in  
17 accounting for growth for potential merger savings,  
18 but that seems to be something that would occur.  
19 Whether it's significant or not is a different  
20 question.

21 A. Excuse me. The productivity obviously  
22 would relate to positions or groups of employees going  
23 forward. When you extract the position the cost of  
24 what you just removed was that person's salary or  
25 loading factor, so any productivity, which would be

1 accessed in terms of how many units were processed or  
2 how long an activity took to perform, would relate to  
3 the remaining operations not what was extracted, so  
4 all we're dealing with here is just the full salary,  
5 which would have been provided independent of the  
6 productivity impact, plus the loading rate, which  
7 again was generally independent of the productivity  
8 impact, except to the extent the total pool of  
9 overhead dollars might be reduced. So I understand  
10 your point but the productivity really relates to  
11 remains as opposed to what is separated and excluded.

12 Q. That wouldn't be consistent with practice  
13 then, my suggestion wouldn't be consistent?

14 A. We're looking at the incremental change,  
15 the delta as opposed to what the impact is on the  
16 remaining level of expenditures. Your point refers to  
17 the remaining level of expenditures and would be  
18 correct.

19 Q. Thank you.

20 COMMISSIONER HEMSTAD: I have one more  
21 question.

22

23 EXAMINATION

24 BY COMMISSIONER HEMSTAD:

25 Q. Looking at these projected savings on the

1 written record in your testimony, the process comes  
2 across as well relatively mechanical or with a certain  
3 relative level of objectivity. You put two companies  
4 together and certain savings fall out of it. Now, the  
5 reality is if you look at the history of mergers and  
6 acquisitions over any period of time a measurable  
7 number of them fail. They don't work. In your  
8 evaluation, do you make any assessment of that as to  
9 whether a proposed merger is likely to ultimately  
10 succeed or not and why do some of these mergers and  
11 acquisitions not work?

12       A.       There is a body of evidence that's been  
13 built up in the industrial sector, and I separate that  
14 from the utility sector, where 70 to 80 percent of  
15 transactions fail. Now, those could be leveraged  
16 buyouts as well as mergers and acquisitions. Our  
17 analysis of why they fail is for two reasons. It's  
18 either a logic issue or it's a process issue, and by a  
19 lodge issue I mean that it looked like a good idea but  
20 it wasn't and by a process issue is we couldn't make  
21 it work.

22               Now, what's happened in the industrial  
23 sector is you tend to get two companies, let's say  
24 like a Time Warner and a Turner, which are somewhat  
25 different related businesses but they're really

1 interested in creating new revenue sources as opposed  
2 to integrating operations and reducing cost. On the  
3 other hand, you have two utilities which generally do  
4 the exact same function, perform them very much the  
5 same way and typically within a reasonably close  
6 geographic area so it's a little more hand-in-glove  
7 compared to an industrial sector company.

8           While there's not a great deal of empirical  
9 evidence out there to date, there are approximately a  
10 half a dozen transactions for which some information  
11 is available, and in all of those situations where the  
12 transaction was closed the savings that were realized  
13 exceeded those that were originally estimated. Now,  
14 to the extent that there were other factors which  
15 might cause transactions to unwind, regulatory or  
16 otherwise, those are somewhat different issues, but  
17 the general experience in terms of providing benefits  
18 and being able to realize the expected benefits has  
19 been very good. There's about half a dozen data point  
20 which will demonstrate that and a minimum of about 10  
21 percent greater than the expected savings up to a much  
22 higher number.

23           So our general feeling is that where the  
24 companies involved in the transactions are much closer  
25 to one another in terms of the nature of their

1 business and how they plan to operate the opportunity  
2 for the savings and the other benefits, not just cost  
3 savings but the other benefits being realized, is  
4 enhanced and has a much higher degree of certainty  
5 than do two industrial sector companies which might  
6 not be closely located to one another, be in a variety  
7 of different diversified businesses, and principally  
8 be focused on creating a new revenue stream rather  
9 than focusing on integrating two similar companies,  
10 reducing costs and then potentially creating another  
11 revenue stream.

12 COMMISSIONER HEMSTAD: Thank you.

13

14 EXAMINATION

15 BY JUDGE SCHAEER:

16 Q. Mr. Flaherty, I have just a couple of  
17 questions, and my questions are in areas where your  
18 testimony relates to another witness's testimony. The  
19 first is something that you covered with Commissioner  
20 Gillis, and it's the area of joint meter reading.  
21 According to Mr. Wiegand's prefiled testimony, which  
22 has not yet been admitted in this proceeding, he  
23 seemed to indicate that Puget and Washington Natural  
24 Gas had a lot of problems with their joint meter  
25 reading experiment on Mercer Island and that that was



1 not going well at all until the merger was announced  
2 and that the real progress in that area has been as a  
3 result of the merger. Can you comment on that?

4 A. Well, I don't have personal knowledge or  
5 experience with respect to the level of success or the  
6 lack thereof in the original pilot. I am aware that  
7 in that area as well as others companies were not able  
8 to move as fast or get as far as they would have liked  
9 to have gotten, and that's the principal reason in the  
10 meter reading area that I refer to that we excluded  
11 the savings because companies had already initiated  
12 that effort. The specific reasons why things were not  
13 progressing as rapidly, I think Mr. Wiegand would be  
14 much better informed about with respect to any  
15 institutional or other kind of execution barriers that  
16 existed between the companies and the expected  
17 results.

18 Q. I believe you indicated in one of your  
19 answers to Commissioner Gillis that you had initial  
20 estimates of what the cost savings would be from the  
21 joint meter reading; is that correct?

22 A. Yes.

23 Q. What are those estimates?

24 A. I don't recall at this time, but I do  
25 recall having something in the meter reading area, and

1 that as more knowledge became available to us about  
2 what the companies were doing and we recognized that  
3 it was something that might not be categorized as  
4 merger related we excluded it but I don't know what  
5 the number is, as I sit here.

6 Q. You don't have that number with you today?

7 A. I don't know. I might be able to find it  
8 perhaps or to recreate it.

9 Q. Well, as bench request No. 1 I'm going to  
10 ask you to find that estimate and provide it, please.

11 (Bench Request 1.)

12 A. Yes.

13 Q. The second area I would like to explore  
14 with you briefly is the area of facilities  
15 consolidation savings, which I believe you refer to on  
16 page 30 of your testimony?

17 A. Yes, I have it.

18 Q. And then in Mr. Story's testimony starting  
19 at page 11 he talks about property sales and how the  
20 company would want to use proceeds from property  
21 sales, and he ties his testimony back to, I believe,  
22 your testimony or he refers to your company rather  
23 than to you; is that correct?

24 A. I believe so, yes.

25 Q. Could you tell me what your proposal is

1 regarding distribution facilities savings.

2           A.     We identified several locations where  
3 either adjoining or proximate facilities could be  
4 combined, or in a single case where a proposed  
5 facility expansion or redevelopment could be avoided,  
6 and those related to the Olympia operating base from  
7 WNG being consolidated with the Thurston facility for  
8 Puget, and the Auburn service center and warehouse and  
9 the Kent facility for WNG being combined with the  
10 south King facility for Puget. And in a planned  
11 addition for Puget of its Pier Street facility would  
12 be avoided and a certain level of employees would be  
13 combined within existing WNG facilities in Tacoma and  
14 avoid the need for a significant expenditure.

15                 Those savings, to the extent that there was  
16 a market value to the property that was originally  
17 identified, and would have resulted in a gain, the  
18 gain was assumed to be amortized over four years in  
19 terms of its impact and the fixed charges would have  
20 continued through whatever the remaining life of the  
21 facility would have been.

22           Q.     Under a settlement agreement with this  
23 Commission Puget defers gains and losses on property  
24 sales until future rate cases, and then under a  
25 formula in the settlement agreement that relates to

1 how many years properties were in rate base and how  
2 many years they were not in rate base certain gains  
3 have flowed through to ratepayers and certain gains  
4 are retained by the company and same with losses. Are  
5 you aware of that settlement agreement?

6 A. Not specifically, no.

7 Q. When you were calculating savings, were you  
8 looking at -- were you using proceeds of property  
9 sales as part of what you were calculating as savings?

10 A. Yes. There's a component for those in  
11 there, and our approach was to deal with the savings  
12 in their totality independent of the regulatory plan  
13 that the company had proposed as well as other  
14 regulatory orders which might have preceded that, so  
15 we were just looking at the savings opportunity not  
16 the subsequent treatment of those savings.

17 Q. So 100 percent of the proceeds of those  
18 property sales would be included in your savings  
19 figures; is that correct?

20 A. Net of tax.

21 Q. Yes. The net figure. All right. Thank  
22 you.

23 JUDGE SCHAER: I have nothing further. Is  
24 there any redirect for this witness?

25 MR. VAN NOSTRAND: No, Your Honor.

1 JUDGE SCHAER: Any further questions? Mr.  
2 Manifold.

3

4 CROSS-EXAMINATION

5 BY MR. MANIFOLD:

6 Q. Just a couple of things. On Exhibit 44,  
7 page 2 for this proposed merger you show the position  
8 reductions as 8.7 percent. When I asked you about  
9 that in the morning you looked up in your work papers  
10 and I thought gave me a number of 8.3 percent.

11 A. You're correct, I did. I don't know, as I  
12 sit here, what the difference might be.

13 Q. Could you in response to the next record  
14 requisition --

15 JUDGE SCHAER: No. 29.

16 Q. -- No. 29, provide a reconciliation and I  
17 guess provide what you believe the correct number is?

18 A. Sure, be happy to.

19 (Record Requisition 29.)

20 Q. There was an inference in your response to  
21 one of Mr. Finklea's questions that you had consulted  
22 on other electric and gas mergers. Would I assume  
23 that what you've done is consulted on other electric/  
24 electric mergers and other gas/gas mergers but not  
25 other electric/gas mergers?

1           A.     No, other electric -- pure electric and  
2 pure gas mergers as well as other combination  
3 companies with a pure electric or a pure gas company.

4           Q.     And which ones are the latter? Are those  
5 in Exhibit 44 now?

6           A.     Well, there would be some of these plus  
7 transactions which might have not gone forward. Maybe  
8 to cover this, a transaction that's not on here would  
9 include Texas Utility and Enserch that was announced  
10 subsequent to the preparation of this which was a pure  
11 electric/pure gas company. Baltimore Gas and  
12 Electric. Pepco/BGE was a combination company. Pepco  
13 was electric-only company. PsCo and SPS, Public  
14 Service Company of Colorado is a combination company.  
15 Southwestern Public Service is electric only. The  
16 same with respect to Washington Water Power and Sierra  
17 Pacific, Washington Water Power being a combination  
18 company, Sierra Pacific not, being electric only.

19                   Entergene/Gulf States, Entergene was an  
20 electric only -- Entergene was principally an electric  
21 only except for a very, very small gas operation and  
22 a ward of New Orleans whereas Gulf States was a  
23 combination company. Kansas Power and Light was an  
24 electric-only company, Kansas Gas and Electric was a  
25 combination company. And those would have been the

1 ones preceding this transaction of the kind I was  
2 referring to.

3 Q. I'm still a little unclear about -- you  
4 identified in response to questions from the  
5 Commission merger benefits, enabled benefits and  
6 developed benefits. I think those were the three  
7 categories?

8 A. Created, enabled and developed.

9 Q. Which of those categories did you attempt  
10 to -- your estimate of \$370 million, or as I  
11 understand amended this morning to a slightly larger  
12 number, was a result of all three categories or just  
13 some of those?

14 A. It does not include any developed savings,  
15 that is, those that the companies could have  
16 accomplished or achieved on their own without the  
17 merger. It principally focuses on the created  
18 category, that is, those that are directly related to  
19 a combination, would not occur but for, so it does not  
20 include the nonmerger-related or best practices types  
21 of savings that have been referred to previously.

22 Q. I assume it also doesn't include any future  
23 savings that the companies would be forced to realize  
24 as competition develops in their industries along the  
25 line that we discussed earlier?

1           A.     You're correct that it does not speculate  
2 as to what level of continued cost reduction might be  
3 required based on whatever were to happen in a fully  
4 competitive market.

5           Q.     You also said something about six data  
6 points that showed that actual merger savings were  
7 greater than estimated merger savings ranging from 10  
8 percent to some larger number. Do I recollect your --

9           A.     That's right.

10          Q.     What was that larger number?

11          A.     I think at the top end of the range it's  
12 about 76 percent although that number is large because  
13 it's a lot of numbers. The denominator was small so  
14 it's a large percent but not a large absolute dollar  
15 number.

16          Q.     Could you provide those, the data that  
17 you're relying upon then, as well as identifying the  
18 companies and the estimate -- the numerator and  
19 denominator of those in response to a record  
20 requisition?

21          A.     Yes. I believe some of that information  
22 was already provided in previous data requests,  
23 although I'm not sure by which party, so I will go  
24 back and review that and be happy to provide what we  
25 have.



1 Q. If part or all of the answer is reference  
2 to a previously provided document then that's fine.

3 A. Yes.

4 JUDGE SCHAER: Would be record request No.  
5 30.

6 (Record Requisition 30.)

7 Q. Finally, on Exhibit 15 Commissioner Gillis  
8 asked you about the labor row. Does the increase over  
9 time represent increased or additional reductions in  
10 labor or is that the increased nominal -- if that's a  
11 phrase -- amount associated with the reduction in  
12 labor at the beginning and end?

