

0070

1 BEFORE THE WASHINGTON STATE
2 UTILITIES AND TRANSPORTATION COMMISSION

3 WASHINGTON UTILITIES AND)
4 TRANSPORTATION COMMISSION,) DOCKET NO. UE-060266
)
5 Complainant,) DOCKET NO. UG-060267
)
6 vs.) VOLUME III
) Pages 70 to 225
7 PUGET SOUND ENERGY, INC.,)
)
8 Respondent.)
)
9

10 A hearing in the above matter was held on
11 September 18, 2006, from 9:30 a.m to 2:45 p.m., at 1300
12 South Evergreen Park Drive Southwest, Room 206, Olympia,
13 Washington, before Administrative Law Judge DENNIS MOSS
14 and CHAIRMAN MARK H. SIDRAN and Commissioner PATRICK J.
15 OSHIE and Commissioner PHILIP B. JONES.

16 The parties were present as follows:

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

2 JUDGE MOSS: Good morning, everyone, my name
3 is Dennis Moss, I'm an Administrative Law Judge with the
4 Washington Utilities and Transportation Commission. We
5 are convened this morning in the matter styled
6 Washington Utilities and Transportation Commission
7 against Puget Sound Energy, Inc. general rate
8 proceeding, Docket Numbers UE-060266 and UG-060267.

9 First order of business will be to take
10 appearances, and we'll start with the company.

11 MS. DODGE: God morning, Your Honor, Kirstin
12 Dodge, with Perkins Coie for Puget Sound Energy.

13 MS. CARSON: Good morning, Your Honor, Sheree
14 Strom Carson representing Puget Sound Energy.

15 JUDGE MOSS: And let's just go around the
16 table I think will be the easiest thing, Mr. Furuta.

17 MR. FURUTA: Good morning.

18 JUDGE MOSS: Yeah, button up.

19 MR. FURUTA: All right, thank you.

20 Good morning, Your Honor, Norman Furuta for
21 the consumer interests for the Federal Executive
22 Agencies.

23 JUDGE MOSS: Thank you.

24 MR. VAN CLEVE: Your Honor, Brad Van Cleve
25 for the Industrial Customers of Northwest Utilities.

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1 JUDGE MOSS: Good morning.

2 MR. FFITCH: Simon ffitch, Assistant Attorney
3 General for the Office of Public Counsel.

4 JUDGE MOSS: Thank you, Mr. ffitch.

5 MR. CEDARBAUM: Robert Cedarbaum, Assistant
6 Attorney General for Commission Staff.

7 JUDGE MOSS: There are, yes, there we are, I
8 was going to say there are some of you sitting there in
9 the gallery, so let's get your appearances.

10 MS. SPENCER: Elaine Spencer on behalf of
11 Seattle Steam.

12 JUDGE MOSS: Thank you, Ms. Spencer.

13 MS. GLASER: Nancy Glaser, Northwest Energy
14 Coalition.

15 JUDGE MOSS: Someone on the bridge line is
16 playing elevator music, I would appreciate it if they
17 would turn it off. Of course that's hold music.

18 A moment ago, someone on the bridge line
19 apparently had us on hold and we were being treated to
20 some snappy music, and I'm going to ask that if we have
21 that in the future that you put your phone on mute so
22 that we do not receive that music in the hearing room.
23 Thank you.

24 Mr. Roseman.

25 MR. ROSEMAN: Thank you, Your Honor, Ronald

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1 Roseman, Attorney at Law, representing the Energy
2 Project.

3 JUDGE MOSS: Others in the hearing room who
4 wish to enter an appearance this morning?

5 Are there any -- is there anyone appearing on
6 the teleconference bridge line this morning, anybody in
7 a representative capacity?

8 Apparently not.

9 I did have a note, I think all of you
10 received a letter from Mr. Brookhyser that the
11 Cogeneration Coalition of Washington will not be
12 participating actively in our hearing. As to others who
13 are not here this morning, I suspect we will hear from
14 them later.

15 Okay, now housekeeping, as we are all aware,
16 or perhaps I should amend that and say as we are all
17 gratefully aware, the degree of cross-examination in
18 this proceeding is indicated to be somewhat less than it
19 could be, and so there are many witnesses who apparently
20 there will be no need for them to appear in person. I
21 want to ask the parties if they have made arrangements
22 in terms of stipulating these testimonies and exhibits
23 into the record so that we don't have to call these
24 people just for the purpose of sponsoring their paper,
25 Ms. Dodge.

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1 MS. DODGE: Your Honor, we inquired about
2 such stipulation but haven't heard back. It may just
3 have gotten lost in everything else that needed doing.

4 JUDGE MOSS: Let's be off the record.

5 (Discussion off the record.)

6 (Recess taken.)

7 JUDGE MOSS: Ms. Dodge, I understand the
8 parties have reached some accommodation.

9 MS. DODGE: Yes, Your Honor, the parties have
10 agreed that as to all of the gray shaded witnesses on
11 your table with no cross-examination estimates, all the
12 parties will stipulate in the prefiled testimony and
13 exhibits of those witnesses, so they need not appear
14 unless the Commissioners have questions.

15 JUDGE MOSS: All right, and I previously had
16 indicated to you by an E-mail, so it was not an official
17 communication, but I unofficially let you know that if
18 the Commissioners do have questions for some of these
19 witnesses we're talking about, those witnesses may
20 appear by telephone so that travel is not required.
21 They may also appear in person if they wish, and I don't
22 have any further information in that regard at this
23 time.

24 MR. CEDARBAUM: Your Honor, if I could just
25 make one clarification --

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1 JUDGE MOSS: Sure.

2 MR. CEDARBAUM: -- for Mr. Russell, we did
3 find one correction in that testimony, and if
4 Mr. Russell is going to be on the stand, I think it's
5 one of those I could ask him to make the correction on
6 the stand, or we could do it in writing if the
7 Commissioners don't have any questions of him. So we
8 will plan on doing that in writing unless you advise me
9 before that happens that --

10 JUDGE MOSS: I don't -- you say he's going to
11 be on the stand?

12 MR. CEDARBAUM: Well, all the witnesses that
13 are in gray on your table may be asked questions from
14 the Commissioners.

15 JUDGE MOSS: Oh, yes, I see, well, that's a
16 possibility I suppose, but it may not eventuate. Just a
17 correction to testimony?

18 MR. CEDARBAUM: Yes.

19 JUDGE MOSS: Unless there's an objection from
20 somebody, just submit it.

21 MS. DODGE: Your Honor, there is one further
22 detail on the stipulation, and that is that Mr. Russell
23 does have surrebuttal testimony that's the subject of a
24 motion. The company does not object and will stipulate
25 to that surrebuttal coming in as long as the

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1 sur-surrebuttal of Ms. McLain and Mr. Story are also
2 stipulated in. And if that's not going to be done right
3 now, then we will want to preserve our objection to the
4 surrebuttal of Mr. Russell.

5 JUDGE MOSS: Let's take care of that now, any
6 objection to the sur-surrebuttal submitted by PSE?

7 MR. CEDARBAUM: We don't have any objection,
8 although I think there's a disagreement about whether
9 that testimony was beyond the scope of rebuttal.
10 Without waiving that objection, we have no objection to
11 the admission of the testimony.

12 JUDGE MOSS: All right, very well, then,
13 Mr. ffitch, you wish to weigh in on this?

14 MR. FFITCH: No objection.

15 JUDGE MOSS: All right, I will admit the
16 surrebuttal testimony by Mr. Russell and the
17 sur-surrebuttal testimony by Mr. Story and Ms. McLain,
18 and I have actually included those on the exhibit list
19 of course as premarked, so they will be admitted as
20 marked.

21 Let's be off the record.

22 (Discussion off the record.)

23 JUDGE MOSS: I have furnished you all with
24 the latest version of the exhibit list. Many of you
25 have appeared before me on a somewhat regular basis in

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1 the last couple of years and know that my practice is to
2 update that if I can on a daily basis so that by the end
3 of the hearing we will have a final exhibit list. I
4 also always ask the parties to tell me of any problems
5 they find, corrections and so forth. Don't do that with
6 this version, because I know there are a lot of errors
7 on it, particularly with respect to my failure to mark
8 many cross-examination exhibits that are confidential
9 with the necessary C or HC as the case may be, simply an
10 oversight on my part. I will make some corrections as I
11 update it this evening or perhaps even early this
12 afternoon, and we will work off that one in terms of you
13 catching my errors.

14 MS. DODGE: Your Honor, on that note, we had
15 a housekeeping matter.

16 JUDGE MOSS: Go ahead.

17 MS. DODGE: We have alerted Mr. Cedarbaum and
18 wanted to alert the other parties as well as you that
19 the company does have one what would be designated a
20 cross-exam exhibit except we don't intend to ask any
21 questions on it. It's Staff's response to PSE's Data
22 Request 163, which we just received in the last couple
23 of days, and we simply wanted to get an exhibit number
24 before we actually produced photocopies just for
25 convenience.

0090

1 JUDGE MOSS: All right, does this pertain to
2 any particular witness?

3 MS. DODGE: Mr. Russell, it's his response.

4 JUDGE MOSS: All right.

5 MS. DODGE: And actually if we could
6 stipulate that in as part of Mr. Russell's, we would
7 have that taken care of.

8 MR. CEDARBAUM: I think that's fine as to
9 that particular witness. I haven't had a chance to talk
10 to Mr. Russell about it yet this morning, it may be
11 possible that we have redirect based on that exhibit,
12 but subject to that, the admission of the exhibit is
13 fine.

14 JUDGE MOSS: All right, Staff response to PSE
15 Data Request 163 will be Exhibit 528.

16 Let's see, another housekeeping matter on the
17 exhibit list, I guess it was Friday or so I received a,
18 what will we call it, Mr. Cedarbaum, a stipulation on
19 the revenue requirement?

20 MR. CEDARBAUM: I think in keeping with the
21 Commission's rules on categorizing these things, it's
22 probably a partial settlement agreement. It's a
23 settlement of less than all the issues by only the
24 parties that were really interested in those issues, at
25 least based on the prefiled testimony.

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1 JUDGE MOSS: So it's a multiple party partial
2 settlement agreement, is that what we're going to call
3 it?

4 MR. CEDARBAUM: I wasn't going to go there.

5 JUDGE MOSS: I think we can just call it a
6 stipulation, how about that?

7 MR. CEDARBAUM: That's fine.

8 JUDGE MOSS: Okay.

9 MR. CEDARBAUM: We have characterized it in
10 the document we have submitted we call it a
11 Staff-Company Agreement on Revenue Requirement
12 Adjustments but stipulation --

13 JUDGE MOSS: Staff-Company Agreement on?

14 MR. CEDARBAUM: Revenue Requirement
15 Adjustments.

16 JUDGE MOSS: And despite my unfamiliarity
17 with the title, I have actually read it. That will be
18 Exhibit 4, a joint exhibit, Staff and Public Counsel or
19 Staff and PSE.

20 I previously had marked the partial
21 settlement agreement on rates, electric rate spread,
22 rate design, and low energy income assistance as Number
23 2 and the joint testimony in association with that as
24 Number 3.

25 And, Mr. ffitich, you may have noticed that I

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1 reserved Number 1 for the public comment exhibit that
2 you asked me to reserve a place for.

3 MR. FFITCH: Yes, Your Honor, thank you.

4 JUDGE MOSS: All right.

5 MR. CEDARBAUM: Your Honor, can we just back
6 up to Exhibit 4?

7 JUDGE MOSS: Sure.

8 MR. CEDARBAUM: There are two confidential
9 pages in that that are on yellow, I'm assuming we would
10 call this Exhibit 4C.

11 JUDGE MOSS: Yes, it would be 4C, and the
12 copy I read was electronic, so I wouldn't have picked up
13 on that, but you have submitted paper I'm sure by now.

14 MR. CEDARBAUM: Yes.

15 JUDGE MOSS: So we will have that by now.

16 Anything else with respect to the exhibits,
17 exhibit list, what have you?

18 MR. FFITCH: Yes, Your Honor, we have a few
19 items with regard to the exhibits for Ms. Harris.
20 Exhibit 178 should be the August 29th press release, not
21 the August 28th press release. We believe that's the
22 correct date.

23 JUDGE MOSS: Okay.

24 MR. FFITCH: Exhibit 179 reached an agreement
25 with Puget Sound Energy to supplement that exhibit. The

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1 Data Request 90 that's referred to incorporates or cross
2 references Public Counsel 57. Company has prepared a
3 new exhibit which combines both of those answers and I
4 believe distributed to the Bench that is Exhibit 179.

5 JUDGE MOSS: Okay.

6 MR. FFITCH: We have a couple of other
7 housekeeping items, Your Honor, but we're prepared to,
8 they're for later witnesses, we're prepared to talk
9 about those after the hearing today.

10 JUDGE MOSS: Yeah, that's a good point,
11 Mr. ffitch, I should have mentioned that earlier, for
12 those witnesses not appearing today, if there are
13 additional papers and one thing or another, we can take
14 care of that at the end of the day or what have you.

15 MS. DODGE: We had a couple more things for
16 today's witnesses.

17 JUDGE MOSS: Sure.

18 MS. DODGE: Just to make sure everyone is on
19 the same page.

20 JUDGE MOSS: Sure.

21 MS. DODGE: And I don't know if you want this
22 now or not, but Mr. ffitch and I discussed that Exhibit
23 177, which is a Harris cross-exhibit, this is an excerpt
24 of a proxy statement that actually appears in full as an
25 exhibit to Mr. Hunt's testimony, and after discussion we

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1 think it's probably more confusing to have everyone try
2 to get to Mr. Hunt's exhibit, so we're proposing to
3 leave it in, but for purposes of the record the complete
4 document is found at Exhibit 219.

5 JUDGE MOSS: Okay.

6 MS. DODGE: And the company sent out several
7 pages, three pages of Ms. McLain's testimony on Friday
8 that have minor corrections to numbers, and everyone may
9 not have gotten those yet because they're not in their
10 offices this morning, we do have extra copies.

11 JUDGE MOSS: Pages 12, 27, and 34, and they
12 should be marked with a September 15th revision date.
13 So if you don't have those, let Ms. Dodge know.

14 MS. DODGE: As well as some data request
15 responses that went out on Friday, and we believe that
16 the requesting party has copies, but if anyone else
17 hasn't, we've got extra copies here.

18 JUDGE MOSS: Thank you.

19 All right, anything else?

20 I think I have just one more preliminary
21 matter that I'm going to raise before I go get the
22 Commissioners, and that is this. I have, of course,
23 been reviewing everything that has come in rather
24 carefully in the last week or so, and superficially at
25 least it appears to me that there may be some thought to

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1 friendly cross-examination on the part of some parties
2 of some witnesses. I may be wrong about that, because
3 you always may be able to demonstrate an adverse
4 position with respect to a witness's testimony even
5 though it appears on the surface that you are
6 sympathetic. So I just want to caution everyone that we
7 do not allow friendly cross-examination, and so if you
8 venture into that territory, I will stop you. And I
9 just want people to avoid that difficulty, so I just
10 bring it up now so people can be thinking about that,
11 okay.

12 All right, with that, as I said, I think I
13 would like to ask everyone to stay seated, and I will go
14 and bring the Commissioners in, and we will be in recess
15 during my moment off the bench.

16 (Recess taken.)

17 JUDGE MOSS: All right, I would like to note
18 for the record that Chairman Mark Sidran, Commissioner
19 Pat Oshie, and Commissioner Phil Jones have joined me at
20 the Bench and will be sitting for purposes of this
21 hearing. So with that, are there any preliminary
22 matters? We have taken appearances, I should bring you
23 up to speed I suppose on the Bench, we have taken
24 appearances, we have stipulated into the record all of
25 the testimony and exhibits for those witnesses who are

0096

1 not scheduled to appear. We will, of course, be having
2 three witnesses this morning as indicated by previous
3 communication to you. And we have taken care of certain
4 other preliminary business, I need not go into the
5 details.