13 A. There's actually three factors that are at  
14 work but the principal one is just the amount of  
15 escalation year to year. There is a small increase,  
16 approximately 30 positions between 1998 and 1997, and  
17 there are also the impacts of capitalized salaries  
18 that are occurring through here, so as a portion of  
19 total expense might be capitalized -- and I think the  
20 number is 35 percent that we used capitalized to  
21 construction or to plant -- there's a fixed charge  
22 that would be associated with that, so that is also  
23 inherent in this calculation. But principally it's  
24 just the escalation on salaries and wages and  
25 benefits.

1 Q. Capitalization relates to office space,  
2 desks, things like that?

3 A. Well, it relates to whether the companies  
4 through their accounting policies assign a certain  
5 portion of expense into capital based on the nature of  
6 the activity.

7 MR. MANIFOLD: Thank you. No other  
8 questions.

9 JUDGE SCHAEER: Is there anything further  
10 for Mr. Flaherty? Thank you for your testimony.  
11 We're going to take our lunch recess now. Please be  
12 back promptly at 1:15. I believe our next witness  
13 will be Mr. Wiegand. Is that correct, Mr. Van  
14 Nostrand?

15 MR. VAN NOSTRAND: Yes, Your Honor.

16 JUDGE SCHAEER: If you have any exhibits  
17 that you would like to question Mr. Wiegand regarding  
18 or admit through him please distribute those before  
19 1:15. We are off the record.

20 (Lunch recess taken at 12:00 p.m.)

21

22

23

24

25

1                                   AFTERNOON SESSION

2                                   1:15 P.M.

3                   JUDGE SCHAEER:  Let's be back on the record  
4 after our lunch break.  Over the lunch break  
5 Mr. Cedarbaum distributed copies of depositions of Mr.  
6 Story, Mr. Amen and Ms. Lynch.  It's my request to  
7 assist the bench to be able to review those as we  
8 prepare so that we don't repeat questions that have  
9 already been asked during the depositions.  And I will  
10 mark those as we come to those witnesses.  Also  
11 distributed over the lunch break was a one-page  
12 document entitled Response to Public Counsel Data  
13 Request No. 84.

14                   MR. MANIFOLD:  Your Honor, if I could hold  
15 off on marking that one we may have a supplement to be  
16 introduced instead.

17                   JUDGE SCHAEER:  And at that request I will  
18 hold off on marking that.

19                   MR. CEDARBAUM:  Your Honor, I guess I was  
20 also -- for the record I guess I should state I did  
21 hand out a correction sheet for Mr. Story's deposition  
22 which we would like this to be attached.  I do have  
23 correction sheets for both Lynch and the Amen  
24 depositions.  I just haven't had a chance to three  
25 hole punch them and pass them around but I will do

1 that and like to have them attached as well, but I  
2 guess I'm wondering in case anyone on the bench ends  
3 up reading the stuff over the weekend for some weird  
4 reason.

5 JUDGE SCHAER: That weirdness will probably  
6 happen.

7 MR. CEDARBAUM: That perhaps if we could  
8 admit them now so that they're part of the record. It  
9 seems to me that the decision makers ought to be  
10 looking at materials that are in the record and they  
11 will not -- might be looking at them over the weekend  
12 before that will happen if we wait until next week.

13 JUDGE SCHAER: In my view, Mr. Cedarbaum,  
14 these could be treated in a manner similar to prefiled  
15 testimony which is read by decision makers before it's  
16 admitted into the record. So I don't have concerns  
17 about them being read before they are admitted as  
18 exhibits. If you do, you could offer them and get  
19 them admitted now.

20 MR. CEDARBAUM: I think we can probably do  
21 that by stipulation. I don't think there's a problem  
22 there.

23 JUDGE SCHAER: Well, then, let's mark as  
24 Exhibit No. 45 a deposition and correction sheet for  
25 Mr. Story. Let's mark as Exhibit 46 the deposition

1 and correction sheet for Ms. Lynch and let's mark as  
2 Exhibit 47 the deposition and correction sheet for Mr.  
3 Amen noting that the correction sheets for Lynch and  
4 Amen will be passed out at the end of the day today.

5 Does anyone object to those documents being  
6 entered into the record? They're admitted at this  
7 time.

8 (Marked and Admitted Exhibits 45, 46 and  
9 47.)

10 MR. CEDARBAUM: Thank you.

11 JUDGE SCHAEER: At the pre-hearing  
12 conference in this matter Exhibit T-19 for  
13 identification, which is Paul M. Wiegand's testimony,  
14 was identified, and Exhibit 20 for identification,  
15 PMW-2 was identified.

16 Would you like to call your next witness,  
17 Mr. Van Nostrand.

18 MR. VAN NOSTRAND: Yes, Your Honor. Joint  
19 applicants call Paul Wiegand.

20 Whereupon,

21 PAUL WIEGAND,  
22 having been first duly sworn, was called as a witness  
23 herein and was examined and testified as follows:

24

25

1 DIRECT EXAMINATION

2 BY MR. VAN NOSTRAND:

3 Q. Could you state your name and spell it for  
4 the record, please.

5 A. My name is Paul M. Wiegand, W I E G A N D.

6 Q. Do you have before you what's been marked  
7 for identification as Exhibit T-19?

8 A. Yes.

9 Q. And do you recognize that as your prefiled  
10 direct testimony in this case?

11 A. Yes.

12 Q. And if I asked you the questions set forth  
13 in Exhibit T-19, would you give the answer as set  
14 forth therein?

15 A. Yes.

16 Q. And you also have before you what's been  
17 marked for identification as Exhibit 20?

18 A. Yes.

19 Q. And is that true and correct to the best of  
20 your knowledge?

21 A. Yes.

22 MR. VAN NOSTRAND: Your Honor, I would move  
23 the admission of Exhibits T-19 and 20.

24 JUDGE SCHAEER: Are there any objections?

25 Those documents are admitted.

1 (Admitted Exhibits T-19 and 20.)

2 MR. VAN NOSTRAND: Mr. Wiegand is available  
3 for cross-examination.

4 JUDGE SCHAER: Mr. Cedarbaum, do you have  
5 questions for this witness?

6 MR. CEDARBAUM: No, I don't.

7 JUDGE SCHAER: Mr. Manifold?

8 MR. MANIFOLD: I have just a few. I should  
9 note, Your Honor, that we -- or I distributed a  
10 proposed exhibit. It turns out there has been a  
11 supplement since then that company is having copies  
12 made so hopefully before this witness is gone or if  
13 necessary afterwards we will put that in by  
14 stipulation.

15 JUDGE SCHAER: Thank you.

16

17 CROSS-EXAMINATION

18 BY MR. MANIFOLD:

19 Q. Mr. Wiegand, do I understand that the  
20 company has -- companies have formed 18 task forces to  
21 study various ways to effectuate this merger and that  
22 those task forces are at work other than in this  
23 hearing as we speak?

24 A. That's correct.

25 Q. Have those task forces -- we asked you in

1 data request No. 115 as to results of those, and as of  
2 the time of preparation you stated that there weren't  
3 really any results to report to speak of?

4 A. That's correct.

5 Q. Could you give us an update to that as of  
6 today?

7 A. Well, there's still nothing to report  
8 related to the question asked in that data request.  
9 They're continuing their work in trying to design how  
10 Puget Sound Energy will do work as an energy company.

11 Q. Would you be willing to commit to give us  
12 an update as of September 10 to that data request?

13 A. Certainly. I could do that.

14 Q. Do I understand that the companies engaged  
15 in a pilot program on joint meter reading on Mercer  
16 Island?

17 A. Yes.

18 Q. And why did you do a pilot program other  
19 than just do it every place all at once?

20 A. Because we felt it was important to  
21 understand the challenge involved in doing something  
22 that neither of us had done before, and we felt the  
23 size of Mercer Island was such that it would tell us  
24 something about how that might be expanded to larger  
25 area.



1 Q. How did you select -- you obviously needed  
2 to select someplace where there was overlapping  
3 territory?

4 A. Yes.

5 Q. What were the factors that led you to  
6 select that particular location in terms of size or  
7 anything else?

8 A. The reason we selected Mercer Island was  
9 basically both companies at the time were billing  
10 monthly on Mercer Island. It's a bounded area  
11 obviously by the lake, and so it was the right size  
12 and easy to control, if you will, and the proximity to  
13 our offices where the work was being administered out  
14 of was very convenient.

15 Q. Do you know what percentage of the jointly  
16 provisioned customers the Mercer Island customers  
17 represent the total overlap?

18 A. It's about 15,000 out of the 250,000.

19 Q. Did you set up particular parameters of  
20 what you wanted to learn out of that experiment?

21 A. Not specifically. We were -- it was, as I  
22 mentioned before, the first time we had undertaken  
23 this kind of activity and we wanted to see how it  
24 would work, what problems we might encounter and the  
25 kind of efficiency we might expect to gain from doing

1 it over a broader scale.

2 Q. Did you create any particular measurement  
3 and evaluation criteria prior to engaging in the  
4 experiment?

5 A. No, other than in the design of the routes  
6 we estimated what we thought the efficiency gain might  
7 be given past experiences of routing the island from  
8 both companies and then track that against the  
9 ultimate or the actual reading that occurred after the  
10 island was rerouted to be read jointly.

11 Q. What was the result of that?

12 A. On Mercer Island the efficiency gain has  
13 been about 25 percent between the hours that it used  
14 to take for both companies to read the meters on the  
15 island and the hours that it takes for the joint  
16 activity to read the island.

17 Q. That's just in hours? I mean, that's all  
18 that that quantifies as, the number of employee hours  
19 or person hours?

20 A. Yes. You could expand that into the  
21 dollars, which is about -- amounts to about \$15,000 a  
22 year, if that's what you were asking.

23 Q. I mean, I assume that there's savings in  
24 vehicles, gas, paper, other things besides hours.

25 A. Yes. I guess the \$15,000 would include

1 what we would call a fully loaded meter reader which  
2 is their hourly wage, their benefits, the cost of  
3 their vehicle, so forth.

4 Q. Did you have an estimate going in as to  
5 what your savings -- what you thought might be able to  
6 be realized?

7 A. We did once -- if you're asking before we  
8 started the actual reading, yes, we had an estimate.  
9 We thought it might be about 30 percent of the  
10 productivity gain and the reality was about 25.

11 Q. And has the 25 remained constant or  
12 has that changed over time as you've gotten further  
13 into it?

14 A. That's the current productivity gain. To  
15 begin with, we didn't have a gain because you need to  
16 relearn -- the meter readers need to relearn the  
17 route, and obviously there's a learning curve effect,  
18 that after about six months of reading we were at a  
19 stable route time across the island which is the 25  
20 percent that I am referring to.

21 MR. MANIFOLD: Thank you. I have no other  
22 questions.

23 JUDGE SCHAEER: Mr. Finklea, did you have  
24 any questions?

25 MR. FINKLEA: No questions, Your Honor.

1 JUDGE SCHAER: Mr. Patton.

2

3 CROSS-EXAMINATION

4 BY MR. PATTON:

5 Q. Mr. Wiegand, in your direct testimony, if I  
6 could summarize -- can I summarize this correctly by  
7 saying that the only place where you saw the  
8 possibility for efficiency gains if the two companies  
9 did not merge is in the trenching activities?

10 A. There are some efficiency gains if the  
11 companies did not merge, but I believe from my  
12 experience over the last few years in working in this  
13 activity that those gains would have been short-lived.  
14 As my testimony states, the ongoing effort to maintain  
15 those activities was burdensome, but as I mentioned in  
16 the Mercer Island meter reading project there is an  
17 efficiency gain in the actual reading of the meters,  
18 but I don't know how long we would have continued that  
19 activity.

20 Q. Were you the person from Puget side of that  
21 experiment directing the effort?

22 A. Yes. I was overseeing that activity.

23 Q. And did you make a recommendation as to  
24 whether you would recommend continuing that joint  
25 meter reading in the absence of the merger?

1 A. Did I make the recommendation?

2 Q. Yes.

3 A. Yes, that we continue the experiment.

4 Mercer Island was a very small area but we learned  
5 enough from Mercer Island to decide to continue.

6 Q. Would you expand that experiment without  
7 the merger?

8 A. I would be willing to continue to try.

9 Q. But I gather from the way you said that  
10 you're doubtful as to whether it would have continued  
11 success?

12 A. Yes. That's what I've stated in my  
13 testimony, that my certainty as to how these joint  
14 activities would have continued in the long run are --  
15 I don't have a high degree of confidence in that.

16 Q. Could you summarize the reasons for that  
17 again?

18 A. Basically the difficulties in performing  
19 the work in a reasonable fashion, the amount of  
20 executive oversight that was required to perform these  
21 activities, the dispute resolution, if you will, in  
22 how Puget Power does the activity, how Washington  
23 Natural Gas does the activity. The difference in  
24 equipment, these kind of things.

25 Q. It did seem in your testimony that there

1 was -- you indicated there could be efficiencies  
2 without a merger in trenching, at least joint  
3 trenching as you've distinguished that from unity  
4 trenching; is that right?

5 A. Could you ask again?

6 Q. Let me refer you to page 6 of your  
7 testimony and I can make the questions more clear. As  
8 I understand from your answers beginning at line 14  
9 you distinguish between something called joint  
10 trenching and another aspect of utility work called  
11 unity trenching. As I understand it, joint trenching  
12 means that you have an independent third party  
13 contractor dig a trench and then you have the two  
14 utilities come out separately to put their facilities  
15 in the trench?