6 But let me ask now if there is business that
7 we need to take up prior to taking our first witness
8 with the Commissioners now on the Bench? Ms. Dodge,
9 anything? Any other party, preliminary matters?

10 Okay, we obviously have been very efficient
11 this morning then, so why don't we call our first
12 witness.

13 MS. DODGE: Thank you, Your Honor, PSE calls
14 Ms. Kimberly Harris.

15

16 Whereupon,

17 KIMBERLY J. HARRIS,
18 having been first duly sworn, was called as a witness
19 herein and was examined and testified as follows:

20

21 D I R E C T E X A M I N A T I O N

22 BY MS. DODGE:

23 Q. Ms. Harris, please state your name and title
24 and spell your name for the court reporter.

25 A. My name is Kimberly J. Harris, H-A-R-R-I-S,

0097

1 my title is Senior Vice President of Regulatory Policy
2 and Energy efficiency.

3 Q. Ms. Harris, do you have before you what have
4 been marked for identification as Exhibit Number 171
5 through 173?

6 A. I do.

7 Q. Do these exhibits constitute your prefiled
8 direct and rebuttal testimonies and related exhibits in
9 this proceeding?

10 A. Yes, they do.

11 Q. Were they prepared under your supervision and
12 direction?

13 A. Yes, they were.

14 Q. Do you have any corrections to any of your
15 testimony at this time?

16 A. Yes, I do. Exhibit 173, which I believe is
17 my rebuttal testimony, on page 16 there is a
18 clarification.

19 Q. Please wait for everyone to get there.

20 JUDGE MOSS: We're ready.

21 A. There is a clarification to my testimony, and
22 first I will explain the wording change and then give
23 some context for such change.

24 Q. You're speaking about lines?

25 A. On line 14 of page 16 of Exhibit 173, the

0098

1 insertion after the words changes to the, the insertion
2 should be, electric and the overall in between the words
3 the and caps. So that the sentence would read:

4 The Company will be filing proposed
5 changes to the electric and overall caps
6 in Schedule 129 to implement this aspect
7 of the partial settlement agreement no
8 later than September 1st.

9 To give some context for that change or
10 clarification for that change, the low income assistance
11 program actually is funded through two separate pieces
12 of this case, the electric rate design and the natural
13 gas rate design. The parties, all parties have entered
14 into the electric rate design settlement so that the
15 increase to the natural or the electric portion of the
16 low income assistance program flows through the electric
17 rate design settlement. On the natural gas rate design
18 settlement the company has not agreed to the rate design
19 settlement, and so the company opposes many aspects of
20 the natural gas rate design settlement that's proposed
21 by the other parties.

22 However, the company does not oppose the
23 additional increase to the low income assistance program
24 that is part of that natural gas settlement. The
25 company had opted to file such increase in a September 1

0099

1 filing that we made for the low income assistance, and
2 we had prepared our documents at my direction of since
3 we do not oppose the natural gas portion of the low
4 income assistance program, let's roll those rates in in
5 that September filing.

6 We prepared the filing at my direction, and
7 when we talked to the other constituents there were some
8 procedural and process concerns about flowing through an
9 increase that did not have support by all parties and
10 that had not been before this Commission. So we were
11 requested by Staff not to include that portion in the
12 low income assistance filing, and I can understand their
13 concerns.

14 Unfortunately, we had one room where we were
15 drafting testimony and one room where we were preparing
16 the low income assistance program so that that change in
17 our filing did not make it into the testimony.
18 Therefore, the filing on natural gas low income
19 assistance is not -- was not made on September 1.

20 Q. With that correction, are your prefiled
21 direct and rebuttal testimonies and accompanying
22 exhibits true and correct to the best of your
23 information and belief.

24 A. Yes, they are.

25 MS. DODGE: Thank you.

0100

1 Your Honor, PSE offers Exhibit 171 through
2 173 into evidence and offers Ms. Harris for
3 cross-examination.

4 JUDGE MOSS: Hearing no objection, those will
5 be admitted as marked.

6 All right, Ms. Harris is available for
7 cross-examination. One piece of housekeeping we didn't
8 take up was the order of cross-examination. We do have
9 indications from Staff, Public Counsel, Federal
10 Executive Agencies, and Energy Project, any preference
11 among you?

12 All right, Mr. Cedarbaum, you go first.

13

14 C R O S S - E X A M I N A T I O N

15 BY MR. CEDARBAUM:

16 Q. Good morning, Ms. Harris.

17 A. Good morning.

18 Q. I would like to start off just by trying to
19 list the main issues that separate Staff and the Company
20 and perhaps other parties at this stage of the process,
21 and is it correct that perhaps the most significant
22 issue on the revenue requirement side and maybe in the
23 entire case is the return on equity and capital
24 structure to be used for purposes of setting rates in
25 this proceeding?

0101

1 A. I believe that would be fair.

2 Q. And there's also disagreement at least on the
3 electric side as to the level of power costs to include
4 in the rates; is that correct?

5 A. Yes.

6 Q. Beyond the revenue requirement side of the
7 case, is it correct that there are disagreements over
8 the company's proposed decoupling mechanism?

9 A. I believe some parties are opposing either
10 the decoupling mechanism itself or decoupling in
11 general.

12 Q. Staff and the Company disagree on the type of
13 mechanism?

14 A. I believe Staff and the Company disagree on
15 portions of the mechanism, yes.

16 Q. There is also disagreement amongst -- between
17 Staff and the Company with respect the Company's
18 proposed PCA revisions, that's another significant issue
19 in the case?

20 A. Yes.

21 Q. As well as to the proposed depreciation
22 tracker by the Company?

23 A. Yes.

24 Q. And the conservation incentive mechanism
25 proposed by the Company is also a source of

0102

1 disagreement?

2 A. Again, I believe Staff and the Company agree
3 on an incentive mechanism but disagree on the mechanism
4 itself.

5 Q. And then there, after that, there are issues
6 with respect to gas rate design, I think you referenced
7 that generally in your opening statement?

8 A. Yes, the Company did not sign on to the
9 partial settlement agreement on gas rate design.

10 Q. If you could turn to page 3 of your rebuttal
11 testimony, which is Exhibit 173, at line -- starting at
12 line 2 you state:

13 The Company recognizes that there is
14 more than one way to address the issues
15 that are challenging PSE and others in
16 the industry. PSE has carefully
17 considered the adjustments presented by
18 the other parties. Whenever possible,
19 the Company has modified its position to
20 accommodate specific concerns raised by
21 the parties.

22 Do you see that testimony?

23 A. Yes, I do.

24 Q. Is it correct that in your rebuttal case the
25 Company's proposed return on equity and capital

0103

1 structure is the same as was proposed in its direct
2 case?

3 A. I actually think that contained in the
4 rebuttal testimony of Mr. Valdman, in fact the Company
5 has taken a broadened view.

6 Q. The Company's proposed return on equity at
7 rebuttal is the same as the return on equity Dr. Morin
8 presents in his direct case; is that right?

9 A. Yes, that's true.

10 Q. And the capital structure recommended on
11 rebuttal by the Company is the same as presented in
12 Mr. Gaines' direct testimony; is that correct?

13 A. Yes.

14 Q. With respect to the decoupling proposal, the
15 rebuttal proposal is the same as the direct proposal; is
16 that correct?

17 A. I would have to refer to the testimony of
18 Mr. Ron Amen, but in general yes.

19 Q. Is he proposing any changes to the decoupling
20 proposal to your knowledge?

21 A. Not to my knowledge.

22 Q. The Company is not proposing any changes to
23 its proposed revisions to the PCA; is that correct? In
24 other words, the proposed revisions to the PCA on
25 rebuttal are the same as were proposed on direct?

0104

1 A. No, I would disagree with that statement. I
2 believe that the testimony of Mr. Aladin proposes an
3 alternative than what was proposed in our direct case.
4 And I believe that that alternative we would call it was
5 proposed by direct conversation and observation with the
6 parties during the proceeding of this case.

7 Q. If I could have you turn to page 10 of your
8 rebuttal testimony, the question at the top says, what
9 if the Commission; do you have that in front of you?

10 A. Yes.

11 Q. What if the Commission determines that the
12 Company's PCA mechanism should retain a deadband, and
13 then you refer to Mr. Aladin's rebuttal testimony.

14 A. Yes.

15 Q. That was part of your prior answer to my
16 question; is that right?

17 A. Yes.

18 Q. So isn't this just a fallback position of the
19 company, the proposed revisions to the PCA mechanism are
20 your proposal, and here's what you think should be done
21 if the Commission keeps a deadband in the PCA?

22 A. I believe that the question is tendered in
23 the terms of the Commission, yet I believe that the
24 parties had many discussions regarding deadbands and
25 alternatives and revisions to the PCA.

0105

1 Q. Is the Company proposing keeping the
2 deadband?

3 A. As an alternative if the Commission finds
4 that a deadband is -- that they would support a deadband
5 rather than the proposed 50/50 sharing mechanism.

6 Q. But that's not the Company's primary
7 proposal?

8 A. No, it is not.

9 Q. Has the Company withdrawn or altered the
10 proposed depreciation tracker from its direct case?

11 A. The Company would prefer the depreciation
12 tracker. The Company also acknowledges that there have
13 been alternatives that have been suggested by other
14 parties in the proceeding.

15 Q. You're referring to the FEA alternative?

16 A. Yes.

17 Q. The Company's proposed alternative adjustment
18 is not the same adjustment that the FEA proposed, is it?

19 A. That's correct.

20 Q. I would like to turn to some what appears to
21 us to be sort of general themes of the Company's case,
22 and would you agree that one of the general themes is
23 the Company's belief that it is undisputed that the
24 company is facing a critical need for investment in new
25 energy resources and new electric and gas delivery

0106

1 infrastructure in order to serve the needs of its
2 steadily growing customer base and to upgrade aging
3 facilities; is that a fair characterization of a theme?

4 A. I believe it's the Company's statement that
5 the parties have not challenged the Company's position
6 or projected plan on capital expenditures for the
7 continued investment in our infrastructure.

8 Q. So I think that was in agreement with my --

9 A. I believe so.

10 Q. Okay.

11 A. A bit broader, yes.

12 Q. Is it also a general theme that to meet those
13 needs of your resources and upgrading infrastructure,
14 the Company will be required to access very large sums
15 of capital over the next several years?

16 A. Yes, I believe it's the Company's position
17 that for it to continue with its capital expenditures
18 both on the electric transmission and distribution and
19 on the gas infrastructure as far as the delivery system,
20 that we will be required to increase and fund at a much
21 higher level than we have in the past, yes.

22 Q. Is it also a theme that if the Commission
23 grants the Company's request for relief in this case
24 that the Company anticipates it will be able to
25 strengthen its corporate credit rating which at "BBB-"

0107

1 is currently barely investment grade; is that a theme?

2 A. I believe we're looking at these themes
3 rather separately, but as far as if we're going to
4 narrowly look at a financial theme as far as the equity
5 and the contemplated ROE, it has been the Company's
6 position that it is necessary for the Company to have an
7 appropriate ROE and an appropriate equity structure to
8 either maintain or strengthen our balance sheet, yes.

9 Q. And that would be a strength in the Company's
10 corporate credit rating above "BBB-"?

11 A. We would hope so, we have had that strategy
12 for quite a few years yet.

13 Q. And finally, is it a theme that, and this is
14 related to the one that we were just talking about, that
15 an improvement in the Company's corporate credit rating
16 would allow the Company to access capital markets on
17 more favorable terms, expand the Company's ability to
18 engage in hedging activities in wholesale gas and power
19 markets, and enhance the Company's negotiating strength
20 in its resource acquisition efforts?

21 A. I believe that's probably a better question
22 for Mr. Valdman.

23 Q. Is that just a general theme though of the
24 Company with respect to the effects of improving the
25 Company's corporate credit rating?

0108

1 A. I believe since you were getting into
2 specific aspects of the financial theme, it's probably a
3 better question for Mr. Valdman.

4 Q. Other than that last statement which you or
5 question to which you referred to Mr. Valdman, would you
6 accept subject to your check that the themes that I
7 asked you to accept were read word for word from the
8 Company's initial brief in the 2004 general rate case?

9 MS. DODGE: Objection, that's not an
10 appropriate subject to check. This is not a
11 calculation, it appears to be attempting to get evidence
12 in from another record.

13 JUDGE MOSS: I will sustain the objection.

14 MR. CEDARBAUM: Well, Your Honor, I guess I
15 -- witnesses are often asked to accept subject to check
16 statements from other documents.

17 JUDGE MOSS: Well, Ms. Harris has answered
18 your questions I think in a very forthcoming way, I
19 don't think we need to understand the source of your
20 questions for our record.

21 BY MR. CEDARBAUM:

22 Q. If you could look at page 2 of your rebuttal
23 testimony, at lines 15 to 16 you criticize other parties
24 for preferring the status quo essentially by opposing
25 mechanisms that the company has proposed; is that right?

0109

1 A. Yes, I do.

2 Q. And you said earlier Commission Staff is not
3 opposing a decoupling mechanism; is that right?

4 A. I believe that Commission Staff is opposing
5 the specific mechanism, we have not come to agreement
6 with Commission Staff on the decoupling mechanism or the
7 weather component of the decoupling mechanism on the
8 natural gas side.

9 Q. Staff is proposing a decoupling mechanism,
10 just a different one from the Company's?

11 A. But Staff's mechanism does not include a
12 weather adjustment as proposed by the Company.

13 Q. And it's also true that Staff is proposing a
14 conservation incentive mechanism, just not the exact one
15 the Company is proposing?

16 A. On those two isolated issues, yes.

17 Q. With respect to your statement about the
18 parties expressing a preference for the status quo, is
19 it correct that in the settlement of the 2001-2002 rate
20 case Staff did join with the Company in establishing the
21 power cost only rate case process and the PCA process?

22 A. Yes, and I believe that's precisely my point
23 here. In the 2002 rate case I think that the parties in
24 a compromise and in a collaboration joined together to
25 address the issues with the Company, and the PCA

0110

1 mechanism that was developed in 2002 was developed
2 specifically for the circumstances that occurred in 2002
3 within the region and with the Company. And some of
4 those things have changed, and some of those things have
5 not changed. And what the Company has proposed here
6 after living with that mechanism for approximately four
7 years and litigating under that mechanism for four years
8 are some revisions or some realignments to the PCA
9 mechanism, not to address an entirely new mechanism but
10 to revise the mechanism that we currently use today. As
11 I said, some of those changes -- some things have
12 changed considerably since 2002. The Company's
13 portfolio has changed since 2002, the hedging strategy
14 has changed, we were at the onset or at the end point of
15 the California crisis. And then some things haven't
16 changed for the Company such as, as you referred to, the
17 "BBB-" credit rating. So when I'm talking about our
18 disappointment or the status quo, things have changed
19 since 2002 and so we are addressing that in this filing
20 today with these mechanisms.

21 Q. I simply asked you if the Staff had joined
22 with the Company in the 2001-2002 rate case to propose
23 to the Commission and the Commission accepted
24 establishment of the PCORC process and the PCA process?

25 A. Yes, in 2002 they did.

0111

1 Q. If I could ask you to turn to Exhibit 174,
2 which is a cross-exhibit from Commission Staff.

3 MS. DODGE: Your Honor, PSE is preliminarily
4 anyway objecting to this exhibit. There's no reference
5 to a source, we don't know what it is, it's not a Harris
6 document.

7 MR. CEDARBAUM: Your Honor, this is just an
8 illustrative exhibit of the docket numbers since the
9 2001 rate case and the docket numbers that involve power
10 cost only rate cases and PCA updates.

11 JUDGE MOSS: Okay, well, if it's an
12 illustrative exhibit, then you are not offering it for
13 the truth of the matter it asserts; is that correct?

14 MR. CEDARBAUM: Well, I suppose we could
15 always just cite the Commission orders for each of those
16 dockets. This was just meant to be a summary document
17 that shows the PCORC and PCA rate adjustments over time.