16 A. I couldn't speak to who might dig the  
17 trench, but yes, basically joint trenching is where  
18 the two separate utilities come out and separately lay  
19 their services in the trench.

20 Q. And unity trenching in contrast would be  
21 where one crew does both installations?

22 A. Yes.

23 Q. Whether that be a contract or employees of  
24 one or the other?

25 A. Correct.

1 Q. And am I correct in understanding your view  
2 that if there remained two separate companies that  
3 there's some possibility for efficiencies in joint  
4 trenching but unlikely to have any possibility of  
5 unity trenching?

6 A. Again, there's the possibility of unity  
7 trenching, but I believe that the difficulty  
8 encountered in having two separate companies  
9 scheduling their work, deciding on the priority of  
10 that work and so forth would make this difficult to  
11 really achieve the potential that it would have in a  
12 merged company.

13 Q. The efficiencies that might be gain edwith  
14 a merged company and the two activities we've talked  
15 about of trenching and meter reading can only be  
16 attained, can't they, where the two service  
17 territories overlap?

18 A. Yes, for our two companies.

19 Q. Besides these two functions of trenching  
20 and meter reading, are there other obvious places  
21 where a combination utility, a merged utility, would  
22 have operating efficiencies?

23 A. Certainly.

24 Q. What are those?

25 A. A lot of the customer service functions in

1 our overlap service territories. Construction  
2 planning, long-term planning.

3 Q. This morning we heard from Mr. Flaherty  
4 about an estimated revised estimated \$377 million  
5 savings over a ten-year period. What amount of  
6 savings have you estimated if any for the savings that  
7 could be achieved by these efficiencies in merged  
8 activities between the two companies?

9 A. I can't speak specifically to these  
10 activities. The synergy analysis didn't break down  
11 the work into these activities. There was no unity  
12 trench, if you will, specifically laid out in the  
13 synergy analysis.

14 Q. It appeared to me, as I listened to Mr.  
15 Flaherty, that he included some of those combined  
16 activities, like meter reading and joint billing and  
17 so on in that calculus of savings?

18 A. Yes.

19 Q. What didn't he include that you would  
20 expect to achieve over the next ten years in terms of  
21 amount of savings?

22 A. Now I understand you. I don't believe he  
23 included or did not include anything other than as you  
24 mentioned, the joint meter reading as activities  
25 related to bringing the two companies together.



1 Q. Beyond the \$377 million of projected  
2 savings due to combining two organizations that run  
3 utility functions, what amount of savings have you  
4 projected there to be for the next ten years in --  
5 perhaps you call it best practices or additional  
6 efficiency operations?

7 THE WITNESS: Do we want to answer that?

8 Q. You answer that if you can.

9 A. The only reason I'm wondering is I thought  
10 this was in the confidential information as to how  
11 much we expect to gain out of the best practices.

12 MR. VAN NOSTRAND: I have nothing to add to  
13 Mr. Wiegand's answer. It is within the scope of the  
14 TS documents, Your Honor.

15 JUDGE SCHAEER: So are you going to instruct  
16 him not to answer, Mr. Van Nostrand?

17 MR. VAN NOSTRAND: Yes.

18 JUDGE SCHAEER: That's my understanding  
19 also, Mr. Patton, that there is a number that is in  
20 the -- on TS documents but that that is not a number  
21 that was going to be revealed.

22 MR. PATTON: Given that I don't have a  
23 magic ring he's not going to answer it.

24 JUDGE SCHAEER: I'm not going to instruct  
25 the witness to answer that question, that's correct.

1 Q. To the extent there is some kind of  
2 projection that you've made about that, those savings  
3 again would be accomplished in the joint overlap area?

4 A. Not necessarily. The work we're  
5 undertaking is to try to design a new company, an  
6 energy company, and I believe that many of the results  
7 of that work can be expanded across the entire  
8 utility. Being that it's difficult to answer your  
9 question in that work hasn't been completed, so I  
10 don't specifically know the answer, but I firmly  
11 believe that it wouldn't be related merely to  
12 efficiencies to be gained over the overlapping service  
13 territory.

14 Q. Well, if I step back and look at the  
15 prospects for those areas that are covered by both  
16 operating utilities and those that are not -- let's  
17 take two concrete examples of Bellevue and Seattle  
18 where Bellevue is overlapping between the two  
19 companies, is that right, and Seattle is not where  
20 only the gas company operates. The efficiencies that  
21 have been expressed for the operation of the two  
22 utilities in common with one another then for Bellevue  
23 all of those efficiencies would occur?

24 A. Correct.

25 Q. And in Seattle the only efficiency that

1 might occur is the possibility for a joint trenching  
2 agreement?

3 A. Correct.

4 MR. PATTON: Thank you. No further  
5 questions.

6 JUDGE SCHAER: Mr. MacIver.

7 MR. MACIVER: No questions.

8 JUDGE SCHAER: Mr. Freedman.

9 MR. FREEDMAN: No questions, Your Honor.

10 JUDGE SCHAER: Ms. Richardson.

11 MS. RICHARDSON: No questions.

12 JUDGE SCHAER: Mr. Merkel.

13 MR. MERKEL: No questions.

14 JUDGE SCHAER: Mr. Strong.

15 MR. STRONG: No questions.

16 JUDGE SCHAER: Commissioners, do you have  
17 any questions for this witness?

18 COMMISSIONER HEMSTAD: I don't.

19 COMMISSIONER GILLIS: No questions.

20

21 EXAMINATION

22 BY JUDGE SCHAER:

23 Q. Mr. Wiegand, just to follow up on an area  
24 you've been discussing with Mr. Patton. Looking at  
25 page 6 of your testimony, you appear to assert there

1 that the efficiencies in joint facility installation  
2 have been accomplished by coordination between the  
3 companies without need for the merger. Am I  
4 understanding that correctly?

5 A. Yes. We have some savings by coordinating  
6 between the two companies.

7 Q. Are any additional joint facility  
8 installations savings beyond those already achieved by  
9 coordinated trenching assumed to result from the  
10 merger?

11 A. If you're talking about construction of  
12 activities, I think we'll be able to do design work  
13 and planning better than we have in the past as a  
14 result of the merged company by doing those together.

15 Q. And will the unity trenching have savings  
16 that are greater than were attained -- than attained  
17 just from joint trenching?

18 A. Well, yes, they do. Unity trenching is  
19 less expensive than joint trenching.

20 Q. You cite examples in your testimony of  
21 joint meter reading, billing, and customer service as  
22 areas where potential savings were difficult to  
23 achieve as separate companies. In your opinion, is a  
24 merger of the companies the only way to achieve these  
25 savings?

1           A.     Yes, it is, based on my experience in  
2 working in these activities over the last two years.

3           Q.     Finally, you indicate that joint billing  
4 was made difficult by concerns about proprietary and  
5 confidential information.  Could you elaborate on why  
6 such information was important to the companies and  
7 why the merger makes it less important?

8           A.     Well, before the merger we've always held  
9 our customer information to be very confidential  
10 within Puget Power and also within Washington Natural  
11 Gas.  As one -- as a merged company that information  
12 becomes the information of the one company.  I think  
13 with any company your customer information you don't  
14 want others to know.  It's proprietary.

15                   JUDGE SCHAEER:  Thank you.  That's all I  
16 had.  Was there any redirect for this witness?

17                   MR. VAN NOSTRAND:  No, Your Honor.

18                   JUDGE SCHAEER:  Anything further?

19                   MR. MANIFOLD:  Your Honor, I have an  
20 exhibit that's an answer to data request that was  
21 responded to by this witness.  The copies I have I  
22 need to use a break to get three-hole punched so  
23 unless there's any controversy about this I would  
24 suggest I do that later and they be admitted by  
25 stipulation.  It's the response to public counsel data

1 request No. 84 as amended.

2 MR. VAN NOSTRAND: That's fine.

3 JUDGE SCHAEER: Do you have a problem with  
4 admission of that document without the sponsoring  
5 witness?

6 MR. VAN NOSTRAND: No. We could show Mr.  
7 Wiegand that response and have him confirm that that's  
8 what it is and get it in that way, Your Honor.

9 THE WITNESS: Yes.

10 JUDGE SCHAEER: So let's go ahead and  
11 identify -- let's go ahead and admit the document now  
12 and let you distribute copies later this afternoon,  
13 Mr. Manifold.

14 MR. MANIFOLD: It's a multi-page document  
15 that on the first page says Supplemental Response to  
16 Public Counsel Data Request No. 84.

17 JUDGE SCHAEER: Let's call that No. 48 for  
18 identification.

19 (Marked Exhibit 48.)

20 MR. MANIFOLD: Just so there won't be any  
21 confusion later, what's attached, Mr. Wiegand, as you  
22 may recall, is what apparently was request No. 542 in  
23 a different case?

24 THE WITNESS: That's correct.

25 JUDGE SCHAEER: Are you offering that

1 document?

2 MR. MANIFOLD: Yes. I would like to offer  
3 that document.

4 JUDGE SCHAER: Any objection?

5 MR. VAN NOSTRAND: No.

6 JUDGE SCHAER: It's admitted. Thank you.  
7 (Admitted Exhibit 48.)

8 JUDGE SCHAER: Thank you for your  
9 testimony. Let's go off the record for just a few  
10 minutes to change witnesses.

11 (Recess.)

12 JUDGE SCHAER: Let's be back on the record.  
13 At the pre-hearing conference in this matter the  
14 prefiled testimony of Ms. Wile was identified as  
15 Exhibit T-17 and her Exhibit LJW-2 was identified as  
16 Exhibit 18. Would you like to call your witness, Mr.  
17 Van Nostrand.

18 MR. VAN NOSTRAND: Thank you, Your Honor.  
19 The joint applicants call Lori Wile.  
20 Whereupon,

21 LORI WILE,  
22 having been first duly sworn, was called as a witness  
23 herein and was examined and testified as follows:

24

25

1 DIRECT EXAMINATION

2 BY MR. VAN NOSTRAND:

3 Q. Could you state your name and spell it for  
4 the record, please.

5 A. My name is Lori J. Wile, W I L E.

6 Q. And do you have before you what's been  
7 marked for identification as Exhibit T-17?

8 A. Yes, I do.

9 Q. Do you recognize that document as your  
10 prefiled direct testimony in this case?

11 A. Yes.

12 Q. And if I asked you the questions as set  
13 forth in Exhibit T-17 would your answers be as set  
14 forth in that document?

15 A. Yes.

16 Q. Do you also have before you what's been  
17 marked for identification as Exhibit 18?

18 A. Yes.

19 Q. Do you recognize that document as the  
20 exhibit accompanying your prefiled direct testimony?

21 A. Yes, that is correct.

22 Q. And is it true and correct to the best of  
23 your knowledge?

24 MR. VAN NOSTRAND: Your Honor, I would move  
25 the admission of Exhibits T-17 and 18.



1 JUDGE SCHAER: Are there any objections?

2 Those documents are admitted.

3 (Admitted Exhibits T-17 and 18.)

4 MR. VAN NOSTRAND: Thank you, Your Honor.

5 Ms. Wile is available for cross-examination.

6 JUDGE SCHAER: Mr. Cedarbaum.

7 MR. CEDARBAUM: No questions.

8 MR. MANIFOLD: No questions.

9 JUDGE SCHAER: Mr. Finklea.

10 MR. FINKLEA: No questions, Your Honor.

11 JUDGE SCHAER: Mr. Patton.

12

13 CROSS-EXAMINATION

14 BY MR. PATTON:

15 Q. Do you agree with Mr. Wiegand, I gather,  
16 from your testimony that these -- most of the benefits  
17 that you project cannot be attained if the two  
18 companies remained separate?

19 A. The benefits could be attained, just not to  
20 the extent that they can be realized as a merged  
21 company.

22 Q. What's the difference in terms of -- that  
23 is, I understand conceptually what the difference is,  
24 but what proportion can they be attained?

25 A. Your question is what proportion of the

1 savings could be attained -- I'm sorry. Would you  
2 clarify?

3 Q. Let me try again. You said that, yes, the  
4 benefits of working together that you talked about in  
5 your testimony can be attained to some extent without  
6 a merger. So my question is to what extent?

7 A. I think it would vary dramatically based on  
8 what area. There's so many difficulties trying to  
9 work on joint activities without having one management  
10 staff, for instance, overseeing both. I think it's a  
11 relatively small extent that could be achieved without  
12 a merger. I think it would be very difficult to  
13 quantify where and when exactly they could be  
14 achieved.

15 Q. Can you give some concrete examples of the  
16 difficulty that you had?

17 A. Sure. The one instance where I really got  
18 involved with this was related to joint bill printing.  
19 I was brought in basically to do kind of a cost  
20 benefit analysis on the financial side, and the two  
21 groups had a real difficult time even trying to  
22 understand each other's systems well enough to see  
23 what do we need to do, what don't we need to do. The  
24 overall management styles were so different that it  
25 became quite challenging to actually implement any --

1 at least the joint bill processing as two separate  
2 companies. Became dramatically easier once the merger  
3 was announced.

4 Q. Which style prevailed?

5 A. I, to be quite honest, have not been that  
6 involved with it since that time. My real involvement  
7 was in the financial numbers. I wouldn't necessarily  
8 say -- I would not know which style exactly prevailed.