18 JUDGE MOSS: Maybe you and Ms. Dodge can talk
19 about that during the break and see if you can reach
20 some accommodation. Otherwise you're going to have to
21 establish some foundation to the document, but you can
22 ask questions about it as an illustrative exhibit and
23 see where we go from there.

24 MR. CEDARBAUM: Okay.

25 BY MR. CEDARBAUM:

0112

1 Q. Ms. Harris, looking at Exhibit 174, and this
2 was distributed last Wednesday, is that correct, so you
3 have had access to it since then?

4 A. I have reviewed it, yes.

5 Q. Perhaps Thursday actually. The first column
6 under Docket UE-011570 and the second column with the
7 same docket number, do you recall those being the
8 interim request and the general rate case request from
9 the 2001 rate case?

10 A. Yes, generally I do.

11 Q. And do you dispute the accuracy of the
12 numbers that are listed there for each of the rows in
13 those columns?

14 A. I must say that I haven't checked the numbers
15 that are contained in these rows, but for questioning
16 purposes I have no reason to dispute them.

17 Q. The third column over is Docket UE-031725,
18 that was a power cost only rate case; is that correct?

19 A. Yes, I believe that's the power cost only
20 rate case that included the Frederickson plant.

21 Q. And do you have any reason to dispute the
22 numbers in that column?

23 A. No.

24 Q. One column over is the 040640 docket, that's
25 the 2004 rate case; is that right?

0113

1 A. Yes.

2 Q. And do you have any reason to dispute the
3 numbers in that column?

4 A. No, I do not.

5 Q. One column over, UE-050870, that's the next
6 power cost only rate case that involved Hopkins Ridge?

7 A. Yes, that was the Hopkins Ridge settlement.

8 Q. And the numbers in that column are accurate
9 to the best of your knowledge?

10 A. I believe so.

11 Q. And finally the column UE-060783 is the PCA
12 update filing that the Commission acted upon just this
13 past July?

14 A. Yes, that was the PCA that the -- actually
15 the Commission requested in the 2004 rate case and that
16 the parties settled on, yes.

17 Q. And is there any reason to doubt to your
18 knowledge the accuracy of those numbers in that column?

19 A. No.

20 MR. CEDARBAUM: Thank you.

21 Your Honor, I would offer Exhibit 174.

22 MS. DODGE: Your Honor, the objection stands.

23 Ms. Harris said she didn't have any reason to dispute
24 them for purposes of questioning. However, she has not
25 checked them, no questions have been asked other than to

0114

1 verify the numbers, and Ms. Harris was unable to verify
2 them.

3 JUDGE MOSS: Well, I'm going to withhold, I
4 want you two to talk about this and see if there is some
5 efficient way to resolve this matter so that we don't
6 have to have a whole bunch of orders entered into the
7 record and one thing and another, so you all work on
8 that during the break, and we'll see if we can get this
9 admitted as proffered.

10 MR. CEDARBAUM: That's fine, Your Honor. I
11 mean we could, to get past this, we could footnote each
12 column with the docket number and --

13 JUDGE MOSS: You all work out something, all
14 right, we'll come back to it.

15 MR. CEDARBAUM: Those are all my questions,
16 thank you.

17 JUDGE MOSS: Those are all your questions,
18 all right, so you will not be offering 175 -- oh, no,
19 I'm sorry, that's a Public Counsel exhibit.

20 All right, so let us turn then to you,
21 Mr. ffitch.

22 MR. FFITCH: Thank you, Your Honor, good
23 morning Commissioners.

24

25

0115

1 C R O S S - E X A M I N A T I O N

2 BY MR. FFITCH:

3 Q. And good morning, Ms. Harris.

4 A. Good morning, Mr. ffitich.

5 Q. As we have just heard earlier, your job is
6 Senior Vice President for Regulatory Affairs and Energy
7 Efficiency, correct?

8 A. Yes, it is.

9 Q. And you are in that capacity responsible for
10 strategy and development of energy efficiency
11 initiatives and programs; is that right?

12 A. Yes, I am.

13 Q. Would you characterize Puget Sound Energy as
14 having a strong commitment to energy efficiency
15 initiatives and programs?

16 A. Yes, I do.

17 Q. How far back does that commitment go,
18 Ms. Harris?

19 A. Prior to my joining the Company in I believe
20 1999, Mr. ffitich. Our conservation programs span
21 decades, we have been a leader in conservation for
22 decades.

23 Q. And Puget Sound Energy doubled its
24 conservation programs in the 2001 rate case settlement
25 that we actually just mentioned earlier here today, did

0116

1 it not?

2 A. In terms of the settlement and during recent
3 history, yes. We actually redeveloped I believe the
4 conservation program, including the creation of the
5 CRAG, the Conservation Resources Advisory Group, in
6 2002, so I believe I would term it as restructuring our
7 conservation programs.

8 Q. All right. Restructuring, enhancing would
9 you say?

10 A. I believe that the CRAG is an enhancement to
11 our conservation programs, yes.

12 Q. And you think it's fair to say that Puget
13 Sound Energy has an extensive array of energy efficient
14 programs in operation at the present time?

15 A. I believe we have a very active and enhanced
16 program. I believe that there are other alternatives,
17 in fact we had proposed some in this case, that we would
18 like to see take a stronger role.

19 Q. And is it correct to say that this commitment
20 that you have mentioned is a long-term commitment on
21 behalf of the Company to energy efficiency?

22 A. Yes, it is.

23 Q. So in general is it true that Puget Sound
24 Energy supports direct utility investment in programs to
25 reduce energy use?

0117

1 A. I'm sorry, can you repeat the question?

2 Q. In general Puget Sound Energy supports direct
3 utility investment in programs to reduce energy use?

4 A. I would believe in general we support any
5 investment to reduce or to expand conservation and
6 energy efficiency use, so whether it just be utility,
7 direct utility or indirect utility or any type of
8 investment in energy efficiency.

9 Q. During your tenure at Puget Sound Energy, has
10 the Company taken action to discourage its customers
11 from paying for measures to reduce their own energy use,
12 in other words customer funded energy efficiency?

13 A. Not to my knowledge.

14 Q. Let's just look at the last five years since
15 the 2001 rate case settlement, and during that time
16 period -- you have been with the Company during that
17 time period, correct?

18 A. Yes.

19 Q. During that time period, has Puget Sound
20 Energy opposed efforts to improve energy efficiency
21 through tightening building codes or appliance standards
22 to your knowledge?

23 A. I believe these are wonderful questions for
24 Mr. Cal Shirley, who is a witness that will be appearing
25 before the Commission later.

0118

1 Q. You're the Vice President for Energy
2 Efficiency, so you would know if the Company had opposed
3 efforts to improve building codes or appliance
4 standards, wouldn't you?

5 A. I'm actually the Senior Vice President of
6 Energy Efficiency. Mr. Cal Shirley is the Vice
7 President, he reports to me. I have been in this
8 capacity since October of 2004, so if you're going to
9 span the last five years, since Mr. Cal Shirley has been
10 intimate with our energy efficiency programs and working
11 with the CRAG, he's probably your best witness on these
12 questions.

13 Q. All right.

14 In the period since 2004, to your knowledge
15 has the Company ever opposed efforts to tighten building
16 codes or appliance standards for energy efficiency
17 purposes?

18 A. I believe that if the Company -- I am not
19 aware of any such opposition, and if there was an
20 opposition, I'm sure that there was a specific reasoning
21 for any opposition.

22 Q. Can I ask you please to turn to Cross-Exhibit
23 178, that is the press release. Do you have that?

24 A. Yes, I do.

25 Q. And is it accurate to describe that as a

0119

1 press release that was issued on August 29th by the
2 Company at the time of a purchased gas adjustment rate
3 change, and it also announces a change related to the
4 residential, the BPA residential exchange and I believe
5 low income matters; in any event, is that a general
6 description of this press release?

7 A. I don't have a date on this press release, so
8 I was a little confused earlier during cleanup when you
9 were correcting a date, and so if you can -- I just hope
10 that I have the correct press release in front of me,
11 because there seems to be some confusion about the date,
12 or if you can tell me where that date is located on the
13 document so I can verify.

14 Q. I don't believe the date is located on the
15 document, so we would ask you to accept subject to check
16 that it was issued on August 29th.

17 Can I have a moment.

18 Would you accept subject to check that the
19 date appears on the web site when you look at Puget
20 Sound Energy press releases?

21 MS. DODGE: I would like to object as an
22 improper subject to check. However, the Company would
23 not object to Public Counsel providing a replacement
24 exhibit that has the date on it that goes with this so
25 it's clear for the record.

0120

1 JUDGE MOSS: Is that a problem, Mr. ffitch?

2 MR. FFITCH: I don't believe so, Your Honor.

3 It might involve additional pages showing the web path.

4 JUDGE MOSS: All right.

5 MR. FFITCH: We can do that.

6 JUDGE MOSS: All right.

7 BY MR. FFITCH:

8 Q. The press release that you have in front of
9 you which has been marked Exhibit 178 has a heading
10 which reads, Puget Sound Energy Seeks Pass Through of
11 Higher Natural Gas Costs, is that what you have in front
12 of you?

13 A. Yes, I do.

14 Q. And it goes on to refer to the bill
15 assistance boost and the pass through of lower BPA
16 credit?

17 A. Yes, it does.

18 Q. I think we have the same document in front of
19 us. If you look down at the seventh paragraph on the
20 first page of the exhibit, which begins, while our
21 geographic location, the press release states, we urge
22 customers to follow some simple steps to help control
23 heating bills this winter, and it goes on to say, these
24 include taking advantage of our energy efficiency
25 services and rebates; is that right?

0121

1 A. Yes, it does.

2 Q. So the Company here is actively highlighting
3 and promoting gas energy efficiency programs, isn't it?

4 A. Yes, it is.

5 Q. Is it fair to say then that Puget Sound
6 Energy believes that part of its function as a utility
7 is to offer these energy efficiency services and
8 programs to help customers deal with increasing energy
9 costs?

10 A. I believe what we're trying to highlight here
11 is somehow to get this information into the hands of our
12 customers given the upcoming heating season that there
13 are appropriate plans, whether they be bill assistance
14 plans or whether it be weatherization programs or
15 whether it be energy efficiency or whether they be the
16 warm home fund. I mean there's many different options
17 to our customers, and what we're trying to do here --

18 JUDGE MOSS: Ms. Harris, slow down.

19 A. I'm sorry.

20 What we're trying to do here is to bring this
21 information to light for our customers in a general
22 release.

23 Q. And you believe that's a legitimate part of
24 your function as a utility company, a legitimate part of
25 the services you offer to your customers, correct?

0122

1 A. We believe that it is a service to our
2 customers to make sure they understand the opportunities
3 and services we have available for them, yes.

4 Q. Okay. You don't want to just tell people,
5 your gas prices are going up, deal with it, right?

6 A. I don't think that's in the best interests of
7 our customers, no.

8 Q. Now could I ask you please to look at your
9 rebuttal testimony, Exhibit 173, page 12, and please
10 look at lines 4 and 5, there you say:

11 The Company believes it is unfortunate
12 that some of the other parties are so
13 resistant to a mechanism that has become
14 relatively widely accepted as a way of
15 reducing the disincentives to utilities
16 to invest in gas energy efficiency
17 measures.

18 Did I read that properly?

19 A. Yes.

20 Q. Do you know how many states have accepted and
21 adopted decoupling, Ms. Harris?

22 A. Off the top of my head no, but that would be
23 a fantastic question for Mr. Amen.

24 Q. Isn't it true that decoupling has only been
25 adopted in four states in the country?

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1 A. I believe that my sentence actually isn't
2 just looking at the adoption of decoupling mechanisms in
3 the nation, it's also just looking at there has been an
4 awful lot of conversation in this state alone for the
5 last two years, workshops, inquiries, filings,
6 discussions occurring amongst all of the parties in this
7 state regarding decoupling, so I think it was a little
8 bit broader than just commission approvals of these
9 mechanisms but it was discussion in general.

10 Q. But you don't know how many states have
11 approved decoupling?

12 A. I believe Mr. Amen has that information. I
13 also believe that there are states that look at
14 decoupling as a weather component, and I think the
15 answer may be a bit different if you're looking at
16 decoupling for energy efficiency, decoupling for weather
17 components, or decoupling for both.

18 Q. All right. And if we look up all those
19 different kinds of mechanisms that are out there, would
20 it still be your position that the mechanism is
21 relatively widely accepted in the United States?

22 A. Decoupling as a whole, yes, I believe that
23 it's -- it is being discussed often at NARUC, it's being
24 discussed often within the industry, and I think it's
25 being discussed often with commissions, yes.

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1 Q. Well, I'm not asking about discussions, I'm
2 asking you about approval and implementation.

3 A. Again, I think that as far as approval and
4 implementation and specific mechanisms, Mr. Amen is
5 probably the best person to discuss that.

6 Q. All right. Decoupling is not a brand new
7 idea, is it?

8 A. No, it is not.

9 Q. In fact, in your response to a data request
10 you reference the so-called PRAM mechanism that your
11 company had 15 or 16 years ago. That's Exhibit 176 on
12 page 2 of that exhibit; do you have that?

13 A. I do.

14 Q. And there you make this point that decoupling
15 is not a new concept and that Puget had a form of
16 decoupling in the early '90's under the periodic rate
17 adjustment mechanism or PRAM, correct?

18 A. Yes, so that would be an electric decoupling
19 mechanism, so that is a bit different than in this
20 proceeding, but yes, there was a decoupling mechanism in
21 the PRAM.

22 Q. All right. And that mechanism was actually
23 discontinued, was it not?

24 A. I believe that the PRAM itself was
25 discontinued, so the decoupling mechanism went along

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1 with it.

2 Q. And it was discontinued because there were
3 problems with that program; isn't that correct?

4 A. I am not aware that there were problems with
5 the decoupling mechanism itself, I believe that for
6 whatever reason the PRAM mechanism was discontinued as a
7 whole.

8 Q. Moving on to another topic, Ms. Harris, you
9 have been at Puget Sound Energy since 1999, correct?

10 A. Yes.

11 Q. And where were you before that?

12 A. At Perkins Coie.

13 Q. And while you were at Perkins Coie you were
14 an attorney, working as an attorney, correct?

15 A. Yes.

16 Q. Before Puget Sound Energy?

17 A. Yes.

18 Q. So you have extensive experience with Puget
19 Sound Energy rate proceedings I take it?

20 A. Actually, I was a transactional lawyer and
21 working as, as far as regulatory side of Puget Sound
22 Energy I practiced before the Federal Energy Regulatory
23 Commission, so my practice was mainly on the federal
24 policy side versus the state.

25 Q. So your rate case experience comes after you

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1 joined the Company as an employee, correct?

2 A. For Puget Sound Energy.

3 Q. And did you have -- okay, fine.

4 And Puget Sound Energy typically uses
5 in-house employees or specialists as witnesses in their
6 rate cases, correct?

7 A. I believe there's been a mixture throughout
8 the years. In my tenure there has been a mix between
9 outside and inside experts or witnesses.

10 Q. In this case the Company has outside experts
11 testifying on I count four different areas, maybe you
12 can correct me if I'm wrong here, but cost of capital,
13 weather normalization, let me back up, cost of capital
14 would be Dr. Morin, weather normalization would be
15 Dr. Dubin, gas cost of service Ron Amen, and electric
16 cost of service Mr. Heidell; is that correct?