9 Q. How would you describe the differences?

10 A. The differences in style?

11 Q. Yes.

12 A. It was style but it was also more so  
13 ownership of the data was a big issue. Style was  
14 maybe the incorrect term. I think it's more of  
15 looking at outsourcing information to another company.  
16 In the joint bill process you're losing that contact  
17 which may be your only contact with your customer, and  
18 all of a sudden turning that over to a different  
19 company is a challenge to get over, so I don't know if  
20 it's exactly style that was different. That word may  
21 be incorrect.

22 Q. Therefore protection of the customer  
23 relationship?

24 A. That's definitely a portion of it.

25 MR. PATTON: I have no further questions.

1 JUDGE SCHAER: Thank you. Mr. MacIver.

2 MR. MACIVER: No questions, Your Honor.

3 JUDGE SCHAER: Mr. Freedman.

4 MR. FREEDMAN: No questions, Your Honor.

5 JUDGE SCHAER: Ms. Richardson.

6 MS. RICHARDSON: No questions, Your Honor.

7 JUDGE SCHAER: Mr. Merkel.

8 MR. MERKEL: No questions.

9 JUDGE SCHAER: Mr. Strong.

10 MR. STRONG: No questions.

11 JUDGE SCHAER: Commissioners, do you have  
12 any questions?

13 COMMISSIONER HEMSTAD: No, I don't.

14 COMMISSIONER GILLIS: No questions.

15

16 EXAMINATION

17 BY JUDGE SCHAER:

18 Q. Ms. Wile, I have just a few questions.

19 Testimony indicated that the joint billing program  
20 failed due to inability to agree on a corporate  
21 philosophy, project scope, which company did what and  
22 service pricing, and that with the announcement of the  
23 merger these problems disappeared; is that correct?

24 A. We were able to resolve and move forward  
25 with it. I would think that there's still some issues

1 occurring.

2 Q. What was it specifically in the merger  
3 agreement that resolved these differences? For  
4 example, what aspects of differences in corporate  
5 philosophy did the merger agreement resolve?

6 A. Well, I think it's no longer who would be  
7 managing whose information now. If we're assuming to  
8 be one company the one new company is managing it as  
9 opposed to the gas company's managing the electric  
10 bills or the electric company managing the gas bills,  
11 so it was the overall new assumption that we are one  
12 and the same as opposed to two separate entities.

13 Q. Merger savings estimates represent savings  
14 over and above what each company might achieve through  
15 successful implementation of best practices. That's  
16 also in your testimony; is that correct?

17 A. I'm sorry, could you repeat that?

18 Q. Merger savings estimates represent savings  
19 over and above what each company might achieve through  
20 successful implementation of best practices?

21 A. If you're referring to the merger synergy  
22 study, yes.

23 Q. And also you stated that the ability to  
24 implement best practices savings for each company is  
25 also made easier by the merger; is that correct?

1 A. That's correct.

2 Q. What is an example of a best practice?

3 A. Trying to think of a good one. Possibly  
4 maybe looking at meter reading for an example. I know  
5 our two companies do meter reading in a different way  
6 with how they carve up different geographic areas. I  
7 think a best practice could get involved with looking  
8 at not only how either of our companies do it but  
9 potentially how other companies do it. In  
10 implementing a routing system for meter readers that  
11 was truly a best practice.

12 Q. Why does the merger make it easier to  
13 implement company-specific best practices?

14 A. On an individual basis?

15 Q. Yes.

16 A. I think both of these companies over the  
17 last few years have been striving -- have done quite a  
18 bit of work in overall re-engineering and implementing  
19 best practices. I think the merger is an additional  
20 chance to look at more potentially and a lot of best  
21 practices that are found have to do with merging the  
22 two companies.

23 JUDGE SCHAEER: That's all I had. Was there  
24 any redirect for this witness?

25 MR. VAN NOSTRAND: No, Your Honor.

1           JUDGE SCHAER: Anything further? Thank you  
2 for your testimony. Let's go off the record for a few  
3 moments to allow Mr. Story to take the stand and allow  
4 Mr. Manifold to distribute.

5           (Recess.)

6           JUDGE SCHAER: Let's be back on the record.  
7 At the pre-hearing conference in this matter Mr.  
8 Story's prefiled testimony was identified as Exhibit  
9 T-21. His exhibits JHS-2 through JHS-5 were  
10 identified as Exhibits 22, 23, 24 and 25.

11           During the break certain exhibits were  
12 distributed by Mr. Cedarbaum and Mr. Manifold. You  
13 can mark as Exhibit 49 for identification the  
14 company's response to staff data request 7. Going to  
15 mark as Exhibit 50 for identification company's  
16 response to staff data request No. 101 which  
17 supplemental response to staff data request 7. Going  
18 to identify as Exhibit 51 for identification company's  
19 response to staff data request No. 129. Going to mark  
20 as Exhibit 52 for identification company's response to  
21 staff data request No. 58 -- excuse me, No. 5B.

22           I'm going to mark as Exhibit 53 for  
23 identification company's response to staff data  
24 request No. 8. Going to mark as Exhibit 54 for  
25 identification company's response to staff data

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1 request No. 102. Going to mark as Exhibit 55 for  
2 identification company's response to staff data  
3 request 130. Going to mark as Exhibit 56 for  
4 identification company's response to public counsel  
5 data request No. 90. I'm going to mark as Exhibit 57  
6 for identification company's response to staff data  
7 request 105. I'm going to mark as Exhibit 58 for  
8 identification the company's response to public  
9 counsel request No. 94. I'm going to mark as Exhibit  
10 59 for identification the company's response to public  
11 counsel data request No. 85. I'm going to mark as  
12 Exhibit 60 identification supplement -- company's  
13 supplemental response to public counsel data request  
14 90. I'm going to mark as Exhibit 61 for  
15 identification company's response to public counsel  
16 data request No. 127.

17                   Is that all of the documents that were  
18 passed out during the break?

19                   (Marked Exhibits 49 - 61.)

20                   MR. CEDARBAUM: It is from staff, Your  
21 Honor. I would note with respect to Exhibit 50 for  
22 identification, at the bottom there's a handwritten  
23 word, confidential. That can be removed from the  
24 document. This is not a confidential document.

25                   JUDGE SCHAEER: I'm going to cross that out



1 on the official copy. If you would like to call your  
2 next witness, Mr. Van Nostrand -- Mr. Harris.

3 MR. HARRIS: Thank you, Your Honor, the  
4 join applicants call John Story.

5 Whereupon,

6 JOHN STORY,

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

9

10 DIRECT EXAMINATION

11 BY MR. HARRIS:

12 Q. Mr. Story, could you please state your name  
13 for the record, spelling your last name?

14 A. It's John Story, S T O R Y.

15 Q. Do you have before you, Mr. Story, what's  
16 been previously marked for identification as Exhibit  
17 T-21?

18 A. Yes, I do.

19 Q. Do you recognize that as your prefiled  
20 direct testimony in this case?

21 A. Yes, I do.

22 Q. If I asked you the questions as they're set  
23 forth in Exhibit T-21, would you give the answers as  
24 they are set forth there?

25 A. Yes, I would.

1 Q. Do you also have before you what has been  
2 previously marked for identification as Exhibits 22,  
3 23, revised June 7, 1996, 24 and 25?

4 A. Yes, I do.

5 Q. Do you recognize those as the exhibits  
6 submitted with your prefiled testimony?

7 A. Yes, they were.

8 Q. Are they true and correct to the best of  
9 your knowledge?

10 A. Yes, they are.

11 MR. HARRIS: Your Honor, the joint  
12 applicants would offer Exhibit T-21 and Exhibits 22,  
13 23 as revised June 7, 1996, 24 and 25.

14 JUDGE SCHAEER: Is there any objection?  
15 Hearing none those documents are admitted.

16 (Admitted Exhibits T-21, 22, 23, 24 and  
17 25.)

18 MR. HARRIS: Mr. Story is available for  
19 cross-examination.

20 JUDGE SCHAEER: Mr. Cedarbaum.

21 MR. CEDARBAUM: Thank you.

22

23 CROSS-EXAMINATION

24 BY MR. CEDARBAUM:

25 Q. Mr. Story, just to begin with, earlier this

1 afternoon we had admitted into evidence your  
2 deposition and that's Exhibit 45. At page 33 of that  
3 deposition you were asked to accept a particular  
4 balance subject to check and you accepted that the  
5 balance was for the period September '92 through  
6 December '95. Is it correct that in fact the period  
7 commenced July 1992 rather than September?

8 A. Yes.

9 Q. So you would -- we could correct the  
10 transcript of your deposition to that extent?

11 A. Yes.

12 Q. Referring you to what's been marked for  
13 identification as Exhibit 49. Do you recognize this  
14 as your response to staff data request No. 7?

15 A. Yes, I do.

16 Q. And you will notice that as I've discussed  
17 the document with you we've added line numbers,  
18 handwritten line numbers to each page just for ease of  
19 reference.

20 A. Okay.

21 Q. This document requested you to provide a  
22 detailed analysis of the cost benefit impacts on the  
23 company's customers of the proposed transfer to Puget  
24 Western of the One Bellevue Center property; is that  
25 right?

1 A. Yes, it did.

2 MR. CEDARBAUM: I would offer Exhibit 49.

3 JUDGE SCHAEER: Any objection?

4 MR. HARRIS: No objection.

5 JUDGE SCHAEER: Document is admitted.

6 (Admitted Exhibit 49.)

7 Q. If you could turn to the first page of the  
8 attachment. The figure of \$4,271,667 shown at the  
9 very beginning represents the total amount of gain for  
10 the transfer of this property; is that right?

11 A. That's correct.

12 Q. And the next four figures on this line show  
13 the amortization of that total amount over the  
14 three-year period starting October 1, '96; is that  
15 right?

16 A. That's correct.

17 Q. If you move down to line 2 this shows the  
18 amount of earnings generated from the total 4.3  
19 million gain assuming an interest rate for  
20 reinvestment of 7.69 percent; is that right?

21 A. That's correct.

22 Q. Directing your attention to the \$328,491  
23 figure that's shown on this line under the column  
24 1997, is it correct that that amount assumes -- this  
25 is the amount that was assumed for earnings for the

1 year 1997?

2 A. That's correct.

3 Q. And that was calculated by multiplying the  
4 whole amount of the gain, meaning the \$4,271,000  
5 figure, by the annual interest rate of 7.69 percent?

6 A. I believe so.

7 Q. So you've assumed in that calculation for  
8 the 1997 earnings that the entire amount of the gain  
9 was available to ratepayers at the end of 1997; is  
10 that right?

11 A. No, it was available to the company.

12 Q. The total amount of the gain?

13 A. Right.

14 Q. Since the gain was to be amortized over  
15 three years, wouldn't it be correct that only  
16 \$1,779,862 would be available to the company at the  
17 end of 1997 rather than the full amount of the gain?

18 A. No.

19 Q. Why is that?

20 A. Because we get all the cash upfront and we  
21 would do something with the cash. What this is doing  
22 is saying that when you receive the cash you don't  
23 just keep it in your mattress, so say you do something  
24 with it. You invest it, and what we did here, just  
25 for simplifying assumption is that we said we would

1 invest it at the rate of return, basically putting it  
2 back into the plant.

3 Q. What's shown on line 2 is the earnings  
4 off of the total gain of the \$4.2 million; is that  
5 right?

6 A. I believe so.

7 Q. And those earnings are not for the benefit  
8 of ratepayers?

9 A. Sure. What we're doing is showing the  
10 investment of the cash. When you receive payment for  
11 the land you do something with that cash you received  
12 on the land, and we were asked for an analysis as to  
13 what the cost benefit of this was. This is not  
14 something we would normally do for land transaction.  
15 5B, which is one of the data responses that you handed  
16 out, also explains what we do. We put this together  
17 at staff's direction.

18 Q. So this is not an analysis that you would  
19 have done in the ordinary course of business?

20 A. Not for this purpose.

21 Q. The amount shown on lines 1 and 2 represent  
22 the amount of benefits available to ratepayers because  
23 of the sale; is that right?

24 A. That's correct.

25 Q. And moving down to line 3 this shows the

1 amount of revenue associated with the lease of the  
2 property that would be lost because of the sale of the  
3 property; is that right?

4 A. That's correct.

5 Q. And those amounts on line 3 would then be  
6 considered cost to ratepayers associated with this  
7 sale?

8 A. No.

9 Q. There are revenues that ratepayers won't be  
10 benefited with.

11 A. If you want to look at it that way then,  
12 yes, but they're not a cost to them. They are being  
13 offset by the four million two that we did not have to  
14 get from ratepayers.

15 Q. So I think you're stating that the amount  
16 of -- the amounts shown on lines 1 and 2 were netted  
17 against the amounts shown on line 3 to arrive at the  
18 amount on line 4; is that right?

19 A. Correct.

20 Q. Turning to Exhibit No. 50 for  
21 identification, do you recognize this as your response  
22 to staff data request No. 101 which is a follow-up to  
23 staff data request No. 7?

24 A. Yes.

25 Q. Other than the disk, the electronic disk

1 that was attached as part B?

2 A. Yes.

3 MR. CEDARBAUM: Move the admission of 50.

4 JUDGE SCHAER: Any objection?

5 MR. HARRIS: No.

6 JUDGE SCHAER: Exhibit 50 is admitted.

7 (Admitted Exhibit 50.)