17 A. Well, yes and no. As far as of course cost
18 of capital and for weather normalization, Dr. Dubin and
19 Dr. Morin are our witnesses. As far as the gas cost of
20 service for Mr. Amen, Mr. Amen continues to testify.
21 Mr. Heidell has been I don't want to say replaced but
22 has been -- Mr. Hoff is testifying both for the cost of
23 service on gas and electric. And this is something that
24 actually I have an impact, I will say that the nation is
25 going through an increase in rate cases, and to find

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1 individuals that are experienced in rate design and cost
2 of service is very challenging for the investor owned
3 utilities at this point. They're coming out at quite --
4 there's quite the recruitment shall I say of experienced
5 individuals, and they're very hard to find. And so we
6 had the need to find a new cost of service manager while
7 putting together the case, so Mr. Heidell stepped in at
8 that point. And we have since filled that position, so
9 Mr. Hoff has taken over that position. So there's been
10 a shift shall I say in whether we're using outside or
11 inside during the time of this rate case. It's very
12 challenging for me.

13 Q. Now Mr. Heidell was formerly an employee of
14 Puget Sound Energy, was he not?

15 A. Yes, he was.

16 Q. And he testified for the Company on a number
17 of issues including cost of service and rate design when
18 he was with the Company, did he not?

19 A. That is prior to my time period, so I don't
20 actually have knowledge of that. He did testify for us
21 in the 2004 rate case.

22 Q. As an employee?

23 A. No, as a consultant.

24 Q. And Mr. Amen is a former employee of the
25 Company, correct?

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1 A. He is.

2 Q. And what was his area of expertise while he
3 was with the Company?

4 A. I believe Mr. Amen was director of rates for
5 Washington Natural Gas prior to the merger, and I'm not
6 sure, he was part of the Company after the merger, but
7 I'm not sure his exact title. I will add that that's
8 precisely why it's wonderful to be able to bring these
9 individuals, you don't have to necessarily bring them up
10 to speed as far as the historical nature of our
11 proceedings or the way that the Company has done cost of
12 service or rate design in the past. We're fortunate to
13 have that.

14 Q. But in the ordinary course of operating your
15 business, you have expertise in house on gas and
16 electric cost of service and rate design and rate
17 spread, do you not?

18 A. Well, as I mentioned, for example, we had a
19 cost of service -- as I said, this has been very
20 challenging to me. In the 2004 rate case we had a
21 manager of cost of service that for health reasons,
22 probably the stress of general rate cases, had elected
23 to leave the Company for a less stressful position, and
24 so that was my need with Mr. Heidell. We then found
25 someone, imported them from Portland, and for different

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1 reasons again chose to leave the Company. And so I
2 begged Mr. Hoff to come back and fill this position from
3 his negotiations with Bonneville, so again we have
4 filled the position of manager of cost of service. But
5 as I said, it's a very challenging process, and there's
6 not a lot of very experienced individuals out there for
7 these rate components and these rate jobs, it's very
8 competitive.

9 Q. Do you know how much the Company is spending
10 on expert witnesses in this case?

11 A. I do not have those figures in front of me.

12 Q. I'm just trying to sort of synthesize what
13 you have been saying about the difficulty of staffing
14 these positions. Is it the Company's intention to
15 operate its business with in-house expertise in its
16 areas of operations including cost of service, rate
17 design, and rate spread?

18 A. If I may give you an example, it is the
19 Company's intent to find qualified individuals to fill
20 these positions. And I will give you an example that I
21 think best maybe illustrates my point, and that is that
22 we recruited externally, we sent out a recruitment or
23 put an ad in the newspaper for a manager of cost of
24 service, and one of the applicants was a retired state
25 trooper that believed that he would be qualified for a

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1 cost of service position. So it's not that the Company
2 is not actively pursuing these individuals, it's that
3 these individuals many times don't exist or are not
4 applying for these positions. I used to make the joke
5 that if we came up with a click it or ticket rate
6 design, you would know who we chose for the position.

7 Q. Isn't it part of the company's obligation in
8 the prudent operation of its business to take care of
9 recruitment and retention so that you have people in the
10 pipeline coming up through the Company or people in your
11 recruitment pipeline who can do those jobs so that rate
12 payers do not have to pay for expensive outside expert
13 witnesses to fill those gaps?

14 A. It is one of the biggest obligations, and the
15 primary focus of the Company is succession planning and
16 recruitment of all of our positions, whether it be the
17 rate department or whether it be delivery and operations
18 or generation. I think actually that Sue McLain
19 addresses that in her own testimony. We believe that
20 about 40% of our work force will retire within the next
21 ten years. Succession planning and proper training of
22 all of our employees, whether it be the cost of service
23 manager or not, is very important to this company.

24 Q. Now Dr. Dubin, as you have mentioned, is the
25 Company's expert witness on weather normalization,

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1 correct?

2 A. Yes, he is.

3 Q. And I don't know that it's necessary to go
4 into his testimony on this, I can do that if you would
5 like, but essentially wasn't his work extensively
6 supported by Puget Sound Energy employees performing
7 various analyses within the Company in order to support
8 his testimony?

9 A. I believe you probably have to ask that
10 question of Mr. Dubin. I do believe that of course with
11 any of our witnesses we have to provide Puget specific
12 company specific data to our expert witnesses so that
13 they can actually understand how we do business, yes.

14 Q. Do you have in-house expertise on weather
15 normalization issues?

16 A. I believe we have some expertise but maybe
17 not the statistical expertise or the specific line that
18 Mr. Dubin affords in his testimony.

19 Q. Can I ask you to turn please to Exhibit 177,
20 that's the proxy statement excerpt, and as we discussed
21 earlier this is also available in full as an exhibit to
22 Mr. Hunt's testimony, the full proxy statement, so this
23 is an excerpt. Would you please go to page 10 of that
24 exhibit.

25 JUDGE MOSS: And just for the record, the

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1 exhibit to which Mr. ffitich refers is Number 219.

2 MR. FFITCH: Thank you, Your Honor.

3 BY MR. FFITCH:

4 Q. Now this page is a summary compensation
5 table; do you have that?

6 A. Is it your page 10, page 10 on the top, and
7 then so it's page 17 in the proxy?

8 Q. Correct.

9 A. Okay, yes.

10 Q. And this page summarizes the compensation for
11 the top highest paid five officers in Puget Sound
12 Energy, correct?

13 A. Yes, it does.

14 Q. And if we look at the top line, we see the
15 compensation for Mr. Reynolds, the CEO?

16 A. I apologize, I can see -- I can't -- it's
17 blacked out in my copy, so although --

18 JUDGE MOSS: She apparently has the redacted
19 version. I think counsel is going to furnish her with
20 -- although actually I don't have this page marked as
21 confidential now that I see it.

22 THE WITNESS: I don't believe it's
23 confidential, I believe just by the shading I can't read
24 it.

25 MS. DODGE: May I approach?

0133

1 JUDGE MOSS: Yes, go ahead.

2 BY MR. FFITCH:

3 Q. All right, do you have a legible copy now?

4 A. If you can hobble through it with me, I
5 believe so.

6 JUDGE MOSS: Well, let's not hobble through
7 it. If all we're going to do is confirm these numbers,
8 let's don't do that if we can read them.

9 MR. FFITCH: I'm going to ask the witness,
10 Your Honor, if I may to just explain how the
11 compensation is structured.

12 JUDGE MOSS: Sure.

13 BY MR. FFITCH:

14 Q. The annual compensation for Mr. Reynolds and
15 the other officers consists of a salary and a bonus and
16 other annual compensation, correct?

17 A. Yes.

18 Q. And then in addition, and as the Judge has
19 indicated we can add those numbers up.

20 MR. FFITCH: Am I permitted to the ask the
21 witness to confirm a sum, Your Honor?

22 JUDGE MOSS: Sure.

23 BY MR. FFITCH:

24 Q. The annual compensation for 2005 for
25 Mr. Reynolds is slightly in excess of \$1.5 Million,

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1 correct?

2 A. Is that number -- that's what I can not read
3 on these versions.

4 MS. DODGE: Your Honor, perhaps he can direct
5 the witness to where on that page the number is.

6 JUDGE MOSS: Yeah, I don't see that number
7 either, so what are you adding up, Mr. ffitch, help us
8 out?

9 MR. FFITCH: Mr. Reynolds' salary for 2005 is
10 \$743,000; do you see that number on the top line?

11 JUDGE MOSS: Yes, I can see that.

12 Can you see that, Ms. Harris?

13 THE WITNESS: Yes.

14 BY MR. FFITCH:

15 Q. His bonus for 2005 is \$790,000; do you see
16 that number?

17 A. Yes.

18 Q. And would you accept subject to check that
19 the sum of those two numbers is \$1.53 Million?

20 A. Subject to check.

21 Q. Now in addition to the annual compensation,
22 Mr. Reynolds and the other officers also receive
23 long-term compensation, correct?

24 A. Well, I believe -- and as far as the
25 components that you're referring to, I guess I viewed it

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1 different. There is a base salary which was the 7,
2 using Mr. Reynolds, which was the 743 number. There is
3 the annual incentive payout, which is what I think
4 you're referring to as bonus, which I believe is a bit
5 different for Mr. Reynolds as far as how he received his
6 incentive payout versus the other executives. And then
7 when you're talking about long-term awards, that is a
8 different program that depending on the officer varies
9 and also is not a program that is included in rates for
10 calculation. So some of these -- some of these
11 components I don't know if we're talking apples and
12 oranges as far as what you're asking. You're using
13 different terms than I think what we use. Probably
14 Mr. Hunt might be a better witness to kind of go through
15 the specifics of the programs.

16 Q. You have referred to the incentive payments
17 if you look at the third column under long-term
18 compensation, LTIP is an incentive payout, is it not?

19 A. LTIP is a long-term incentive plan, but it is
20 not a plan that is included in rates. It is not an
21 incentive payout. It is a below the line incentive
22 payout, a below the line expenditure.

23 Q. All right. So the sum of those two types of
24 long-term compensation, stock awards and the LTIP, is
25 \$1.2 Million, correct, subject to check?

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1 A. Are we dealing with Mr. Reynolds at this
2 point?

3 Q. We're still dealing with Mr. Reynolds.

4 A. So I'm sorry, which lines were you adding up?

5 Q. I'm just adding up all of the long-term
6 compensation, just two numbers, \$882,000 for stock
7 awards and \$341,000 for long-term incentive payout, and
8 subject to check that adds up to \$1.2 Million
9 approximately?

10 A. So subject to check, those two numbers -- I
11 was referring to I'm not sure on Mr. Reynolds whether
12 even the bonus is included in rates. It's probably a
13 better question for Mr. Hunt.

14 Q. All right. And then so we've gone through
15 the annual compensation and the long-term compensation,
16 and now there's another category of all other
17 compensation; do you see that on the far right-hand
18 column?

19 A. Yes.

20 Q. And the other compensation not included in
21 previous categories is in excess of a quarter million
22 dollars, correct?

23 A. For Mr. Reynolds?

24 Q. For Mr. Reynolds.

25 A. Yes.

0137

1 Q. Do you know what that compensation is for?

2 A. I believe that on I believe page 7 of your
3 exhibit there is a discussion of the chief executive
4 officer compensation and how Mr. Reynolds' compensation
5 differs from others. And I also believe that all of
6 these pieces or all of these numbers are thoroughly
7 explained throughout the proxy statement, including the
8 compensation philosophy, the compensation program
9 elements, which includes the annual incentive
10 compensation, the base salary, the long-term incentive
11 compensation, and other compensation.

12 Q. All right. And if we wanted to follow up on
13 the details, did you say Mr. Hunt would be the witness?

14 A. Mr. Hunt would be a fabulous witness for
15 these questions.

16 Q. And I realize you're not really representing
17 that you're the expert on compensation, but as the lead
18 witness for the Company I just wanted to get an overview
19 of this particular area.

20 So would you accept subject to check that the
21 total compensation shown on this top line for
22 Mr. Reynolds is \$3.01 Million for the year 2005?

23 MS. DODGE: Your Honor, I would object, you
24 know, the numbers are what they are. I'm sure that
25 Mr. ffitich can represent whatever he wants in his brief,

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1 and anyone who wants to can check. Normally a subject
2 to check calculation would be taking a witness's own
3 numbers for calculations and asking them to make
4 different assumptions, that sort of thing. This is
5 simply an addition exercise and puts more burden on the
6 Company.

7 JUDGE MOSS: I do think we can just add the
8 numbers up, Mr. ffitch. Our record is sufficiently
9 complete on this point.

10 MR. FFITCH: All right. I take it then that
11 the objection would be the same for Ms. Dodge if I were
12 to ask what the total salary and bonus for the top five
13 company officers would be for the year 2005, and so we
14 can present that information in our brief, Your Honor.

15 JUDGE MOSS: Yes, thank you.

16 MR. FFITCH: Can I have just a moment, Your
17 Honor?

18 JUDGE MOSS: Yes.

19 BY MR. FFITCH:

20 Q. Just one or two more questions, Ms. Harris.
21 I realize there hasn't been a ruling on Exhibit 174 that
22 was offered by Staff, it does purport to show a number
23 of rate changes that have occurred or have been proposed
24 by the Company since 2001, correct?

25 A. Well, it's a bit incomplete, and so --

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1 Q. What would you add?

2 A. Well, I think that if I interpret the
3 numbers, there's certain -- it seems to mix apples and
4 oranges. So in other words, the gas PGA increases are
5 not included.

6 Q. Correct.

7 A. Yet the PCORC cases are included. And many
8 of these cases in the PCORC actually, for instance the
9 July '06 filing which was basically a power cost filing,
10 those align more closely akin to a PGA filing. So in
11 other words, it seems that this rate sheet, what Staff
12 has proposed has excluded commodity costs for the gas
13 side yet has not excluded the corresponding commodity
14 cost for the electric side. So as far as using it in
15 general on rate proposals for this time period, if we're
16 looking at impact to the customers it's incomplete, and
17 if we're looking at impacts to the Company it seems to
18 be a bit overstated.

19 Q. Well, I'm looking at it from the perspective
20 of impact to customers, and you read my mind, which is
21 that from the customer perspective, especially if you're
22 a gas customer or a gas and electric customer, in
23 addition to the changes that are shown on the Staff
24 exhibit, there are PGA's that have occurred during this
25 time period to increase the customer bill; is that

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1 correct?

2 A. There is.

3 Q. Do you know how many have occurred during
4 this time period?

5 A. The Company makes an annual adjustment to its
6 PGA.

7 Q. And do you believe that rate payers are
8 disappointed in the number of rate increases that have
9 occurred, Puget Sound Energy rate payers, since 2001?

10 A. I don't know that disappointment would be the
11 word. I mean I look at this chart, I know this chart
12 near and dear, I actually show a similar chart although
13 I do it a bit more visually for our board of directors,
14 so rate impacts to our customers are extremely important
15 to our board and to our senior management. During this
16 time period over the last five years where power costs
17 and commodity costs are volatile and on an upward trend
18 and seem to be every increasing, the rate impacts are
19 very important to the Company.

20 That is why I think that we have done
21 everything possible to keep these rate impacts at a
22 minimum. I think the testimony of Sue McLain talks
23 about cost drivers and also programs and processes that
24 we have developed internally to keep costs down on the
25 delivery side. I believe Mr. Markell has been running a

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1 tremendous effort as far as least cost generation
2 resources, and I believe Mr. Gaines and Mr. Valdman
3 specifically look at cost reduction on the financial
4 side. So yes, rate impacts to our customers are
5 extremely important to the Company, and we take
6 everything we can to keep our costs down before we come
7 in for rate recovery.

8 Q. And do you think rate payers would be
9 disappointed if this Commission or the interveners in
10 this case did not carefully scrutinize this company
11 request for a rate increase?

12 A. I believe that these parties have always very
13 adeptly have scrutinized our rate filings. I don't
14 believe that that's necessarily what's at issue here. I
15 think where the parties are in disagreement are
16 prospective mechanisms that would actually benefit our
17 customers, control volatility on the power cost side,
18 control volatility on the natural gas rate side, and
19 continue -- and provide a mechanism so that the Company
20 would be able to continue to invest in its
21 infrastructure programs.

22 Q. But you're not disappointed, are you, that
23 other parties to this case are taking a careful look at
24 those proposals and may not agree with you on every
25 point, are you?

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1 A. I understand that it is the jobs of the other
2 parties to scrutinize our filings, yes.

3 MR. FFITCH: Thank you, Ms. Harris.

4 I don't have any further questions, Your
5 Honor.

6 JUDGE MOSS: Okay, thank you.

7 MR. FFITCH: I would like to offer Exhibit
8 175 through 179.

9 MS. DODGE: Your Honor, the Company has an
10 objection to 176 that can probably be cured just as a
11 housekeeping matter. I'm sorry not to have raised it
12 before. Page 2 of Exhibit 176 does refer to several
13 other company data request responses, and we would ask
14 that those be added to the exhibit so that it's a
15 complete response.

16 JUDGE MOSS: Mr. ffitich, are you comfortable
17 with that suggestion?

18 MR. FFITCH: If the Company would like to
19 provide those, we have no objection, Your Honor.

20 JUDGE MOSS: All right, with that the
21 exhibits will be admitted as marked.

22 We're going to ask you to furnish that
23 perhaps tomorrow if it's not available, Ms. Dodge.

24 MS. DODGE: Yes, we will.

25 JUDGE MOSS: Now what my thinking is that

0143

1 we'll just, we got a little bit of a late start this
2 morning, just press ahead until the noon hour unless
3 Ms. Kinn or one of the key players in this little part
4 of our drama needs a break.

5 All right, one of our key players wants a
6 break, so we're going to take a 5 minute recess, please
7 be back promptly at about 5 after the hour.

8 (Recess taken.)

9 JUDGE MOSS: All right, Mr. ffitch, I believe
10 you said you were finished.

11 (Bridge line interruption.)

12 MR. FFITCH: Yes, Your Honor, we had offered
13 175 through 179, and then there was discussion regarding
14 supplementation of 176, and I don't recall whether the
15 documents had then been admitted, Your Honor.

16 JUDGE MOSS: Yes, they were.

17 MR. FFITCH: Thank you. We have nothing
18 further.

19 JUDGE MOSS: Before we move on, did Staff and
20 the Company have an opportunity to discuss 174 during
21 our brief recess?

22 MR. CEDARBAUM: Yes, Your Honor, and based
23 also on the discussion that Mr. ffitch had with
24 Ms. Harris, we're going to revise that to include the
25 PGA changes, add footnotes to footnote orders where

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1 orders were issued, some of them I think were just open
2 meeting items that may have been allowed to go into
3 effect, and then we'll make sure that the numbers are
4 accurate, and I think at that point in time that we will
5 have no objection from the Company.

6 JUDGE MOSS: And there will be a verification
7 process so we can just go ahead and mark those as
8 admitted now or not?

9 MS. DODGE: That's fine.

10 JUDGE MOSS: You can always do a motion to
11 strike if there are --

12 MS. DODGE: Well, Your Honor, I would rather
13 not, if I have to do a motion to strike I would rather
14 not admit now.

15 JUDGE MOSS: I'm really not concerned about
16 those, I think those figures will hold up on inspection,
17 and I also note that Ms. Harris testified that these
18 numbers were near and dear to her, so I think if there
19 had been any significant deviation she would have
20 probably said so.

21 So with that, we have two more parties
22 indicating cross, I'm just going around the room for
23 those of you who were wondering how I'm establishing
24 this order here. So, Mr. Furuta, do you have any
25 questions remaining for Ms. Harris after Mr. ffitch's

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1 incisive cross-examination?

2 MR. FURUTA: Just a few, Your Honor.

3 JUDGE MOSS: All right, go ahead.

4

5 C R O S S - E X A M I N A T I O N

6 BY MR. FURUTA:

7 Q. Good morning, Ms. Harris, I'm Norm Furuta

8 representing the Federal Executive Agencies.

9 A. Good morning.

10 Q. I would like to discuss the depreciation
11 tracker proposal, so if you could turn to your rebuttal,
12 Exhibit 173, at page 10, and at the bottom of that page
13 I believe you indicate that parties have raised concerns
14 that the Company's proposed depreciation tracker would
15 constitute single issue rate making; is that correct?

16 A. I believe that some of the parties have
17 indicated it's their position that it constitutes single
18 issue rate making. It is not the Company's position
19 that it would constitute single issue rate making.

20 Q. Okay.

21 A. Nor does the Company believe that it may
22 matter. I mean single issue rate making is not a
23 prohibition against trackers, but I believe that it is
24 some parties' contention.

25 Q. Just so it's clear, would you accept the view

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1 that in this context single issue rate making could be
2 understood as taking one issue out of the context of
3 reviewing the utility's complete revenue requirement as
4 would occur during a rate case?

5 A. No. Maybe if I give a little context I think
6 from where our position is at is the depreciation
7 tracker has been in discussion for a couple of years now
8 in different forms. I think in the 2004 rate case the
9 parties generally discussed the company's issue
10 regarding regulatory lag and its investment and its
11 proposed capital expenditures, and I think that
12 Mr. Cedarbaum actually alluded to that from the 2004
13 case. This is an issue for the Company. At that time
14 we heard from the parties if it was an issue, although
15 we had some great discussions about it, if it was an
16 issue near and dear to the Company, we should have made
17 a proposal in our 2004 general rate case, and we
18 listened to that.

19 And then last year we actually spent quite a
20 bit of time researching different mechanisms, raised
21 broad incentive mechanisms that I think we have listed
22 in data requests, and we talked to all the constituents,
23 and we were going to develop and file on its own a
24 depreciation tracker. We actually developed a white
25 paper and had several discussions throughout the region

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1 with our constituents. And what we heard at that time
2 was you can't file a tracking mechanism without a
3 general rate case, we think that would be single issue
4 rate making.

5 And again, the Company listened, and so we
6 actually proposed that depreciation or very similar
7 depreciation tracking mechanism within the context of a
8 general rate case. So since it's being developed at
9 this point as a tracking mechanism within the context of
10 a general rate case, I don't think the Company would
11 agree that it constitutes single issue rate making. The
12 Commission in the past, for instance the PCORC method,
13 the Commission in the past has isolated for good reason
14 tracking mechanisms within the context of a general rate
15 case. So I'm trying to provide that context of why we
16 wouldn't agree with it.

17 Q. Okay. But this particular depreciation
18 tracker is being proposed for the first time in this
19 case; isn't that right?

20 A. We have never form -- this is the first time
21 it has been formally proposed in a proceeding. There
22 are -- a depreciation tracker, I mean there are several
23 other I would say more encompassing incentive mechanisms
24 in other states, but I am not aware of a depreciation
25 tracker.

0148

1 Q. Okay. During cross by Public Counsel earlier
2 today, I believe you referred to the volatility of the
3 fuel and purchase power costs; do you recall that?

4 A. Yes, I do.

5 Q. Now would you agree that depreciation expense
6 is something that's not as volatile as fuel and purchase
7 power costs?

8 A. I would agree as far as volatility -- as far
9 as volatility is defined within say for instance a
10 market like a commodity market, it would maybe not have
11 the same characteristics. As far as volatility is
12 defined as something that is ever increasing due to
13 increased investment or capital expenditure, I believe
14 that depreciation is just as volatile or with negative
15 pressure would have the same types of impact.

16 Q. But is it your understanding that volatility
17 normally refers to a steadily increasing rate?

18 A. I just think that -- I guess my focus is of
19 whether volatility is referring to markets so that
20 they're volatile going both up and down or as associated
21 with depreciation where it tends to just be increasing
22 at a very high rate.

23 Q. Turning to page 11 of Exhibit 173, I believe
24 at the top around lines 4 and following you state that,
25 the Company's proposed depreciation tracker --

0149

1 A. I'm sorry, where are you?

2 Q. This is page 11 of your rebuttal at line 4.

3 A. Yes.

4 Q. I won't read every word here, but if you
5 could follow, the Company's proposed depreciation
6 tracker addresses only the recovery of and not recovery
7 on transmission and distribution system investments made
8 since the end of the most current test year. Can you
9 explain what you mean by recovery of here?

10 A. Yes, I think I alluded to there are several
11 mechanisms contained in other jurisdictions. Some have
12 been proposed by parties, some have been developed by
13 commissions, some have been statutorily developed by
14 legislatures, and those types of mechanisms are what I
15 would call incentive mechanisms, and I believe that we
16 have listed several states that have incentive
17 mechanisms. And what they are trying to achieve there
18 is to actually incent the utility to invest, whether it
19 be in infrastructure, or on the natural gas side maybe
20 it's to eliminate or address bare steel for cast iron
21 types of programs.

22 In each one of those instances, it's an
23 incentive mechanism so that the Company will do the
24 right thing, they will invest in infrastructure, so they
25 provide not only recovery of the costs but also a return

0150

1 on that investment. A great example is the transmission
2 rate policy at the Federal Commission where the Federal
3 Commission sees that there is a need for companies to
4 invest in transmission, so they provide those companies
5 with an ROE incentive to do the right thing, to invest
6 in infrastructure.

7 What we have proposed here, we're not asking
8 for an incentive to do the right thing, this company is
9 proposing an infrastructure investment plan. We believe
10 that investing in infrastructure is the right thing to
11 do. What we are proposing here is a very limited
12 tracking device. We are not asking to earn a return on
13 our investment, we are asking to address the negative
14 impact that depreciation plays upon the financial health
15 of the utility in between rate cases. So it's a very
16 limited approach rather than one of the more
17 overencompassing infrastructure mechanisms that exist in
18 other jurisdictions.

19 Q. Now during the past four years, the Company
20 has experienced growth in customers, has it not?

21 A. Yes, we have.

22 Q. And it expects further growth in the next
23 four years or so?

24 A. Yes, we hope.

25 Q. And I believe that as part of the

0151

1 distribution tracker that you want to obtain recovery of
2 T&D investment related to customer growth; is that
3 correct?

4 A. I believe actually that Mr. Story has an
5 exhibit to his testimony that makes that calculation.
6 We are actually -- the depreciation tracker takes an
7 account revenue growth for new customers, and I believe
8 that that is a question for Mr. Story on his exhibit.

9 Q. Okay.

10 A. We have addressed that concern within the
11 mechanism.

12 JUDGE MOSS: Mr. Furuta, just to be clear,
13 when you say T&D, you mean transmission and
14 distribution?

15 MR. FURUTA: Yes, Your Honor, thank you.

16 JUDGE MOSS: The one being electric, the
17 other being gas?

18 MR. FURUTA: No, I didn't intend to
19 distinguish between electric and gas, just T&D for say
20 electric.

21 JUDGE MOSS: Okay.

22 MR. FURUTA: Thank you though for pointing
23 that out.

24 BY MR. FURUTA:

25 Q. Now it's correct that Puget can file a rate

0152

1 case if it thinks its revenue requirement has changed;
2 is that correct?

3 A. Yes.

4 Q. And you are not aware of restrictions on the
5 Company's ability to do so?

6 A. Well, yes, there actually would be a
7 restriction. In other words, we can not file a rate
8 case if there is another rate case pending. So on the
9 regulatory lag issues, you do have to wait, well, on the
10 regulatory lag issues, the Company can not be before the
11 Commission in a general rate proceeding, and it can not
12 be before the Commission with a PCORC proceeding. And
13 given our strategy on generation acquisition, the
14 Company has had to file PCORC's in addition to general
15 rate cases. The transmission and delivery portion of
16 our business is not updated or the rate base is not
17 updated unless we file a general rate case, it is not
18 updated in a PCORC proceeding.

19 Q. I believe in your rebuttal testimony, same
20 page, page 11, you admit that the approval of the
21 Company's proposed depreciation tracker is not the only
22 way that the Commission can support the Company's
23 transmission and distribution investments; is that
24 correct?

25 A. I believe it's always the position of this

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1 company, at least since I have had the responsibilities
2 that I have, that there are many tools in the tool chest
3 to address our issues. The Company's issues is
4 regulatory lag. The Company's issues is addressing that
5 regulatory lag during this time when we believe
6 necessary or continued investment in the infrastructure,
7 both transmission and distribution on the electric side
8 and on the delivery system on the gas side, that
9 continued investment is necessary.

10 Q. Okay, if you could take a look at lines 13
11 and following on page 11, I believe there you state the
12 known and measurable adjustment proposed by FEA witness
13 Smith would also help support the Company's
14 infrastructure investments; is that correct?

15 A. We believe -- I believe that this gets into
16 the discussion that we had earlier regarding listening
17 to what the parties' concerns were, and so if the
18 parties were concerned really on a tracking mechanism, I
19 believe our position is that as a partial piece that a
20 known and measurable adjustment would at least take a
21 step forward. I think it addresses Sue McLain --
22 Ms. McLain has a wonderful example in her testimony of
23 the Novelty Hill substation, a \$23 Million investment
24 that was put into service in November of 2005. The rate
25 year, or the test year excuse me, ends at the end of

0154

1 September, so there's a \$23 Million investment that is
2 in service today benefiting the customers today, and
3 that investment is not included in rates today, it's not
4 included in this rate case, and the customers although
5 they're benefiting from it will not begin paying for
6 that substation until probably 2008. So as an
7 alternative if we're going to true up that historical
8 test year at least to known and measurable, we think
9 that would have some benefit. That won't address the
10 issue, but it will address somewhat the historical lag
11 during the timing of the case.

12 Q. I believe during cross by Staff that you had
13 acknowledged that there is a difference between the
14 Company's known and measurable adjustment alternative
15 which you discuss here and proposed by other Company
16 witnesses as opposed to the known and measurable
17 adjustments that FEA witness Smith has proposed?

18 A. Yes, I believe that the Company looked at our
19 records and addressed company specific issues on the
20 proposal and how it would work for the Company, yes.

21 Q. Okay. Can you explain your understanding of
22 FEA's known and measurable adjustments?

23 A. I think that would be a better question for
24 Mr. Story.

25 MR. FURUTA: Story, okay. I believe most --

0155

1 all of the rest of my questions I will address with
2 Mr. Story then, I have nothing further.

3 Thank you, Your Honor.

4 JUDGE MOSS: Thank you, Mr. Furuta.

5 Mr. Roseman, you had indicated 5 or 10
6 minutes for Ms. Harris, do you have any questions
7 remaining?

8 MR. ROSEMAN: I do, just probably one or two.

9

10 C R O S S - E X A M I N A T I O N

11 BY MR. ROSEMAN:

12 Q. Good morning, Ms. Harris.

13 A. Good morning.

14 Q. I wanted to just be sure I understood what
15 your correction was to your testimony, and I guess I
16 want to know whether or not it is the Company's position
17 that the funding for the low income natural gas rate
18 assistance program would in fact increase by \$525,000?

19 A. Yes, we support the additional increase of
20 the low income assistance program on the natural gas
21 side.

22 MR. ROSEMAN: Thank you.

23 JUDGE MOSS: Thank you, Mr. Roseman. Did you
24 actually do that in one question? I think I have never
25 seen that happen before.

0156

1 Are there any questions from the Bench?

2 Commissioner Jones.

3

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

5 BY COMMISSIONER JONES:

6 Q. Good morning, Ms. Harris.

7 A. Good morning.

8 Q. This may be better addressed to a couple of
9 the witnesses that follow, but I thought I would tee it
10 up with you. I'm interested in the size of the
11 company's capital spending program and how projections
12 for the need for capital spending may or may not have
13 changed since your last rate case. I have read some of
14 the testimony both in the prefiled direct and the
15 rebuttal and various figures described as current
16 projections in the testimonies of Mr. Valdman,
17 Mr. Morin, Ms. McLain. I would like to understand just
18 what time periods those projections cover and what the
19 comparable projections were during your last rate case
20 for a similar period of time. To be clear, I want to be
21 able to compare "apples to apples". If there is a
22 significant difference, I would also like to know some
23 of the reasons why. And I note for the record that we
24 do have I think in Mr. Valdman's rebuttal the 10-Q for
25 second quarter 2006, and I think we have the 10-K filed

0157

1 at the end of 2005. So if you would prefer to have
2 these questions addressed to somebody else, I would
3 certainly understand that.