8 Q. Referring you to Exhibit 51 for  
9 identification, do you recognize this as your response  
10 to staff data request 129?

11 A. Yes.

12 Q. And in the -- in your response you indicate  
13 that Puget's response to staff data request No. 5B  
14 explains the criteria relied upon to determine if  
15 property should be sold or transferred; is that right?

16 A. That's correct.

17 MR. CEDARBAUM: I would move the admission  
18 of 51.

19 JUDGE SCHAER: Is there any objection?

20 MR. HARRIS: No.

21 JUDGE SCHAER: That document is admitted.

22 (Admitted Exhibit 51.)

23 Q. Exhibit 52 for identification is the  
24 response to staff request 5B that was referenced in  
25 Exhibit 51; is that right?



1 A. Yes.

2 MR. CEDARBAUM: Offer 52, please.

3 JUDGE SCHAER: Any objection? Document is  
4 admitted.

5 (Admitted Exhibit 52.)

6 Q. Referring you to Exhibit 53 for  
7 identification, do you recognize this document as your  
8 response to staff data request No. 8 which requested  
9 the company to analyze the cost benefit impacts on  
10 ratepayers of the transfer of the general office  
11 parking lot to Puget Western?

12 A. Yes.

13 Q. And Exhibit 54 is your response to staff  
14 data request No. 102 which followed up on staff data  
15 request 8; is that right?

16 A. That's correct.

17 Q. And in turn Exhibit No. 55 is your response  
18 to staff data request No. 130 which followed up on  
19 staff data request 102; is that right?

20 A. Yes, that's correct.

21 MR. CEDARBAUM: Your Honor, I would offer  
22 Exhibits 53, 54 and 55.

23 JUDGE SCHAER: Any objection?

24 MR. HARRIS: No.

25 JUDGE SCHAER: Those documents are

1 admitted.

2 (Admitted Exhibits 53 - 55.)

3 Q. If we could turn in your testimony to page  
4 11.

5 A. I have it.

6 Q. I don't yet. Starting at the middle of  
7 line 18 you state that NewCo proposes that gains and  
8 losses on sales of property not be held for future  
9 general rate filing. Do you see that?

10 A. Yes.

11 Q. Does your testimony and the proposal that's  
12 stated in that portion of your testimony apply only to  
13 sales of property related to the merger or would it  
14 also apply to sales of property unrelated to the  
15 merger?

16 A. When we wrote this we were considering all  
17 sales not just merger sales.

18 Q. And this proposal hasn't changed since you  
19 wrote it, has it?

20 A. No.

21 Q. Referring you to what's been marked for  
22 identification as Exhibit 56, did you recognize this  
23 document as your response to public counsel data  
24 request No. 90?

25 A. Yes.

1 Q. In this document the request asked the  
2 company to provide a schedule of annual conservation  
3 revenue requirement to amortize the company's existing  
4 DSM investment over the remaining accounting life of  
5 the investment; is that right?

6 A. Yes.

7 MR. CEDARBAUM: Move the admission of 56.

8 JUDGE SCHAEER: Any objection? Document is  
9 admitted.

10 (Admitted Exhibit 56.)

11 Q. If you could look at the last page of the  
12 exhibit. It's entitled next to the line 3 notation,  
13 Annual Conservation Revenue Requirements from 1996 to  
14 2006. Is it correct that this schedule shows the  
15 calculation of Puget's annual conservation revenue  
16 requirement for each 12-month period ending September  
17 30, 1996 through September 30, 2005?

18 A. Yes.

19 Q. If we look at the first column of the  
20 schedule, that shows the calculation of conservation  
21 revenue requirement for 12 months ended September 30,  
22 1996; is that right?

23 A. Yes.

24 Q. And that's the PRAM 5 period?

25 A. That's correct.

1 Q. Looking at line 13 that shows the amounts  
2 of amortization of conservation investment for the  
3 12-month periods ending September 30, '96 through  
4 September 30, 2005, is that right, across the page?

5 A. That's correct.

6 Q. The \$33,339,024 figure shown on line 13 in  
7 that first column for PRAM 5, that's the actual  
8 conservation amortization for PRAM 5, is that right,  
9 the actual amount?

10 A. That's correct.

11 Q. That's also the amount of conservation  
12 amortization that's embedded in Puget's general rates,  
13 assuming the rollover of PRAM rates into general  
14 rates; is that right?

15 A. Currently, yes.

16 Q. If you look at the last line of the  
17 schedule, line 19, that represents the amount of  
18 conservation revenue requirements again for the 12  
19 months -- 12-month periods ending September 30, '96  
20 through September 30, 2005; is that right?

21 A. That's correct.

22 Q. Directing your attention to what's been  
23 marked as Exhibit 57, do you recognize this as your  
24 response to staff data request 105?

25 A. Yes.

1 MR. CEDARBAUM: I would offer 57, please.

2 JUDGE SCHAEER: Any objection? Exhibit 57  
3 is admitted.

4 (Admitted Exhibit 57.)

5 Q. I would like to ask you as the next record  
6 requisition which is No. --

7 JUDGE SCHAEER: 31.

8 Q. -- 31 to provide us the amount of Puget's  
9 conservation costs actually incurred or estimated to  
10 be incurred for each of the months from June '96  
11 through September 2001, and for you to include in that  
12 data breakdown between the conservation costs per se  
13 and AFUCE for any of the months where AFUCE is  
14 accrued.

15 A. I believe you already have that but we can  
16 provide it again.

17 Q. Well, you can direct us to where it is  
18 rather than providing us that document if we don't  
19 have it.

20 A. Sure.

21 (Record Requisition 31.)

22 Q. If we could look at your Exhibit 24 which  
23 is JHS-4. Do you have that?

24 A. Yes, I do.

25 Q. Is it true that the cents per kilowatt hour

1 numbers that appear on this exhibit were derived by  
2 dividing certain amounts for the items that are listed  
3 on this page by projected kilowatt hour sales?

4 A. Yes.

5 Q. And those projections for kilowatt hours  
6 sales were for the PRAM 4 and 5 periods; is that  
7 right?

8 A. Right.

9 Q. Are the amounts that you used to derive  
10 these figures from the actual incurred revenues,  
11 expenses in rate base amounts for the PRAM 4 and 5  
12 periods?

13 A. Well, we started with the 951272 and then  
14 adjusted them for what was allowed for in PRAM 4 and  
15 PRAM 5 based on the categories of base resource, so in  
16 effect they are. I would like to take the kilowatt  
17 hours subject to check. I'm just not sure on the PRAM  
18 4 and PRAM 5 whether those are actual or projected,  
19 but I will take them subject to check.

20 Q. Why don't we say subject to check they're  
21 projected and then you can check it.

22 A. That's fine.

23 Q. But you're saying that the amounts that  
24 this document is based upon are the amounts approved  
25 in the '92 rate filing and the amounts approved in the

1 PRAM 4 and 5 filings?

2 A. Adjusted for those, right.

3 Q. So if I understand, then, you're saying  
4 that the amounts were not actual amounts for those  
5 periods. They were the results of operations from the  
6 '92 case restated for PRAM 4 and 5?

7 A. Well, we start with the '92 case and then  
8 we add the deltas from PRAM 4 and PRAM 5, the delta of  
9 the revenues. You have underlying costs that are  
10 assumed in PRAM calculation. We took those underlying  
11 cost assumptions and adjusted the unit cost.

12 Q. Just so we're clear they're not the actual  
13 results for the PRAM 4 and 5 periods?

14 A. They would be the rates set for the PRAM 4  
15 and PRAM 5 periods, that's right. Which are not  
16 actual costs.

17 Q. All of the cents per kilowatt hour figures  
18 that are presented on this exhibit are estimated,  
19 because you've used estimated, or subject to check  
20 that they're projected kilowatt hours the amounts are  
21 estimates as well; is that right?

22 A. No. This is the way the rates were set, so  
23 this is the amount that would be embedded in the rate  
24 that was set during PRAM 4 and PRAM 5, and what we're  
25 doing is measuring the change on the revenue

1 collection for these items over time so even though  
2 they're assumptions the rates were set this way.

3 Q. Looking at the exhibit under the PRAM 5 and  
4 PRAM 4 columns it states estimated cents per kilowatt  
5 hour.

6 A. Right.

7 Q. What is meant then by the word "estimate"  
8 for those two columns?

9 A. I wouldn't take it as an estimate when you  
10 look at it as the revenue collection for these items.  
11 I think what we're indicating there may be that the  
12 kilowatt hours were an estimate and the revenues get  
13 trued up as we go forward in PRAM. However, this is  
14 what the rates are set on.

15 Q. Well, let's take an example then. If we  
16 look at line 9 for fuel, for PRAM 5 there's an amount  
17 of .002120?

18 A. Right.

19 Q. Is that the actual amount of fuel cents per  
20 kilowatt hour for the PRAM 5?

21 A. I think you're misunderstanding what this  
22 is doing. What we're doing is taking the rate that is  
23 being charged to the customer and saying embedded in  
24 that rate is so many revenues to recover this type of  
25 cost, then we compare it to the actual cost. Like the



1 column that's not on here and should be on here is the  
2 951270 rate case cost. That would be our actual cost  
3 at that point in time. We can bear the actual cost to  
4 what's embedded in rates, and the shift between those  
5 is the amount of the revenue requirement, what's  
6 causing the revenue deficiency.

7 Q. So I think you just said that -- using the  
8 example that I've asked you to consider -- is that  
9 that's not an actual amount. It may go up or down?

10 A. It will stay the same. It would never  
11 change. If our PRAM 5 rates didn't change, what's  
12 embedded in that rate is this cost.

13 Q. Are the figures that you show on your  
14 Exhibit JHS-4 the actual costs that are incurred  
15 during the PRAM 5 period, for example, in that column?

16 A. I think that's where the confusion is  
17 coming from. No.

18 Q. Well, just answer the question.

19 A. No.

20 Q. The actual costs may be greater or lesser  
21 than that?

22 A. Exactly.

23 Q. Have you done a unit analysis using  
24 actually incurred costs and actual kilowatt hours?

25 A. UE-951270.

1 Q. But that would be for different periods --  
2 a different period than the PRAM 5 and PRAM 4 periods?

3 A. Right.

4 Q. Have you done that unit analysis for the  
5 PRAM 5 and the PRAM 4 periods?

6 A. I believe we have a unit analysis for those  
7 periods, but all it would show you is the revenue  
8 deficiency for that period.

9 Q. Why don't I ask as the next record  
10 requisition that you provide us that unit analysis.

11 JUDGE SCHAEER: No. 32.

12 (Record Requisition 32.)

13 Q. Looking at the third column that's entitled  
14 UE-951270 unit cost increase over PRAM 5. That refers  
15 to the PRAM rollover filing; is that right?

16 A. Yes.

17 Q. And that was the filing that was submitted  
18 for the purpose, again, of rolling through to  
19 general rates the \$165 million collected under PRAM  
20 rates?

21 A. Correct.

22 Q. If you could turn to your testimony at page  
23 5, lines 3 through 5, you state that you provided  
24 power cost estimates that Ms. Lynch uses in her  
25 Exhibit CEL-3?

1 A. Right. I used the forecast -- excuse me,  
2 the power cost.

3 Q. I know her exhibit is not -- hasn't been  
4 offered yet but if we could flip to it. It's been  
5 marked for identification as 28, page 1.

6 A. I have it, yes.

7 Q. She has a PRAM 5 figure of 547 --  
8 \$547,834,000; is that right?

9 A. 835, yes.

10 Q. And that was derived from your unit -- from  
11 the amounts in your unit analysis in your JHS-4; is  
12 that right?

13 A. It would be portions of those, yes.

14 Q. Could you provide a reconciliation of that  
15 \$547.8 million figure that she has in her exhibit at  
16 the level of detail that you have in your JHS-4  
17 exhibit?

18 A. Yes.

19 Q. Why don't we make that the next record  
20 requisition.

21 (Record Requisition 33.)

22 Q. And make sure you include all your work  
23 papers in that.

24 A. Okay.

25 Q. Are the nonproduction costs that were shown

1 in her CEL-3 exhibit derived from the amounts that you  
2 used in your exhibit -- your JHS-3 exhibit?

3 A. Not entirely, they're just a portion of  
4 nonproduction.

5 Q. Which portion was and which portion wasn't?

6 A. I didn't do that part of it so I'm not  
7 sure. We can provide it by record requisition.

8 Q. Why don't we then do that as the next  
9 record requisition.

10 A. No. 34.

11 (Record Requisition 34.)

12 Q. Would that response to that record  
13 requisition 34 tell us which of the items that are  
14 classified as nonproduction costs on your Exhibit 24  
15 would correspond to the costs that she has in her  
16 Exhibit CEL-3?

17 A. I don't think they will be the same unit  
18 costs because CEL-3 uses a model run and for power  
19 costs we used our 951270. I'm not sure that the  
20 underlying nonproduction costs are the exact same  
21 costs that I have in my mind, but it will give you the  
22 categories and they will be close. We could reconcile  
23 the differences.

24 Q. I don't know if it's best to make -- would  
25 that be part of 34 or is it better to have that a

1 separate?

2 A. We can make it part of 34.

3 Q. Looking at your JHS-4 this includes both  
4 production and nonproduction?

5 A. Yes.

6 Q. Why didn't Ms. Lynch use your exhibit for  
7 the nonproduction -- maybe I should say she didn't use  
8 it but not use it entirely -- for her nonproduction  
9 pieces of her Exhibit CEL-3?