4 A. I do believe that these questions can be more
5 fully discussed by both Ms. McLain and Mr. Valdman. I
6 also believe that there may be some confidential
7 information in some of the projections and some of the
8 numbers.

9 Q. So could you provide that, or could you
10 inform your team to prepare that in whatever the nature
11 it is, confidential or otherwise?

12 A. Yes, we will.

13 JUDGE MOSS: I won't make it a Bench Request
14 at this time, but, Ms. Dodge, you're aware of
15 Commissioner Jones' interest, and to the extent some of
16 it is confidential, it might best be provided as a piece
17 of paper rather than something that would cause us to
18 have to adjust the hearing room.

19 MS. DODGE: Yes, Your Honor, and Ms. McLain
20 is on shortly, she may be able to answer in part. Of
21 course, Mr. Valdman will have more time to prepare.

22 JUDGE MOSS: Sure, thank you. We will give
23 her the lunch hour.

24 BY COMMISSIONER JONES:

25 Q. My second question, Ms. Harris, again this is

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1 in the -- I think this is in the -- on page 6 of your
2 rebuttal, could you turn to that, lines 10 through 15,
3 and there you address this issue of actually earning
4 your authorized ROE by reducing the lag. There has been
5 a lot of discussion this morning of regulatory lag, and
6 I think we'll get into it with the other witnesses as
7 well, but it would be useful for at least this
8 Commissioner to understand the difference between the
9 actual ROE's listed in the testimony of Mr. Story in
10 435T, which I haven't read in full yet, in comparison to
11 the Staff comparison in Mr. Russell's testimony of 521T.
12 And just let me quote the numbers as I best understand
13 them now. Mr. Valdman and the Company is saying that
14 your actual ROE over the most recent years is 8.0%.
15 That's in -- that's a return on equity number.
16 Mr. Russell in his testimony quotes for the test year
17 period a number of 10.17%. Is that your best
18 understanding of the gap between the actual ROE achieved
19 by the Company, whether it be in the test year or the
20 past several years? That's a pretty large gap of over
21 200 basis points.

22 A. I do believe that Mr. Story and Mr. Valdman
23 are the most appropriate witnesses to ask regarding this
24 nature. I also believe that there may be a difference
25 in exactly those elements that Mr. Russell is computing

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1 and those elements that Mr. Valdman and Mr. Story are
2 computing. So I think that there's a difference in not
3 only the calculations but exactly what elements they're
4 looking at to make such calculations.

5 COMMISSIONER JONES: It would be useful at
6 least for this commissioner, perhaps in the form of a
7 Bench Request, let me try to phrase this, to provide in
8 summary fashion the Company's understanding of the
9 difference between the actual ROE achieved both for the
10 test year and in the most recent years and their
11 understanding of the major differences between their
12 calculation and the Staff's calculation, and to do it in
13 a summary form like a spreadsheet, you know, with
14 columns.

15 JUDGE MOSS: How many recent years?

16 COMMISSIONER JONES: I would ask the witness
17 that question. I think Mr. Valdman used the term most
18 recent years, so does that go back to 2000?

19 THE WITNESS: At least 2004.

20 COMMISSIONER JONES: When was Mr. Valdman
21 hired by the Company?

22 THE WITNESS: 2003 I believe, I believe he
23 started in December of 2003.

24 COMMISSIONER JONES: Why don't we go back to
25 2002, 2002 through 2005.

0161

1 Wednesday, by Wednesday, and if you can get it to us
2 sooner, I'm sure you will, thank you.

3 COMMISSIONER JONES: Thank you, Judge, that's
4 all I have.

5 JUDGE MOSS: Anything else from the Bench?

6 Commissioner Oshie.

7 COMMISSIONER OSHIE: I have no questions.

8 JUDGE MOSS: Chairman Sidran.

9

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

11 BY CHAIRMAN SIDRAN:

12 Q. Good morning.

13 A. Good morning.

14 Q. I just wanted to ask a clarifying question.

15 As I understand it as taking the Company's case and
16 assuming for the sake of argument that all of the
17 various changes were adopted related to the tracker, the
18 depreciation tracker, decoupling, changes to the power
19 cost adjustment calculation in terms of deadbands and so
20 on, rolling all of those Company positions into a
21 hypothetical where the Commission were to accept as
22 proposed the Company's position, the Company's requested
23 return on equity is 11 1/4%?

24 A. Yes.

25 CHAIRMAN SIDRAN: All right, thank you,

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1 that's all I have.

2 JUDGE MOSS: Before I turn to redirect, did
3 the questions on the Bench prompt any clarifying
4 questions from other counsel?

5 No, apparently not.

6 Ms. Dodge, any redirect?

7 MS. DODGE: No, Your Honor.

8 JUDGE MOSS: Thank you.

9 Ms. Harris, we appreciate your testimony, and
10 you are free to go.

11 I think since we only have ten minutes
12 indicated for Mr. Hunt that we should go ahead and
13 dispense with that before the luncheon break.

14 MS. DODGE: Your Honor, I wanted to point out
15 we do have Misters Markell, Garratt, Elsea, Molander,
16 Olin, and Donahue in the hearing room available for
17 questioning from the Bench and the Commissioners, and
18 perhaps we can see before lunch if there are any. Those
19 exhibits were stipulated in, but I think it was unknown
20 whether the Commissioners had questions of any of these
21 witnesses.

22 JUDGE MOSS: Do we know at this time anybody?

23 No.

24 I'm not going to release the witnesses,
25 because as we work on the case through the course of the

0163

1 week a question may come up that would be appropriate
2 for one of these witnesses. However, it appears at this
3 juncture at least that there are no questions from the
4 Bench. And again, if one of these witnesses is not in
5 the hearing room and we come up with a question where
6 one of them is the most suitable person to answer, we
7 can always contact them by telephone, make arrangements
8 for that, so we won't inconvenience them any more than
9 that, but I think at this time it's safer, if you will,
10 to not simply release them.

11 All right, with that could we have I think,
12 Mr. Cedarbaum, you said you still do have some questions
13 for Mr. Hunt, right?

14 MR. CEDARBAUM: Yes, Your Honor.

15 JUDGE MOSS: Okay.

16 MR. CEDARBAUM: It will be brief I think.

17 JUDGE MOSS: All right,

18

19 Whereupon,

20

THOMAS M. HUNT,

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

22 herein and was examined and testified as follows:

23

24

25

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1 D I R E C T E X A M I N A T I O N

2 BY MS. CARSON:

3 Q. Good morning, Mr. Hunt, could you please
4 state your name and title and spell your name for the
5 court reporter.

6 A. Sure, my name is Thomas N. Hunt, that's
7 H-U-N-T, I'm Director of Compensation and Benefits at
8 Puget Sound Energy.

9 Q. Do you have before you what have been marked
10 for identification as Exhibit Numbers 211 through
11 Exhibit Number 220?

12 A. Yes.

13 Q. Do these exhibits constitute your prefiled
14 direct and rebuttal testimony and related exhibits in
15 this case?

16 A. Yes.

17 Q. Were your prefiled direct and rebuttal
18 testimonies and accompanying exhibits prepared by you or
19 under your supervision and direction?

20 A. Yes.

21 Q. Are your prefiled direct and rebuttal
22 testimonies and accompanying exhibits true and correct
23 to the best of your knowledge and belief?

24 A. Yes.

25 MS. CARSON: Thank you.

0165

1 Your Honor, Puget Sound Energy offers Exhibit
2 Number 211 through Exhibit Number 220 into evidence and
3 offers Mr. Tom Hunt for cross-examination.

4 JUDGE MOSS: Any objection?

5 Hearing none, those will be admitted as
6 marked.

7 And, Mr. Cedarbaum, you may proceed when
8 ready.

9 MR. CEDARBAUM: Thank you.

10

11 C R O S S - E X A M I N A T I O N

12 BY MR. CEDARBAUM:

13 Q. Good morning, Mr. Hunt.

14 A. Good morning, Mr. Cedarbaum.

15 Q. If you could turn to page 6 of your direct
16 testimony just to kind of get a reference point here.
17 At that part of your direct you begin a discussion
18 concerning retirement benefits, and then at page 7 on
19 line 18 you refer to a professional investment advisor;
20 do you see those points?

21 A. Yes.

22 Q. And the investment advisor you're referring
23 to is a company called R.V. Kuhns and Associates, that's
24 K-U-H-N-S?

25 A. Yes.

0166

1 Q. Now in Staff Data Request 143, we asked the
2 Company to provide that investment advisor's report on
3 pension investments, and there was an issue about
4 confidentiality, but then the Company in response to
5 Staff Data Request Number 215 provided the report that
6 we originally asked for in our earlier data request; is
7 that right?

8 A. That's correct.

9 Q. If you could refer to what's been marked as
10 Exhibit 221.

11 JUDGE MOSS: And I think that should be 221C.

12 Q. Yes, it is, and bearing in mind that this is
13 a confidential exhibit, Mr. Hunt, all of the yellow
14 paper that begins on page 4 of the exhibit is the report
15 from R.V. Kuhns and Associates concerning pension plan
16 investments?

17 A. That's correct, pages 4 through 74.

18 Q. If we were to look at page 4 of the exhibit,
19 which is the first yellow piece of paper, and I will ask
20 you to -- I will direct your attention to the number in
21 the first column at the very bottom labeled total
22 retirement plan; is that number itself confidential?

23 A. No, I believe the total is included in the
24 annual reports that are provided by the Company.

25 Q. So I can speak to it?

0167

1 A. Yeah.

2 Q. That number is \$481 Million; is that correct?

3 A. That's correct.

4 Q. So that's a significant retirement portfolio
5 in terms of amount?

6 A. That's correct.

7 Q. And I would like you to skip to the last page
8 of the exhibit, which was Attachment B; do you see
9 Attachment B?

10 A. Yes, I do.

11 Q. Somebody's handwriting up in the top right,
12 that's page 75 of the exhibit?

13 A. Yes.

14 Q. This is the data used to determine the 8 1/4%
15 overall portfolio return expected by the Company and
16 included in the Company's SEC filing; is that right?

17 A. This is part of the -- this is a report
18 prepared by the R.V. Kuhn's investment advisor in terms
19 of determining the actuarial assumptions for the
20 retirement plan, that is the 8.25 you mentioned,
21 correct.

22 Q. So the information on this page was developed
23 by R.V. Kuhns, it went back, was a recommendation back
24 to the Company's internal committee, and that then was
25 the basis for the 8 1/4% shown in the SEC documents?

0168

1 A. Yes, this page as well as the other report
2 that we just looked at was presented to the retirement
3 plans committee December 7, 2005, looking forward to the
4 2006 year for what actuarial assumptions should be used
5 in accounting for the plan.

6 Q. Now if you look at the left-hand side of this
7 same page, we see different asset classes, that's right
8 along the left-hand column, that Puget has in its
9 portfolio, and then next to that is a group of columns
10 that represents a historical return for each type of
11 asset over varying historical time periods; is that
12 correct?

13 A. That's correct. The date that you can see on
14 the historical rates of return were -- the starting
15 point was as of 9-30-2005, so it would be from that
16 point back 5 years, the same point back 10 years, until
17 all the way back to 50 years.

18 Q. And then in the -- after the annualized
19 return columns, after that 50 year column, there's a
20 column that's labeled RVK return assumption, those were
21 the rates of return that R.V. Kuhns believes were
22 appropriate to determine the long-term return
23 expectations of the portfolio; is that right?

24 A. It is assumptions that they believe were
25 appropriate for an actuarial evaluation of an expected

0169

1 return, something that the Company's -- as over the last
2 few years when you noticed the annualized -- under the
3 annualized return column, the last five years it's a
4 negative number. Prior, for prior actuarial accounting
5 purposes, the estimated returns were typically higher,
6 and the companies had become more conservative in the
7 returns that they are forecasting. And so I think it's
8 important for the Commission to understand that in the
9 relevance to this document, it was being presented as
10 part of the actuarial evaluation of the plan.

11 Q. Do you believe that the Company employed R.V.
12 Kuhns and Associates for its professional ability to
13 determine expected returns for the pension investment
14 portfolio?

15 A. Yes.

16 Q. Just a general question on the relationship
17 of these numbers. Is it correct that the expected
18 return on the portfolio assets is one of the factors
19 that determines how much money annually the Company must
20 add to its pension expense in order to accumulate enough
21 money to pay retirement benefits?

22 A. I think that the actuarial assumption is more
23 important in terms of the accounting of the plan, that
24 the -- whether the plan can add assets is based on the
25 funded status of the plan, which is based on the actual

0170

1 assets compared to the actual -- the actual forecast
2 liabilities of the plan, which don't look at the
3 forecast returns, they look at the actual assets held as
4 well as the forecast of the liabilities.

5 Q. Well, is it correct that as a return on the
6 portfolio assets increases, the amount of pension
7 expense that needs to be set aside decreases?

8 A. I think that this document as I mentioned
9 before was part of the retirement plans committee
10 presentation. I'm the secretary of that committee, but
11 I'm not a voting member. Other witnesses, Mr. Gaines
12 and Mr. Valdman, are. Mr. Gaines is the Chairman of
13 that committee, I think that that question would be more
14 appropriate for him.

15 Q. You don't know the answer to my question?

16 A. I'm not sure that I know that my answer would
17 be the most appropriate answer, because I don't have the
18 full fact base that Mr. Gaines has.

19 Q. Going back to page 75 of the exhibit, the
20 second to last column, are the percentages of assets in
21 each portfolio category including the actual percentages
22 of September 30th, '05, and then the next column over is
23 the current target percentage for each of those asset
24 classes; is that right?

25 A. Yes.

0171

1 Q. And at the bottom right-hand corner of the
2 page are the weighted average total return based on the
3 investment advisor's determinations; is that right?

4 A. Well, I think you will -- in that -- within
5 that box, and that's still within the confidential
6 portion I believe, but within that box there are two
7 sets of numbers, the one that was the final
8 recommendation from the investment advisor is the lower,
9 the bottommost of those two, the higher of the two
10 numbers. I would also in terms of my testimony mentions
11 that the -- how the report was used by the committee.
12 On page 2 of my rebuttal testimony of Exhibit 221
13 mentions that the information presented by R.V. Kuhns
14 was considered by the committee but that the rate of
15 return used for the actuarial calculations was not the
16 same rate that's shown in the exhibit, that it was a
17 slightly lower rate.

18 Q. All right, so you're referring back to the 8
19 1/4?

20 A. That's correct.

21 Q. And if we, just for the record, if we look at
22 staying at Exhibit 221, page 2 is not confidential, in
23 that first paragraph at the top you reference an 8.68%
24 and an 8.49%; do you see that?

25 A. Yes.

0172

1 Q. So those numbers are not confidential?

2 A. I'm not positive of that, if that's --

3 JUDGE MOSS: Well, they're not indicated to
4 be confidential, so.

5 THE WITNESS: Okay.

6 MR. CEDARBAUM: I just want to make sure,
7 Your Honor, because in Exhibit 221 those numbers appear
8 in the exhibit, I wanted to make sure that they can be
9 referred to as non-confidential.

10 THE WITNESS: That's my understanding.

11 JUDGE MOSS: Yes, I think that's the case,
12 and I would just say as a general proposition if there's
13 some doubt about that, let's check with opposing counsel
14 beforehand so that we don't have them in the record and
15 then find out that they're confidential.

16 MR. CEDARBAUM: Thank you, those are all my
17 questions. I would offer Exhibit 221.

18 JUDGE MOSS: Hearing no objection --

19 MS. CARSON: No objection.

20 JUDGE MOSS: -- it will be admitted as
21 marked.

22 All right, now no other party had indicated a
23 need to talk with Mr. Hunt, but, Mr. ffitich, I want to
24 ask you in light of some of your questions of Ms. Harris
25 whether you do have any brief questions for Mr. Hunt.

0173

1 I'm not challenging you to think one up.

2 MR. FFITCH: I think no, we don't have
3 anything.

4 JUDGE MOSS: Okay, thank you very much.

5 All right, no other party indicated
6 cross-examination for Mr. Hunt, so let me ask if there
7 are questions from the Bench.

8 Chairman Sidran.

9

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

11 BY CHAIRMAN SIDRAN:

12 Q. Good morning. I just wanted to know if you
13 could give me a sense from the discussion that
14 Mr. ffitch had with Ms. Harris, an issue was raised as
15 to how much of the compensation is paid by rate payers
16 versus presumably shareholders, and we can take I guess
17 all of the executives that are listed in that SEC form,
18 and I don't know what those salaries total, but do you
19 have a thumbnail for the percentage?

20 A. I think if we look at that exhibit might be
21 the best way.

22 Q. Thank you.

23 A. And it's also in my -- it's Exhibit 219 in my
24 testimony. I'm not sure which you prefer to reference,
25 but from Ms. Harris's it's page 10 of Exhibit 177, or in

0174

1 mine it's page 20 of Exhibit 219, the summary
2 compensation table.

3 Q. Which page number are you referring to? I'm
4 looking at Exhibit 219, and it's in the upper right.

5 A. Page 20.

6 Q. All right, thank you.

7 A. So this is a page from the Company's
8 Securities and Exchange filing, the annual report, the
9 proxy. And so that looking at the columns, my
10 understanding is that everything in what's shown as the
11 salary, bonus, and all other compensation columns would
12 be expenses that are -- all other, annual compensation
13 and all other compensation in the far right. The
14 long-term compensation is not part of rate payer
15 expense. So that would include the long-term incentive
16 payments, the LTIP payments, for instance the \$341,000
17 shown for Mr. Reynolds, that was an actual payment
18 received based on performance that ended in 2005. The
19 -- also would not be paid by rate payers is the
20 restricted stock unit awards \$882,000. That value
21 actually shouldn't be added if you're trying to
22 understand a summary for the year of 2005. That was a
23 grant that was awarded during 2005 subject to future
24 restrictions of service and performance. So
25 Mr. Reynolds won't actually be paid the \$882,000 until a

0175

1 future date. That's mentioned elsewhere in the proxy,
2 it was part of the award agreement.

3 Q. All right, just to make sure I understand
4 what you're saying, the columns under annual
5 compensation are paid by rate payers?

6 A. That's my understanding, yes.

7 Q. And long-term compensation columns are paid
8 by shareholders?

9 A. Yes.

10 Q. And all other compensation is paid by whom?

11 A. Paid by the rate payers also is my
12 understanding.

13 CHAIRMAN SIDRAN: All right, thank you,
14 that's all I have.

15 JUDGE MOSS: Commission Oshie.

16 COMMISSIONER OSHIE: No questions, Your
17 Honor.

18 JUDGE MOSS: Commissioner Jones.

19

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

21 BY COMMISSIONER JONES:

22 Q. Just got a couple of questions, if you could
23 just stay on that page, Mr. Hunt, following up on the
24 Chairman's questions, so in the awards, in the column
25 listed awards restricted stock/units.

0176

1 A. Yes.

2 Q. Of the 882 for Mr. Reynolds, does that
3 include the 110,000 shares of restricted stock grants
4 that were previously provided subject to testing?

5 A. I will need to -- let me look at the other
6 parts of the report, it will -- I believe that it does
7 not, that when the grants are made I believe that those
8 other grants had been shown in prior years.

9 Q. Because if you go down to the footnote or the
10 paragraph in Footnote 2, I quote:

11 The number and value of the aggregate
12 restricted stock and restricted stock
13 unit holdings for each of Mr. Reynolds
14 and Mr. Valdman as of the close of
15 trading on December 31, 2005, are,
16 respectively, 110,000 shares and units,
17 with a value of \$2,246,200; and 8,000
18 shares, with a value of 163,360, based
19 on that same closing price.

20 A. Yeah I believe --

21 Q. Which was \$20.42.

22 A. Right, I believe that the footnote is
23 referring to both the 882,000 as well the 1.279 that was
24 from 2004, so it was the 2.2 Million that's totalled in
25 the footnote is the combination of those two years.

0177

1 Each year had a different award, stock award.

2 Q. What's the vesting period on restricted stock
3 grants for Puget Sound Energy for Mr. Reynolds and the
4 other officers; is it 25% per year, or does it vary?

5 A. It varies, and I just want to look at where
6 in the proxy it was described for Mr. Reynolds and --

7 Q. Why don't do you that for the record since
8 we're limited by time for lunch here.

9 A. Okay.

10 Q. My other line of questioning, turn to page 18
11 of that same exhibit, please, where you discuss the tax
12 deductibility issue.

13 A. Page 18 of the exhibit?

14 Q. Of TMH-9.

15 A. All right.

16 Q. And I want to get a better handle on this
17 issue, because there is some controversy, as you know,
18 with this issue in the accounting profession and before
19 Congress now. The law I think as I recall the Internal
20 Revenue Code of '86 was amended in the early '90's to
21 limit or disallow a tax deduction for public companies
22 for compensation over \$1 Million paid to a company's
23 chief executive officer, in this case Mr. Reynolds, and
24 the four other most highly compensated executive
25 officers unless that compensation is "deferred" or is

0178

1 considered "performance based". So my question, and
2 this will be a Bench Request, what I would like to know
3 is both for the test year and over the periods that are
4 mentioned in your proxy statement, that's '03 through
5 '05, could you list what the total amount of these five
6 officers' tax deductible compensation is, i.e, what is
7 the aggregate level? And if you choose to break it down
8 by Mr. Reynolds and the four officers, that's fine too,
9 but I would like to get a sense of how much total
10 compensation the Company is deducting for federal income
11 tax purposes.

12 A. Okay.

13 Q. And I would also like to -- who is your
14 auditing company or consultant on the interpretation of
15 162M?

16 A. Price Waterhouse is the auditor.

17 Q. Could you provide -- has a specific advisory
18 opinion been offered to the Company recently on the
19 adequacy of your structuring of the executive officer
20 compensation on this subject of tax deductibility, and
21 if so, could you provide that for the record?

22 A. Sure, I know that relative to the long-term
23 incentive grants and the restricted stock award that
24 Mr. Reynolds received in 2005, it was a performance
25 based restricted stock award, and so did, does comply as

0179

1 considered performance based compensation and assuming
2 the performance measures are met and so therefore would
3 be excluded from the \$1 Million cap, but I will have our
4 external company -- it's a recap of their -- that they
5 have reviewed our approach to those.

6 COMMISSIONER JONES: Thank you.

7 JUDGE MOSS: I haven't been numbering the
8 Bench Requests, but I believe that would be 2 and 3.
9 Ms. Dodge, did you have, or I'm sorry, Ms. Carson.

10 MS. CARSON: Yes, we will plan to get those
11 as soon as possible and I think by Wednesday.

12 JUDGE MOSS: By Wednesday, all right.

13 MR. CEDARBAUM: Your Honor, I wasn't sure
14 about the numbers, you said that Bench Request was
15 number 3.

16 JUDGE MOSS: I think that we had two there,
17 and I think the test year and proxy year total tax
18 deductible compensation was 2, and then 3 was advisory
19 opinion from Price Waterhouse and so forth. At least
20 that's how I'm counting.

21 Does that complete our questions from the
22 Bench?

23 MS. CARSON: Excuse me, Your Honor, was there
24 also a Bench Request about the amount of time for
25 vesting for the stock?

0180

1 JUDGE MOSS: Commissioner Jones?

2 COMMISSIONER JONES: No.

3 MS. CARSON: Thank you.

4 JUDGE MOSS: All right then, Mr. Cedarbaum,
5 anything you want to follow up before we go to redirect?

6 MR. CEDARBAUM: No.

7 JUDGE MOSS: Any redirect, Ms. Carson?

8 MS. CARSON: No, Your Honor.

9 MR. FFITCH: Excuse me, Your Honor.

10 JUDGE MOSS: I'm sorry?

11 MR. FFITCH: I did want to ask one follow up
12 real quickly.

13 JUDGE MOSS: All right, very quickly, please.

14

15 C R O S S - E X A M I N A T I O N

16 BY MR. FFITCH:

17 Q. Mr. Hunt, I think just two questions. First,
18 if we look at the top line, the 2005 line for
19 Mr. Reynolds.

20 A. Which page?

21 Q. On this is --

22 A. On the summary compensation?

23 Q. Summary compensation page would be 20 of
24 Exhibit 219 I believe.

25 JUDGE MOSS: That's correct.

0181

1 A. Yeah.

2 Q. What would you represent in your professional
3 capacity as the annual total compensation for 2005 for
4 Mr. Reynolds, which of those figures would you include?

5 A. There's not a commonly accepted definition of
6 that. As you are probably aware, this is something of
7 interest, and the Securities and Exchange Commission has
8 created new guidelines, and the reporting tables like
9 the one that we're looking at will be changing. But in
10 terms of what I feel is the most appropriate for 2005,
11 it would include the salary, what's shown as -- it would
12 include the annual compensation columns, it would
13 include the LTIP payout portion, the \$341,000, and it
14 would include the final column on the right, but it
15 would not include the grant that was granted during 2005
16 but is essentially not earned yet and is subject to the
17 vesting and performance conditions before it would
18 actually be paid.

19 MR. FFITCH: All right, thank you, that's
20 all, Your Honor.

21 JUDGE MOSS: Thank you.

22 MS. CARSON: No redirect.

23 JUDGE MOSS: All right, thank you very much,
24 Ms. Carson.

25 Mr. Hunt, I believe that completes your

0182

1 examination, we appreciate you being here and testifying
2 today, you may step down.

3 Unless there's some pressing matter of
4 business I think we can take our luncheon recess until
5 1:30.

6 (Luncheon recess taken at 12:00 p.m.)

7

8 A F T E R N O O N S E S S I O N

9 (1:30 p.m.)

10 JUDGE MOSS: I trust everyone had a pleasant
11 lunch hour. I did a little bit of work during the lunch
12 hour, and one thing I did was check my E-mail, I
13 discovered there Mr. Furuta had sent me an E-mail a day
14 or so ago I guess, PSE response to FEA Data Request
15 Number 03-001 I have marked as 752 for Mr. Story.

16 MS. DODGE: 752?

17 JUDGE MOSS: 752.

18 MR. FURUTA: Thank you, Your Honor. And I
19 have made some copies and brought with me, but I
20 discovered I did not include all of the pages, so I am
21 going to try to get a complete set of paper copies
22 tomorrow if I can find a copy shop.

23 JUDGE MOSS: All right.

24 MS. DODGE: We actually have copies of that,
25 so we can --

0183

1 MR. FURUTA: That would be great actually.

2 JUDGE MOSS: Yeah, that would be convenient.

3 We're a ways from Mr. Story, but it's nice to have
4 things in advance.

5 So all right, with that housekeeping taken
6 care of, you may call your next witness, Ms. Carson.

7 MS. CARSON: Yes, the Company calls Ms. Susan
8 McLain.

9

10 Whereupon,

11

SUSAN MCLAIN,

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

13 herein and was examined and testified as follows:

14

15

D I R E C T E X A M I N A T I O N

16 BY MS. CARSON:

17 Q. Good afternoon, Ms. McLain, could you please
18 state your name and title for the record and spell your
19 name.

20 A. My name is Susan McLain, M-C capital L-A-I-N,
21 and I'm the Senior Vice President of Operations of Puget
22 Sound Energy.

23 Q. Do you have before you what have been marked
24 for identification as Exhibit Number 241 through Exhibit
25 Number 246?

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1 A. Yes.

2 Q. Do these exhibits constitute your prefiled
3 direct and rebuttal testimony and related exhibits in
4 this proceeding?

5 A. Yes.

6 Q. Were your prefiled direct and rebuttal
7 testimonies and accompanying exhibits prepared by you or
8 under your supervision and direction?

9 A. Yes.

10 Q. Do you have any additions or corrections to
11 any of your prefiled direct and rebuttal testimony and
12 accompanying exhibits?

13 A. No.

14 Q. Are your prefiled direct and rebuttal
15 testimonies and accompanying exhibits true and correct
16 copies to the best of your information and belief?

17 A. Yes.

18 MS. CARSON: Thank you.

19 Your Honor --

20 JUDGE MOSS: How about 747, surrebuttal?

21 MS. CARSON: Yes, that has already been
22 admitted, is that --

23 JUDGE MOSS: Oh, did we admit those earlier
24 by stipulation? I didn't mark anything. For the
25 witnesses appearing I didn't mark anything as stipulated

0185

1 in, but okay, I will include it.

2 MS. CARSON: Shall we go ahead and --

3 JUDGE MOSS: That's all right, you don't need
4 to prove it up, that's fine.

5 MS. CARSON: So we offer Exhibit Number 241
6 through Exhibit 246 and Exhibit Number 747.

7 JUDGE MOSS: Any objection?

8 Hearing no objection, those will be admitted.

9 All right, then let's see, all right, I'm
10 going to follow the same practice we adopted with the
11 earlier witnesses and start with you, Mr. Cedarbaum.

12 MR. CEDARBAUM: Thank you.

13

14 C R O S S - E X A M I N A T I O N

15 BY MR. CEDARBAUM:

16 Q. Good afternoon, Ms. McLain.

17 A. Good afternoon.

18 Q. My questions have to do with your
19 sur-surrebuttal testimony that involves the post test
20 year plant addition adjustment that's covered in Exhibit
21 247, I'm sorry, it's covered in 747, and if I could ask
22 you to turn to Exhibit 247.

23 A. To 247 or 747?

24 Q. I think I messed up there, your
25 sur-surrebuttal testimony is Exhibit 747, Staff

0186

1 Cross-Examination Exhibit 247 is the exhibit I would
2 like to have you refer to. Do you have that?

3 A. The data request?

4 Q. Yes. Do you recognize the Staff Exhibit 247
5 as your response to Staff Data Request 393 including the
6 workpaper that's referenced in part B of the response?

7 A. Yes.

8 Q. And looking at the workpaper, it's a long
9 document with many small lines of print and numbers,
10 this is the what Mr. Russell refers to in his
11 surrebuttal testimony as the 20,000 entries in the
12 adjustment and that you clarify in your testimony
13 relates to 6,300 projects; is that right?

14 A. Correct.

15 MR. CEDARBAUM: Your Honor, I would offer
16 Exhibit 247.

17 MS. CARSON: No objection.

18 JUDGE MOSS: Being no objection, it will be
19 admitted.

20 BY MR. CEDARBAUM:

21 Q. With respect to this adjustment that's
22 covered in your sur-surrebuttal testimony, can you tell
23 me how many people at the Company were involved in
24 developing those?

25 A. I'm not certain of the exact number. There

0187

1 was an extract from our accounting system that was used
2 to prepare the document, and then there was a review by
3 the operations personnel as well so that we would
4 exclude the appropriate projects.

5 Q. Just so I understand that correctly, can you
6 -- which departments of the Company were involved,
7 either departments or subdepartments, were involved in
8 developing the proposal?

9 A. The operations department for which I'm
10 responsible as well as individuals from our plant
11 accounting department.

12 Q. And how many people in the operations
13 department were involved?

14 A. I don't know the exact number but I would
15 guess perhaps two or three.

16 Q. And how many people if you know in the other
17 department, the planning department?

18 A. The plant accounting department?

19 Q. The plant accounting department.

20 A. I believe perhaps one or two individuals.

21 Q. And were there support staff in addition to
22 that involved?

23 A. Not that I'm aware of.

24 Q. What period of time was involved for the
25 Company to develop this proposal?

0188

1 A. It took -- I'm not certain of the exact time
2 frame.

3 Q. If you could turn to your surrebuttal
4 testimony, which is Exhibit 747, at page 6, line 15, you
5 use the term historic levels about in the middle of that
6 line; do you see that?