10 A. I believe she was just showing that some  
11 costs are increasing. We didn't pick up all costs.  
12 It's not a total revenue requirement. It's just an  
13 example of how costs are increasing over time. It's  
14 not -- wasn't designed to be a complete revenue  
15 requirement type look.

16 Q. Maybe I should ask this of her, but do you  
17 know what criteria she selected to make -- what  
18 criteria she applied to make that selection?

19 A. I don't have that with me.

20 Q. Were specific criteria used, do you know?

21 A. I've seen a detail of the numbers that are  
22 behind it, so there was some sort of criteria.

23 Q. Let me ask you as record requisition 35 to  
24 provide -- and this may be a response that she gives,  
25 but to itemize specifically the nonproduction costs

1 that were taken from your JHS-4 exhibit and were  
2 utilized in her CEL-3 exhibit.

3 A. Well, they may not be off JHS-4, but we'll  
4 tell you where they came from and why they were used  
5 if that's all right.

6 (Record Requisition 35.)

7 Q. Let's back up an exhibit to your Exhibit 23  
8 which shows the rate of return on rate base versus  
9 allowed rates of return for Puget over the past few  
10 years. Is it correct that the rate of return that's  
11 used in your exhibit is not the actual per books  
12 results but it's the Commission restated and  
13 normalized result?

14 A. Yes.

15 Q. And so this would have revenue and power  
16 costs restated and adjusted to normal hydro and  
17 weather conditions; is that right?

18 A. I believe so. I would have to check them.

19 Q. Those adjustments, generally speaking, have  
20 a very large effect on the results of operations for  
21 any given period of time; is that right?

22 A. They can, yes.

23 Q. And weather-related, the incurrence of  
24 costs due to weather would also have -- be impacted  
25 greatly on the gas side; is that right? Weather

1 impacts the incurrence of costs greatly on the gas  
2 side; is that right?

3 A. Yes.

4 Q. Let me ask you as the next record  
5 requisition 36 to recast your Exhibit 24 but to  
6 exclude the weather adjustments and power cost  
7 adjustments on the Puget page and the weather  
8 normalization type adjustment on the Washington  
9 Natural page.

10 JUDGE SCHAEER: Did you mean Exhibit 23?

11 MR. CEDARBAUM: Yes. I'm referring to JHS-  
12 3.

13 (Record Requisition 36.)

14 A. Okay.

15 Q. If you could make sure we have the work  
16 papers underlying those documents as well. I don't  
17 think you need to take a look in your deposition, but  
18 at page 39 of that deposition you stated that Puget  
19 has many more regulatory assets and liabilities than  
20 are proposed for recovery in your testimony; is that  
21 right?

22 A. Yes.

23 Q. And Exhibit No. 1 to your deposition has a  
24 description of those assets and liabilities?

25 A. I believe so, yes.

1 Q. In your testimony at pages 10 to 11 you  
2 propose Commission approval to amortize certain  
3 conservation costs, environmental cost, and property  
4 sales, but no others; is that right?

5 A. Could you repeat the question?

6 Q. If we look at page 10 and 11 of your  
7 testimony you propose an accounting -- different  
8 accounting treatment for conservation, environmental  
9 costs and property sales but no other -- those are the  
10 only three categories of regulatory assets or  
11 liabilities that you're proposing this treatment for?

12 A. Yes.

13 Q. And I guess my question is, given the list  
14 that's shown in your Exhibit 1 to your deposition,  
15 which has others, what is the proposal with respect to  
16 those other types of categories?

17 A. They would continue under their current  
18 amortization for treatment from prior orders.

19 Q. And so they will be included in general  
20 rate filings under their current schedule for whatever  
21 that might be?

22 A. Yes. I believe most of them are being  
23 amortized currently.

24 Q. You didn't include or did you include any  
25 of Washington Natural's regulatory assets or



1 liabilities in the amortization request that's  
2 discussed in your testimony; is that right?

3 A. Just property sales.

4 Q. And so your answer would be the same with  
5 respect to Washington Natural that other than property  
6 sales all other assets and liabilities would just be  
7 amortized according to their current schedule?

8 A. Yes.

9 Q. I just have a few questions for you about  
10 allocations, and I guess just generally speaking would  
11 you agree or disagree with the proposition that  
12 allocation factor should parallel -- should be  
13 parallel for both sides of the business? So, for  
14 example, if you have a cost A, certain type of cost on  
15 the electric side, then a comparable cost on the gas  
16 side ought to be allocated in a similar fashion?

17 A. If you're considering direct charging as an  
18 allocation, yes, I would. I consider all three of  
19 these items listed on page 6 as allocation methods.

20 Q. In your deposition at page 45 you agreed  
21 subject to check, and you haven't changed that subject  
22 to check, that FERC account 565 transmission by others  
23 primarily related to billings by BPA for the use of  
24 its transmission system. Do you recall that?

25 A. Yes.

1 Q. Is it correct that an analogous type of  
2 expense for Washington Natural would be its  
3 transmission costs on Northwest Pipeline?

4 A. I'm not that familiar with their accounts.  
5 I will accept it subject to check.

6 Q. Are you aware that Washington Natural --  
7 Washington Natural's interstate -- primary interstate  
8 pipeline is Northwest Pipeline Corporation?

9 A. Yes.

10 Q. And Washington Natural receives  
11 transmission services from Northwest Pipeline?

12 A. Yes. I just don't know to what amount.  
13 When you say it's primary, I would agree with that.

14 Q. You have not included in the four factor  
15 allocation formula the Washington Natural's expenses  
16 paid to Northwest Pipeline; is that right?

17 A. Do you have an account number?

18 Q. I'm sorry, I don't. Would you accept that  
19 subject to your check and then you can --

20 A. I will check it, yes.

21 Q. In staff data request 37 you provided the  
22 details of expenses through April 1996 for the costs  
23 to achieve the merger. I don't have a preference  
24 whether we do this by record requisition or just ask  
25 you to follow up throughout this proceeding to that

1 staff data request to update us for that information  
2 to the end of July '96.

3 A. We can do that.

4 Q. And then month by month throughout the rest  
5 of this proceeding?

6 A. Sure.

7 Q. Finally, Mr. Story, before I forget,  
8 referring you to what's been marked for identification  
9 as Exhibit 58, do you recognize this as your initial  
10 response to public counsel data request 94?

11 A. Yes.

12 MR. CEDARBAUM: I would move the admission  
13 of Exhibit 58.

14 JUDGE SCHAEER: Any objection? Document is  
15 admitted.

16 (Admitted Exhibit 58.)

17 MR. CEDARBAUM: Thank you. Those are all  
18 my questions.

19 JUDGE SCHAEER: Mr. Manifold, do you have  
20 questions.

21

22 CROSS-EXAMINATION

23 BY MR. MANIFOLD:

24 Q. I don't know how lucky a guy can be to do  
25 cross on an accounting witness on a Friday afternoon.

1 A. Yeah, this is great.

2 Q. Regarding schedule 48, the company has an  
3 alternative proposal to make that schedule cease to  
4 exist in June of 1998. Would I be correct that there  
5 would be no revenues lost to the company under  
6 schedule 48 between now and June of 1998?

7 A. I believe so, but you should check with Mr.  
8 Amen.

9 Q. Do you have before you what have been  
10 marked as Exhibits 59, 60 and 61?

11 A. Yes, I do.

12 Q. Are those the company's responses to the  
13 indicated data requests?

14 A. I believe there's a page missing out of 59,  
15 60, was that --

16 Q. 60 is the supplemental response to No. 90.

17 A. I believe that one is missing a page also  
18 and 61 is okay.

19 MR. MANIFOLD: Can we be off the record for  
20 a minute?

21 JUDGE SCHAEER: Let's go off the record for  
22 a minute.

23 (Recess.)

24 JUDGE SCHAEER: Let's be back on the record  
25 at this time. Mr. Story, had you checked those

1 exhibits?

2 THE WITNESS: Yes. They're fine.

3 JUDGE SCHAER: What did you find?

4 THE WITNESS: They're okay.

5 JUDGE SCHAER: So none of them are missing  
6 pages?

7 THE WITNESS: No.

8 JUDGE SCHAER: You should say yes at that  
9 point, I believe.

10 THE WITNESS: Yes. None of them are  
11 missing pages.

12 MR. MANIFOLD: Your Honor, I would move for  
13 the admission of Exhibits 59, 60 and 61.

14 JUDGE SCHAER: Any objection? Those  
15 documents are admitted.

16 (Admitted Exhibits 59, 60 and 61.)

17 Q. Turning to Exhibit 61 is what this shows  
18 that DSM expenditures in the future are decreasing --  
19 projected to decrease?

20 A. They're decreasing at this time mainly  
21 because we don't have a plan for going forward yet.  
22 Like Mr. Amen -- Mr. Amen talks about this in his  
23 testimony that we're proposing to put together new  
24 conservation program so we've not budgeted or  
25 projected anything in conservation until we know what

1 that program is.

2 Q. So the zeroes on '98, '99 and 2000 are lack  
3 of information rather than an estimate of what it will  
4 be?

5 A. That's more accurate.

6 Q. Is the residential exchange credit expected  
7 to change in October of this year?

8 A. In what manner?

9 Q. Looking at response to data request No. 85,  
10 which is Exhibit 59. I'm sorry. Let me start over  
11 again here. It's anticipated that there will be a 5.6  
12 percent reduction in rates in October of this year?

13 A. That's correct.

14 Q. Has Puget computed an average system cost  
15 to accompany that reduction?

16 A. The 5.6 million or 5.6 percent is deferral  
17 collection and that's not part of average system cost.  
18 It's part of the true-up on average system cost.

19 Q. Do you have before you what was already  
20 admitted as Exhibit No. 39? It's the company's  
21 response to our data request No. 82?

22 A. Yes.

23 Q. I note that at the bottom of the first page  
24 it says that "no forecast of the exchange with  
25 Bonneville was made for purposes of preparing this

1 response." Is that correct?

2 A. That's correct.

3 Q. Is it correct that on June -- by letter  
4 dated June 3, 1996 BPA sent a letter to all of its  
5 customers setting forth its expected residential  
6 exchange budget for fiscal -- next five fiscal years?

7 A. Yes.

8 Q. And if I read those numbers, would you  
9 accept those subject to your check?

10 A. Which numbers?

11 Q. I will read them to you now.

12 A. You mean within their record of decision?

13 Q. Yes.

14 A. I will accept them subject to check. I  
15 have not really looked at the numbers previously.

16 Q. That for fiscal year 1997 they projected  
17 158.5, which I presume is million dollars. Fiscal  
18 year 1998, 54.5. Fiscal year 1999, 57.8. Fiscal year  
19 2000, 76.5. Fiscal year 2001, 89.7. Would you accept  
20 those subject to your check?

21 A. Yes.

22 Q. We've heard testimony yesterday from Mr.  
23 Sonstelie about the various possibilities regarding  
24 the residential exchange with Bonneville. Were you  
25 here for that?

1 A. Yes, I was.

2 Q. Do you have any particular basis for  
3 disagreeing with Bonneville's projection of those  
4 amounts as contained in their June 6 report or their  
5 June 3 letter to customers?

6 A. Only in the sense that they're based on  
7 their interpretation of their rate filing and we  
8 disagree with some of the numbers underlying that rate  
9 filing. We disagree with what they used for our  
10 average system cost and what they used as a starting  
11 point for their average system cost.

12 Q. I may have misspoken a moment ago, by the  
13 way. The numbers I read to you were from the June 6  
14 report. The letter to customers on June 3rd indicated  
15 a fiscal year 1995 amount of about \$200 million and a  
16 1993 final proposal for fiscal year 1997 of \$253.7  
17 million.

18 A. Okay.

19 JUDGE SCHAER: Did you want Mr. Story to  
20 accept those subject to check?

21 MR. MANIFOLD: Yes.

22 A. Yes.

23 Q. Could you respond to a record requisition  
24 next in order --

25 JUDGE SCHAER: No. 37.



1 (Record Requisition 37.)

2 Q. -- by providing the power supply revenue  
3 requirement in a form similar to the information you  
4 provided in response to public counsel data request  
5 No. 90, which has been marked as one of the recent  
6 exhibits. That was the one that did conservation up  
7 to 2010?

8 A. Yes.

9 JUDGE SCHAER: Exhibits 56 and 60, I  
10 believe.

11 A. I doubt if we could. We don't do revenue  
12 requirement by resource. There's a lot of assumptions  
13 that we would have to make to do that and the value of  
14 the revenue requirement would be very minor. We can  
15 provide you the numbers and your consultant can make  
16 the assumptions they want to make. It might be safer  
17 than having us do another cost benefit analysis that  
18 somebody doesn't agree with.

19 Q. So you would be able to provide the raw  
20 data for that?

21 A. Yeah. They're going to have to make a lot  
22 of assumptions on deferred taxes, how taxes are  
23 treated on plant, production, depreciation, additions,  
24 retirements. It's not an easy calculation.

25 Q. What other assumptions would need to made?

1           A.     Almost every cost -- underlying cost of a  
2 resource going out 20 years.

3           Q.     In your response to public counsel data  
4 request No. 117, which is a confidential response,  
5 there is an amount set forth for underground cable  
6 replacement due to failing cable. Is the amount of  
7 that on an annual basis a confidential number?

8           A.     Is this the one on the 45 percent? I don't  
9 recall the data response.

10                     What was the question again?

11          Q.     Is the annual amount of the underground  
12 cable replacement due to failing cable itself a  
13 confidential number?

14          A.     Well, item by item probably none of these  
15 numbers are confidential but when you put them all  
16 together I would say they start becoming confidential.  
17 It's our plan on how we're going to maintain the  
18 system and grow the system over the next three or four  
19 years.

20          Q.     Would you agree that that particular number  
21 is a significant number measured in the millions?

22          A.     Yes, that's right.

23          Q.     Is that okay to say?

24          A.     Yes.

25          Q.     Can you speak to the plans -- is that

1 something you expect to be expending every year and  
2 how long do you expect a need to be spending that?

3 A. It would be better to provide that on a  
4 data response or a record requisition. There are  
5 several different plans as to how we would go about  
6 doing that. There are sizable dollars that we're  
7 looking at on the underground replacement. Cable is  
8 not lasting as long as anybody thought it would and  
9 especially in the northwest, so I would prefer to  
10 respond on a record requisition.

11 Q. Well, let me get to the real point of  
12 asking about this. The company is proposing, as we  
13 all know, a period of time during which it would not  
14 come in for additional revenues other than whatever  
15 was approved in this case. The replacement of  
16 underground cable is a fairly significant, perhaps  
17 ongoing, maintenance, if that would be the appropriate  
18 term, that the company is anticipating undertaking for  
19 presumably system reliability and customer service.

20 A. And safety, yes.

21 Q. How can we be assured that a category such  
22 as this would not be subject to budget cutting if the  
23 company management found that it was unable to attain  
24 its financial goals as it has projected them to be  
25 through the other measures that it's anticipated to

1 take?

2 A. Well, I think you would hear about it  
3 through customer complaints, and we have a reliability  
4 -- Ms. Lynch has some testimony in her filing talking  
5 about reliability, how we're going to maintain  
6 customer service. So you would see it showing up  
7 there obviously.

8 Q. Do you think it would make sense in  
9 addition to the whatever reliability items come out  
10 of Ms. Lynch's proposals to track some other ongoing  
11 maintenance or budget item such as this that could  
12 themselves lead to customer reliability or safety  
13 issues?

14 A. Well, I don't think you would want to start  
15 micro-managing the company to that extent. We  
16 definitely -- when we put our capital budgets together  
17 we first look at safety items that we're going to  
18 replace that have to be done, then maintenance on  
19 items that are causing failures, new business. There  
20 is shifting of dollars based on need. You will see  
21 that in the short-term.

22 The long-term plan is really what you've  
23 got to look at, and how the system is operating. To  
24 say \$10 million was taken out on item compared to a  
25 previous year is not appropriate. You don't know why

1 that \$10 million was taken out and for us to explain  
2 every one of those decisions I think would be a little  
3 bit difficult to track them all.

4 Q. Is there some level of that at which it  
5 does not become micro-managing but simply tracking  
6 some gross level of expenditures?

7 A. Well, I think something can be worked out,  
8 sure.

9 Q. Switching subjects. Do you know what the  
10 book value of the new company is projected to be?

11 A. On page 24 of the proxy it's \$16.13.

12 Q. Finally, looking at the company's response  
13 to public counsel data request No. 120, it appears  
14 that Puget does not allocate any shareholder services  
15 or board expenses to its subsidiaries. Is that  
16 correct?

17 A. Excuse me. This was a subject in a rate  
18 case here recently, and I just cannot recall. It's  
19 been about three or four years since I've looked at  
20 that. I can respond to that. You say it's 120? I  
21 would agree with whatever the data response says.

22 Q. Do you think that it would be appropriate  
23 to allocate some portion of the shareholder services  
24 or board expenses to the subsidiaries?

25 A. I believe we're doing that within the

1 guidelines that were set in that order.

2 MR. MANIFOLD: Other than getting a copy of  
3 that data request back I have no other questions.

4 JUDGE SCHAEER: Mr. Frederickson.

5 MR. FREDERICKSON: I have no questions,  
6 Your Honor.

7 JUDGE SCHAEER: Mr. Finklea.

8 MR. FINKLEA: I have two questions.

9

10 CROSS-EXAMINATION

11 BY MR. FINKLEA:

12 Q. Good afternoon, Mr. Story. My name is Ed  
13 Finklea. I represent the Northwest Industrial Gas  
14 Users.

15 A. Good afternoon.

16 Q. Sir, I take it from your background and  
17 experience that you are not intimately familiar with  
18 any of the cost allocations that are performed by  
19 Washington Natural in setting the rates for its  
20 various class of customers?

21 A. I would say that's even true for Puget, but  
22 that's true.

23 Q. So any analyses between expenditures that  
24 Puget has made in the past and the electric side of  
25 the new company might be making in the future and how

1 those expenditures would be allocated on the gas side  
2 I take it you're not an expert in that?

3 A. No. I do revenue requirement.

4 MR. FINKLEA: That was all I had, Your  
5 Honor.

6 JUDGE SCHAEER: Thank you. Mr. Patton.

7

8 CROSS-EXAMINATION

9 BY MR. PATTON:

10 Q. Just have a few questions, Mr. Story. On  
11 page 4 of your testimony you discuss the annual power  
12 cost increases for Puget at \$80 million per year in  
13 the stability period?

14 A. That's in the year 2001, yes.

15 Q. Well, if you look on page 6, line 5, it  
16 states, "annual power costs are projected to increase  
17 by about \$80 million during the rate stability  
18 period." Isn't that \$80 million per year starting in  
19 '97?

20 A. Line 5, page 4?

21 Q. Yes.

22 A. Not page 6.

23 Q. I'm sorry, page 4.

24 A. If you look at CEL-3 2001 in table 1 power  
25 costs are \$79 million 953. I believe if we weren't to

1 do something about power costs in 2002 they would go  
2 up slightly more under cost escalation. It's column  
3 F.

4 JUDGE SCHAER: Which page of CEL-3, Mr.  
5 Story?

6 THE WITNESS: Page 1, table 1.

7 JUDGE SCHAER: Have you found that, Mr.  
8 Patton?

9 Q. So they would reach \$80 million in 2001?

10 A. Yes.

11 Q. To what do you attribute the extent of the  
12 power increase projection given the declining cost of  
13 power in the open market?

14 A. It's our embedded power cost contracts.

15 Q. What percentage of your power costs are  
16 represented by those embedded power contracts?

17 A. They are 600 average megawatts so  
18 approximately -- have to say subject to my own check  
19 about 25 percent.

20 Q. So embedded power costs represent about 25  
21 percent of your power costs?

22 A. Well, of cogen contracts.

23 Q. On page 7 of your testimony you talk about  
24 doing a backward calculation about how the costs would  
25 shift between gas and electric, backwards to '92, '93?



1 Am I understanding that correctly?

2 A. Yes. We use '92, '93, '94 to test the  
3 allocation method.

4 Q. Could you elaborate on how you got these  
5 shifts occurring, just briefly. What causes a shift  
6 from an electric to gas in '92?

7 A. You're using an allocation instead of the  
8 actual costs. What we wanted to do was test the  
9 allocators so we took -- obviously the gas company has  
10 no electric costs and we have no gas costs during '92,  
11 '93, '94. We're two separate companies. We just took  
12 the dollars in the accounts that would use these type  
13 of allocators, -- we took 1992, 1993 and 1994 for the  
14 two companies on the costs that we thought would be in  
15 accounts that would use the four factor allocator. We  
16 added them together, took the four factor allocator  
17 and broke them back apart to see what the impact would  
18 be on gas and electric. Obviously if you use an  
19 estimate to break apart costs you're not going to get  
20 the exact answer of an exact charge.

21 Q. Can you try to explain for a layperson what  
22 a four factor allocator is that you're using?

23 A. Sure. It's just the simple average of our  
24 customer account, our T and D costs, our labor costs  
25 charged to T and D, and gross plant. Those are items

1 that are pretty directly allocated. You know what  
2 your customer count is. There's no allocation there.  
3 It's just gas and electric. And then the other groups  
4 of accounts are direct charged. The whole theory is  
5 that costs that you can't allocate are -- should  
6 have some relationship to the costs that you knew  
7 where they were directly assigned, so we're using  
8 those directly assigned costs and causes of costs,  
9 customers, to allocate those costs.

10 Q. And have you made this projection forward  
11 past '94?

12 A. I don't have enough detail to do it. We've  
13 done '95 because we have actuals, and I believe that's  
14 been provided.

15 MR. PATTON: I have no further questions.

16 JUDGE SCHAER: Mr. MacIver.

17 MR. MACIVER: No questions, Your Honor.

18 JUDGE SCHAER: Mr. Freedman.

19 MR. FREEDMAN: I have no questions, Your  
20 Honor.

21 JUDGE SCHAER: Ms. Richardson.

22 MS. RICHARDSON: Yes, Your Honor. Thank  
23 you.

24

25 CROSS-EXAMINATION

1 BY MS. RICHARDSON:

2 Q. Good afternoon, Mr. Story. Shelly  
3 Richardson with Public Power Council.

4 A. Good afternoon.

5 Q. A couple of follow-up questions both from  
6 the questions Mr. Manifold asked you earlier today and  
7 then following up on the cross-examination of Mr.  
8 Sonstelie from yesterday. Beginning with the  
9 questions from Mr. Manifold from earlier today he  
10 asked you a series of questions that were predicated  
11 on a report that presumably was produced by Bonneville  
12 Power Administration on the 6th of June of 1996. Can  
13 you describe to me what this report is?

14 A. I believe he was talking about the record  
15 of decision.

16 Q. And that would be the record of decision  
17 regarding what topic?

18 A. Their rate case.

19 Q. So the just concluded rate proceeding?

20 A. Right.

21 Q. Very good. And then the numbers that he  
22 described to you were subject to checking the numbers  
23 from that record of decision in the rate case for  
24 Bonneville?

25 A. I believe so.

1 Q. Fair enough. Now, yesterday when Mr.  
2 Sonstelie was testifying I asked him whether he was  
3 aware of whether Puget or any other entity had filed  
4 in connection with these Commission proceedings a  
5 preliminary appendix one with Bonneville and he  
6 indicated that he didn't have the answer to that and  
7 referred me to you, I believe.

8 A. Yes.

9 Q. Can you answer that question and if so has  
10 such a preliminary appendix been filed?

11 A. It's my understanding, no, we have not.

12 Q. Do you anticipate such a filing?

13 A. I think we're going to have to discuss that  
14 with Bonneville. Under the methodology if you're  
15 changing your rates, which is a possibility with 165  
16 million moving from PRAM 100 to general rates,  
17 technically you're required to file an appendix one.  
18 It would be no different than what we filed under PRAM  
19 5, because it's basically just moving PRAM 5 rates  
20 into general rates, so to me it would seem a waste of  
21 time to do that.

22 Q. Okay. Is it correct, then, for me to infer  
23 from your response that as a result of these  
24 proceedings there will be no change in your existing,  
25 which is to say your current, residential exchange

1 filings with Bonneville?

2 A. Under our proposal there should not be.

3 Q. Couple of questions then with respect to  
4 the materials identified as Exhibit 39. This is the  
5 response to public counsel data request No. 82. And  
6 it was regarding the testimony of Mr. Sonstelie but  
7 you prepared the response, and so again, we get punted  
8 back to you. If you will look at the first page of  
9 this Exhibit -- I'm sorry, the second page of this  
10 Exhibit 39, what is contained there is page 7 of Mr.  
11 Sonstelie's prefiled testimony. There's a graph on  
12 the top of that page. Are you with me?

13 A. Yes.

14 Q. Now, the graph is described, and I will  
15 represent to you, as from the preceding page of Mr.  
16 Sonstelie's testimony describes the graph as comparing  
17 the increases in electric and gas rates since 1991  
18 with the results that would have been -- that would be  
19 produced under the rate stability proposal. Now, my  
20 question of Mr. Sonstelie yesterday was what in  
21 preparing this graph was the baseline assumption with  
22 respect to the residential exchange values, and he --  
23 I don't quite recall because I haven't reviewed the  
24 transcript if he couldn't answer or if he answered it  
25 and was unsure.

1 I wondered if you could respond to that  
2 question. Are you aware of what the baseline  
3 residential exchange values used for purposes of this  
4 graph would be?

5 A. Yes. It's what we just talked about. PRAM  
6 5. Starting in 1997.

7 Q. And given the testimony in these  
8 proceedings that the rate stability proposal, the 12  
9 percent increase component, is exclusive of rate  
10 exchanges associated with the residential exchange,  
11 again, can I assume the baseline in the rate stability  
12 proposal is the PRAM 5 -- are the PRAM 5 numbers?

13 A. They're the PRAM 5 revenues, yes.

14 Q. Last but not least I think on this topic.  
15 About in the middle of this document, there's yet  
16 another graph which is described as residential  
17 electric rate exchanges over time with and without  
18 effects of BPA schedule '94 credit. Are you with me?

19 A. Yes, I have it.

20 Q. Could you describe briefly what is a BPA  
21 schedule '94 credit?

22 A. That's the residential exchange.

23 Q. And so the graph, as I take it, and please  
24 correct me if I'm wrong, depicts how your residential  
25 -- and I assume by that you mean residential and small

00710

1 farm, but how your residential electric rates are  
2 impacted by the PRAM 5 revenues associated with the  
3 exchange?

4 A. Well, it's how they're impacted by the one  
5 percent increase.

6 Q. Okay. Okay. By the one percent increase  
7 and then the distinction before exchange and after  
8 exchange reflects the layering on of PRAM 5?

9 A. The distinction there is we don't know what  
10 will happen with a residential exchange so rates could  
11 adjust somewhere outside of this range of one percent.  
12 It's not an item that's covered by the one percent.

13 Q. Help me understand. I'm sorry I'm being  
14 dense here. What does the with and without effects of  
15 the residential exchange mean on this chart?

16 A. It means that it doesn't have the rate  
17 impacts of anything that Bonneville would do to impact  
18 the amount of money being given to IOUs for the  
19 residential customers, so if they were to lower  
20 residential exchange benefits by 5 percent to our  
21 customers, it would not be reflected -- it would be  
22 reflected outside this one percent.

23 Q. On the little sidebar that says before  
24 exchange and after exchange, what does after exchange  
25 mean? It's the little box on the right-hand side of

1 the chart.

2 A. I see what your question is. I hadn't  
3 really noticed that.

4 Q. Again, I apologize. I don't understand  
5 this chart, and I don't know if it's appropriate  
6 perhaps to ask for a written or a textual explanation  
7 of the information contained in this chart through a  
8 record request. If that is appropriate I would so  
9 ask.

10 A. That might be appropriate. I think that  
11 would be better.

12 MS. RICHARDSON: Thank you.

13 JUDGE SCHAEER: That would be record  
14 requisition No. 38.

15 (Record Requisition 38.)

16 Q. Thank you for helping me through that,  
17 Mr. Story. If you turn back to your testimony then,  
18 just a few more questions. Talked a little bit with  
19 Mr. Patton just now with respect to the allocation  
20 methodology that you've described in the testimony.  
21 Would you expect that this allocation methodology  
22 that's being proposed having any effect whatsoever on  
23 the allocation of residential exchange costs?

24 A. I don't foresee any.

25 Q. And on page 12 of your testimony, there in



1 the question and answer at the top of that page, the  
2 answer beginning on line 15 of page 12 indicates that  
3 the merged company would be asking the Commission to  
4 approve an accounting order to recover the merger  
5 costs. For regulatory and ratemaking purposes the  
6 costs would be amortized with associated federal tax  
7 impacts over the rate stability period. Now when I  
8 turn to find out what regulatory ratemaking type of  
9 activities are considered being amortized I find that  
10 the residential exchange is one of those regulatory  
11 activities that would be amortized.

12 Does that comport with your understanding  
13 of what's contemplated by regulatory -- some of the  
14 costs that would be amortized for regulatory purposes?

15 A. I'm not -- what are you looking at?

16 Q. I was trying to jibe your testimony on page  
17 12, line 11 or 10, with Mr. Amen's prefiled direct  
18 testimony on page 2, line 21, 22, 123 where he's  
19 indicated in a listing of ongoing regulatory  
20 activities, tariff changes associated with BPA,  
21 irrigation and residential and farm exchange credits,  
22 and this is in a listing, if you will accept my  
23 representation of regulatory initiatives, that the  
24 NewCo would pursue during the rate stability period.  
25 So --

1           A.       What I'm talking about on page 10 is that  
2 we would include these costs in our Commission basis  
3 report, the reports that we file with the Commission,  
4 and it is not related to the items that are listed on  
5 Mr. Amen's testimony.

6           Q.       So the amortization that's described in the  
7 reports you would be filing with the Commission are  
8 not related to the residential exchange?

9           A.       Well, they have our underlying costs, but  
10 that wasn't the intent of this testimony.

11                   MS. RICHARDSON: Very good. That's all the  
12 questions I have. Thank you.

13                   JUDGE SCHAER: Mr. Strong.

14                   MR. STRONG: No questions, Your Honor.

15                   JUDGE SCHAER: Commissioners?

16                   COMMISSIONER HEMSTAD: I don't have any  
17 questions.

18                   COMMISSIONER GILLIS: I don't have any  
19 questions.

20

21                                   EXAMINATION

22 BY JUDGE SCHAER:

23           Q.       Mr. Story, let's look first at page 4 of  
24 your testimony, line 5. You mention there annual  
25 power costs are projected to increase by about \$80

1 million, and then in some questioning by Mr. Patton, I  
2 believe, you indicated that the amount would be \$80  
3 million in the year 2001 and you referred to a chart  
4 in Ms. Lynch's testimony?

5 A. Yes. It's CEL-3, table 1, page 1.

6 Q. And does that chart show the expected  
7 increases for each of the years in the rate stability  
8 period?

9 A. Yes. The way that chart was put together,  
10 we gave the revenue impact growth on revenues to  
11 offset power costs, so the way the power costs are  
12 calculated are they're the excess power costs over our  
13 revenue growth.

14 Q. And are those annual increases that are  
15 shown on that chart due to demand increase or to price  
16 increases?

17 A. It will be both. They were based off the  
18 forecast for that period which would have load growth,  
19 so it would be a little bit of both. Mainly price on  
20 the cogens, I would say.

21 Q. And I believe you've already indicated that  
22 insofar as they're based on demand increases they have  
23 been offset for growth in revenues?

24 A. Yes, they have.

25 Q. Turning now to your testimony at pages 7

1 and 8, you're discussing allocation methods. What  
2 allocation method would NewCo propose to use for  
3 administrative and general expenses?

4 A. It depends what the administrative and  
5 general expense is. The pension costs, employee  
6 benefits would most probably go by causation which  
7 would be employee cost. Legal and outside consultants  
8 most probably can be direct allocation for the most  
9 part. The way we would go through the accounts is we  
10 would always look for direct allocation first. If we  
11 can directly assign the cost to either gas or  
12 electric, that would be the first choice.

13 The second choice will always be by  
14 causation employee and it will follow where the  
15 employee charges their time or by service rendered if  
16 it's an outside contractor, lawyer, whatever, and then  
17 the final allocation will always be the four factor.

18 Q. What method would be used to allocate the  
19 expenses incurred by executives and upper management  
20 personnel working on special projects? Say, for  
21 example, negotiations of supply contracts for a single  
22 industry?

23 A. That would most probably be direct  
24 allocation. We have the capability in both companies  
25 of time reporting. Procedures haven't been laid out

1 yet as to how we're going to handle every individual  
2 type of item, but when you do have a specific item  
3 like that it would be easy to do direct allocation.

4 Q. And if the company were to file for  
5 emergency rate relief during one of the stability  
6 years, would it propose using the four basis allocator  
7 or whatever method produced the lower or higher  
8 amount?

9 A. The lower or higher amount of what? I'm  
10 not quite following the question. The way we would  
11 file the case is most probably on stand alone basis.  
12 Haven't really thought through exactly the  
13 methodology. You wouldn't -- I don't think normally  
14 you would file a case on the two services together.  
15 You would file them with their separate costs of  
16 service and see which one was causing the impact.  
17 They both could be causing the problem, but it would  
18 be based on our methodology proposed here.

19 Q. So is it likely that the four basis  
20 allocator would not be used?

21 A. I would think it would be used.

22 Q. Looking at page 9 of your testimony  
23 regarding the PRAM rate ruling, what will be the  
24 disadvantage if the PRAM rates were not rolled into  
25 general rates until after the merger?

1           A.     I believe it would cause the financial  
2 community concern as to what's going to happen with  
3 that, whether they're subject to refund, whatever,  
4 beyond the September time period. Causes some  
5 management concern.

6           Q.     At page 11 of your testimony, first in the  
7 area of environmental clean-up cost accounting. When  
8 costs and insurance recovery are completed for a given  
9 project the company can file a final report for  
10 environmental sites as of September 30 of each year  
11 which will explain clean-up costs and remaining costs  
12 to be considered for recovery. Is that correct?

13          A.     We just chose that as a time, but that's an  
14 example of something that could be done, yes.

15          Q.     After review by staff is completed, costs  
16 will be amortized over three years beginning the  
17 following January. Is that your proposal?

18          A.     Right. I would expand on that to say after  
19 review by Commission staff and Commission the costs  
20 would begin to be amortized. Probably should have --

21          Q.     You contemplated one of my questions. So  
22 you envision Commission approval as well?

23          A.     Yes.

24          Q.     What might be included in remaining costs  
25 to be considered for recovery?

1           A.     They would be the items that were not  
2 recovered by insurance.  Either carriers were not  
3 available or they were beyond the coverage.

4           Q.     Remaining on page 11 and moving down to  
5 property sales, under a settlement agreement Puget  
6 defers gains and losses on property sales until future  
7 rate cases.  It appears that in this filing instead of  
8 waiting for future rate cases the company proposes  
9 filing an annual report detailing property gain for  
10 loss deferrals and once they are reviewed and accepted  
11 the company would begin amortization amounts over the  
12 next three years; is that correct?

13          A.     That's correct.

14          Q.     On the one hand the company has proposed an  
15 annual rate stability plan that envisions a one  
16 percent increase in October.  Under your proposals for  
17 environmental clean-up, conservation and property  
18 sales there seems to be a rate adjustment in January  
19 to begin amortizing these deferrals; is that correct?

20          A.     No.  There would be no rate adjustment.  It  
21 would be reflected in the Commission basis reports.  
22 So whether this was a loss or a gain for that year we  
23 would start the amortization.  Definitely on the  
24 environmental it would most probably be a loss and  
25 then we would start the amortization.  It would be an

1 expense.

2 Q. Will the amortization of property sales  
3 gains be an offset to a one percent rate increase  
4 amount?

5 A. No. That was not the proposal.

6 Q. On page 10 you state the conservation costs  
7 and deferred property gains would be charged off  
8 against each other as of December 31, 1995, and  
9 actually I believe that's -- I'm not certain where  
10 that reference is.

11 A. That was the balance. I was just using an  
12 example of the balance at December 1995.

13 Q. Then on page 10 you state that they would  
14 be amortized over three years. How do you make these  
15 two proposals consistent?

16 A. This was just to get the books cleaned from  
17 an item that's not currently in rates, the  
18 conservation rate base that's under our old program  
19 that we deferred, and then wait for a rate case and  
20 amortize it over ten years. We felt just by getting  
21 the books cleaned of regulatory assets and liabilities  
22 it was a better way to start out. These two balances  
23 are very close to each other so we just offset them  
24 and then start with the program on property sales.

25 Conservation going forward would be based



1 on whatever proposals Mr. Amen talks about in his  
2 testimony about the collaborative getting together,  
3 and he's also responded to some data requests that may  
4 be put in his exhibits on how we planned on doing  
5 that, but new conservation would be treated however  
6 it's approved to be treated.

7 JUDGE SCHAER: Let's go off the record for  
8 just a moment.

9 (Discussion off the record.)

10 JUDGE SCHAER: Let's be back on the record.  
11 The commissioners have to leave now to attend a  
12 meeting in downtown Olympia at 4:00. I will leave it  
13 to the parties whether they want me to ask my  
14 remaining couple of questions for Mr. Story or whether  
15 they would like to wait and have those questions asked  
16 of him on Monday when commissioners are back.

17 MR. HARRIS: Let's finish.

18 JUDGE SCHAER: The good news is that two  
19 pages of what I thought were for Mr. Story are for  
20 other witnesses. Bad news is I wrote the question  
21 down in here.

22 Q. Mr. Story, in conjunction with record  
23 requisition No. 30 you had some discussion with Mr.  
24 Manifold about AFUCE that might be on company's books  
25 between now and the year 2001, and I believe later in

1 your testimony looking at Exhibit 61 that it also  
2 shows AFUCE; is that correct?

3 A. Right. And that should be stopped as of  
4 September 30, 1996.

5 Q. That is my question to you. My  
6 understanding is that company's authority for AFUCE  
7 ends at September 30, 1996; is that correct?

8 A. Right.

9 Q. And is the company proposing in this case  
10 to continue that in some manner?

11 A. It may be in the new proposal for  
12 conservation. I believe WNG has AFUCE on conservation  
13 and it will be -- if it's proposed it will be done in  
14 that.

15 Q. So this will be some future conservation  
16 filing that's made after the conclusion of this  
17 proceeding?

18 A. Yes. I'm not sure it will be after this  
19 proceeding. It will be later.

20 Q. Later.

21 A. But --

22 Q. Later but not in this proceeding?

23 A. That's correct.

24 JUDGE SCHAEER: Those are all of my  
25 questions. Is there any redirect?

1 MR. HARRIS: No, Your Honor.

2 JUDGE SCHAEER: Were there any additional  
3 questions for this witness?

4 MR. MANIFOLD: Does that mean that on  
5 Exhibit 61 the column under 1997 AFUCE should be zero  
6 at this point?

7 THE WITNESS: Well, the data request asked  
8 for what was in our forecast. This is what was in our  
9 forecast. The forecast isn't put together by the rate  
10 area, so that's the number that's in the forecast.

11 JUDGE SCHAEER: If it were put together by  
12 the rate area would that number be zero?

13 THE WITNESS: Zero.

14 JUDGE SCHAEER: Is there anything else for  
15 Mr. Story? Thank you for your testimony. At this  
16 time then we are going to adjourn today's hearing and  
17 we will be off the record until we reconvene in this  
18 room at 9:00 Monday morning. Our first witness then  
19 will be Mr. Vititoe.

20 (Hearing adjourned at 3:55 p.m.)

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