7 A. Yes.

8 Q. When you're talking about historic levels,
9 are you referring to an absolute dollar amount, total
10 dollar amount, or something else?

11 A. I'm looking at it from a general perspective
12 in terms of past spending, and so from looking at the
13 types of expenditures that took place historically and
14 then over the more recent past, say the last five years.

15 Q. I guess I'm just trying to get a better sense
16 for what was encompassed in that term historic levels,
17 whether you were talking about total company, a
18 particular type of plant?

19 A. I would be looking at the type of spending
20 that is performed in operations relative to the electric
21 and gas delivery systems. We were specifically focused
22 there. And because we categorize our projects and we
23 look at new customer construction separate from capacity
24 additions separate from reliability projects, which may
25 be both planned or unplanned reliability, we also look

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1 at and spend dollars on external commitments, for
2 example road widening projects, I was looking at those
3 categories, and because we categorize and have
4 categorized in those buckets of information for a period
5 of time was able to look at historically what we had
6 been spending in those areas as a general rule.

7 Q. At page 7 of your testimony, again sticking
8 with Exhibit 747, at line 4 you indicate that the
9 Company excluded from this adjustment \$87 Million, and
10 then if you could flip to Exhibit 246, which is your
11 SML-6, you have a total amount of about \$145 Million
12 included within the proposal; is that right?

13 A. The net additions is the \$127 Million,
14 because we would subtract off the retirements that were
15 associated with those additions.

16 Q. So the \$145 1/2 Million is before the
17 additions, the netted retirement, before retirements
18 were removed?

19 A. Correct, and so with the retirements you're
20 looking at \$127 Million.

21 Q. But if we were to take the \$87 Million that
22 you refer to on page 7 and the \$145 Million that you
23 refer to in Exhibit 246 and add those two numbers
24 together, is that the gross amount of plant that was
25 considered for this proposal?

0190

1 A. I believe so.

2 Q. So that's about, just adding the two, that's
3 about \$232 Million?

4 A. I agree with that's an approximate number.

5 Q. And so subject to check, is it correct that
6 again before retirements you have included about 64%,
7 about 64% of the T&D additions fit the definition of
8 non-revenue producing, non-expense reducing plant?

9 MS. CARSON: I'm going to object to that as
10 not a proper use of subject to check.

11 JUDGE MOSS: I think it's not necessary that
12 it be subject to check, because the math is
13 straightforward enough, and so if you want to insert
14 that in the brief, the math either holds up or it
15 doesn't, so.

16 I should go a little further. The reason is
17 that it's a fair amount of trouble for the witnesses to
18 go back and do this, and it burdens the record with a
19 lot of back and forth. So unless it's something that's
20 a piece of data that's not in the record that requires
21 checking, I just don't see the point in checking a
22 simple mathematical calculation.

23 MR. CEDARBAUM: Okay, fine, Your Honor, thank
24 you.

25 BY MR. CEDARBAUM:

0191

1 Q. Finally, Ms. McLain, if you could just turn
2 to Exhibit 748C for identification, do you have that?

3 A. Yes, I do.

4 Q. And this is your response including a
5 confidential attachment to Staff Data Request Number
6 408?

7 A. Yes.

8 MS. CARSON: Your Honor and counsel, if I
9 could just point out on this confidential attachment,
10 there is the gray shaded area that is confidential
11 information, this is the attachment to Exhibit 748.

12 JUDGE MOSS: Yes.

13 MS. CARSON: There is some additional
14 confidential, the total column, the last column on that
15 spreadsheet.

16 JUDGE MOSS: The one that says YTD 2006?

17 MS. CARSON: That's right.

18 JUDGE MOSS: Okay, all that's confidential?

19 MS. CARSON: That should all be confidential.

20 JUDGE MOSS: Okay, thank you.

21 BY MR. CEDARBAUM:

22 Q. Ms. McLain, you do recognize this as your
23 entire response to that data request?

24 A. Yes, I believe so.

25 MR. CEDARBAUM: Your Honor, I would offer

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1 Exhibit 748C.

2 MS. CARSON: No objection.

3 JUDGE MOSS: All right, it will be admitted
4 as marked.

5 MR. CEDARBAUM: Those are all my questions,
6 thank you.

7 JUDGE MOSS: Thank you.

8 Mr. ffitch.

9 MR. FFITCH: Thank you, Your Honor.

10

11 C R O S S - E X A M I N A T I O N

12 BY MR. FFITCH:

13 Q. Good afternoon, Ms. McLain. Would you agree
14 that all electric and gas utilities operate plant that
15 is aging?

16 A. Yes.

17 Q. And a utility must continuously reinforce,
18 expand, and replace that plant, correct?

19 A. Yes, although I do believe that over time
20 there has been an additional effort on the behalf of
21 utilities to study and look at aging infrastructure as a
22 whole and develop programs to address those issues as
23 opposed to perhaps waiting for the plant to fail.

24 Q. All right. And am I correct that Puget has
25 historically invested in new plant to expand systems and

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1 to add to its capacity?

2 A. Yes, we have.

3 Q. Puget Sound Energy currently maintains
4 investment grade debt ratings and is able to access
5 capital markets, correct?

6 A. It's my understanding that those -- that
7 question may be better suited for Mr. Valdman.

8 Q. Okay. Can I ask you now to turn to your
9 rebuttal testimony, which is Exhibit 245, page 6, and do
10 you have that?

11 A. Yes, I do.

12 Q. And line 16 of that page you were asked the
13 question, have the other parties disputed your testimony
14 regarding the significant capital expenditures necessary
15 for Puget's transmission and distribution system, right?

16 A. Yes.

17 Q. And just to paraphrase, you indicate that no,
18 the parties have not disputed that, but if we turn the
19 page you go on to say at the top of page 7 that the
20 financial relief they propose will hinder the Company's
21 ability to make the investments required to maintain a
22 safe, reliable, and robust gas and electric system,
23 right, that's your testimony?

24 A. Yes.

25 Q. Now if I could refer you, please, to a

0194

1 Cross-Examination Exhibit Number 249, in part A of that
2 question you were asked to state with specificity, list
3 and quantify the capital investment projects that would
4 not be made if the depreciation tracker is not approved,
5 correct?

6 A. Yes.

7 Q. And then in part B you were asked why the
8 projects that you were asked about in part A, if they
9 were prudent and necessary, why they would not be made
10 in any event in the absence of a depreciation tracker,
11 and you were asked to explain why that would be,
12 correct?

13 A. Yes.

14 Q. Now your responses down below to both of
15 those questions, in essence the response states that
16 Public Counsel has misinterpreted your testimony,
17 correct?

18 A. Yes.

19 MS. CARSON: Objection, the data request
20 response speaks for itself, I object to this
21 characterization of the DR response.

22 JUDGE MOSS: Well, Mr. ffitch, just where are
23 you going with this, are you asking questions about this
24 response?

25 MR. FFITCH: Yes.

0195

1 JUDGE MOSS: Why don't you just refer to the
2 response and have the questions, I think we will be fine
3 with that. I mean we don't need to have her confirm
4 what it says, just ask her questions about it.

5 BY MR. FFITCH:

6 Q. You state in this response, Ms. McLain, that
7 the question is not one of prudence, but one of timing,
8 correct?

9 A. Yes. I do think that it's important to note
10 that there is a wide variety of utility practices
11 relative to transmission and distribution
12 infrastructure, and the intent of my comments are that
13 we look at and have a great deal of projects throughout
14 the year, we look at the best way in order to perform
15 the work to meet the needs of our customers, and in
16 order to do so we believe that our customers want a
17 highly reliable system. We have plans in place in order
18 to perform that work. But because there is a wide
19 variety of practices that are used by many utilities, we
20 could certainly look at a different set of practices
21 which perhaps wouldn't and likely would not provide the
22 level of reliability that we believe our customers want
23 to have.

24 Q. So if I understand your statement about --
25 statement that the question is not one of prudence but

0196

1 one of timing, do I interpret this correctly to mean
2 that Puget would make the necessary and prudent
3 investments that it needs to make in transmission and
4 distribution even without the depreciation tracker?

5 A. I believe that it goes to the point of we
6 would certainly need to prioritize what we can indeed
7 spend. If we are unable to secure the funding that
8 would allow for these investments, then we will need to
9 prioritize what does and does not get spent and when the
10 timing takes place of a particular construction
11 activity.

12 Q. But it's not about whether you take prudent
13 actions or necessary actions, it's about the timing of
14 the recovery for those investments; isn't that what
15 you're saying?

16 A. But it's also the timing as to when the
17 construction takes place. It's not only timing relative
18 to the ability to fund those projects. We will end up
19 with a timing issue sometimes because of whether or not
20 we're able to secure a permit. But additionally a
21 timing issue would -- could be impacted by our ability
22 to achieve the necessary funding, that could impact the
23 amount of money that we have to spend.

24 Q. It's fair to say though, isn't it, that the
25 -- there is also a relationship between the prudence of

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1 an investment and the necessity for investment in terms
2 of operational needs and the timing of the investment?
3 In other words, if your system has certain demands on it
4 now in terms of transmission, you need to respond to
5 that now in terms of actual operational necessity and
6 prudence, not three years from now, correct?

7 MS. CARSON: Your Honor, I want to object to
8 the use of prudence, this calls for a legal conclusion.

9 JUDGE MOSS: Is that a necessary element? I
10 was wondering whether this was the right witness to be
11 evaluating prudence.

12 MR. FFITCH: Well, the witness responded in
13 the data request using the term prudence, Your Honor,
14 which is what prompted my questions.

15 JUDGE MOSS: Well, I think the response
16 though was dictated by the form of the question, what
17 she's saying is that's not the question, so she's not
18 really opining about prudence, that's my point. Can you
19 phrase the question without using the word prudence? I
20 mean it is a term of art in our discipline.

21 MR. FFITCH: Yes, Your Honor.

22 BY MR. FFITCH:

23 Q. I will ask it in terms of necessity, if it's
24 a matter of reasonable operational necessity for the
25 utility, an investment in plant has to be made in a

0198

1 certain time frame, that's also a timing issue, is it
2 not, entirely apart from the cost recovery?

3 A. Yes, we're going to look at the engineering
4 of the particular system, we're going to look at the
5 loading of that system, its ability to deliver the
6 energy at its designed -- within its designed
7 parameters. And based upon what we think may happen
8 with the loading of that equipment, whether it be with
9 our natural gas system or our electric system, we will
10 be looking at how it operates and under what conditions
11 it was designed to operate, and we would certainly want
12 to be looking to either replace or add capacity when
13 that system is becoming overloaded or when we would
14 anticipate that it would be coming at the end of its
15 useful life.

16 Q. All right. So your testimony in this case
17 and the other Company testimony on the depreciation
18 tracker is not an ultimatum to the Commission that if
19 the depreciation tracker is not approved that otherwise,
20 I won't use the word prudent, otherwise necessary
21 investments won't be made, is it?

22 A. Could you repeat your question.

23 Q. Are you or other Company witnesses in support
24 of the depreciation tracker presenting an ultimatum to
25 this Commission that if certain -- if the depreciation

0199

1 tracker is not approved, certain otherwise necessary
2 investments would not be made?

3 A. No. However, we are looking at the growth in
4 the area of investment that we have been and continue to
5 forecast to be made into the future, and it is a
6 significant dollar amount, which is new and different
7 for the Company.

8 Q. Is Puget Sound Energy alleging in this case
9 that as a general proposition the Company denies Puget
10 recovery of its prudently incurred costs?

11 MS. CARSON: Objection, object to the use of
12 the word prudence, calls for a legal conclusion.

13 JUDGE MOSS: Overruled, you can answer that.

14 A. I'm sorry, can you repeat it again, please.

15 BY MR. FFITCH:

16 Q. Is Puget Sound Energy alleging in this case
17 that as a general proposition the Company denies, excuse
18 me, the Commission denies Puget Sound Energy recovery of
19 its prudently incurred costs?

20 A. Not to my knowledge.

21 Q. Can I ask you to turn to page 2 of Exhibit
22 249, and if you look in -- there's a quotation from your
23 testimony there, is there not, at the top of the page?

24 A. I don't have a quote, let me make certain I'm
25 -- Exhibit 249?

0200

1 Q. Right, and there's an indented block.

2 A. I have the indention, I just don't have a
3 quote, sorry.

4 Q. Yeah, no quotation marks. Quotation marks
5 have evolved out of existence over the years in many
6 situations. In the first sentence, which is long,
7 excuse me, I'm sorry, at the beginning of the second
8 sentence on the third line, and you say there that if
9 PSE is restricted in its ability to recover its costs,
10 the Company will be forced to scale back planned
11 transmission and distribution system investments, system
12 maintenance, and inspections. My question is, and you
13 have just testified that you're not alleging here that
14 the Company is being restricted by the Commission from
15 recovering its prudently incurred costs, are you?

16 A. No, it's a matter of timing as to when those
17 costs are recovered.

18 MR. FFITCH: Your Honor, those are all the
19 questions. I just would like to offer the
20 Cross-Examination Exhibits that we have marked, those
21 are Exhibits 248, 249, and 250.

22 MS. CARSON: No objections.

23 JUDGE MOSS: They will be admitted as marked.

24 Thank you, Mr. ffitich, thank you, Ms. McLain.

25 Mr. Furuta, you had some questions?

0201

1 MR. FURUTA: Thank you, Your Honor.

2

3 C R O S S - E X A M I N A T I O N

4 BY MR. FURUTA:

5 Q. Good afternoon Ms. McLain.

6 A. Good afternoon.

7 Q. I'm Norman Furuta for FEA. Ms. McLain, are
8 you the Company's primary witness regarding its proposal
9 on the depreciation tracker?

10 A. I am responsible for information pertaining
11 to the expenditures. John Story would be the witness
12 for the specifics on the depreciation tracker.

13 Q. Okay. And with regard to the depreciation
14 tracker mechanism itself, does your rebuttal testimony
15 merely reiterate the testimony of other witnesses in
16 this case, or does it add something beyond their
17 testimony?

18 A. Since the rebuttal testimony covers other
19 topics beyond the depreciation tracker, I believe that
20 it would -- it is my -- it includes my testimony as well
21 as information on the depreciation tracker.

22 Q. Okay. If we could turn to your rebuttal,
23 Exhibit 245, and page 8 of that exhibit, I believe your
24 answer refers to Mr. Story's testimony. Are you saying
25 anything in your rebuttal testimony that's different

0202

1 from what Mr. Story stated in his testimony, to your
2 knowledge?

3 MS. CARSON: Objection, the testimony speaks
4 for itself.

5 MR. FURUTA: Your Honor, I'm just trying to
6 get clarification as to whether her testimony is
7 entirely consistent with other witnesses or if there are
8 some distinctions we should be made aware of.

9 JUDGE MOSS: I think that's appropriate,
10 we'll allow it.

11 A. This specific area also or points to
12 Mr. Story's testimony and is consistent with his
13 testimony. My aspect is relative to the investments
14 made on the transmission and distribution system in
15 order to maintain its reliability and construction,
16 anticipated construction.

17 BY MR. FURUTA:

18 Q. And it's your understanding that the
19 Commission Staff and several interveners in this
20 proceeding are opposed to Puget's depreciation tracker;
21 is that correct?

22 A. That's my understanding, yes.

23 Q. Page 2 of Exhibit 245 at lines 13 through 15,
24 I believe you state that the Company will be forced to
25 scale back planned transmission and distribution system

0203

1 investments, system maintenance, and inspections if the
2 Company does not get its depreciation tracker mechanism
3 approved in this proceeding; is that correct?

4 A. Yes, in terms of if we are restricted from
5 obtaining funds, we will need to look at how we balance
6 the funds that are available for spending and then what
7 it is that we actually invest in.

8 Q. And it's true though that Puget has not had a
9 depreciation tracker mechanism in the past?

10 A. That's correct, but we have had a tremendous
11 increase in terms of our spending on the T&D or the
12 transmission and distribution system itself, and we see
13 that going on into the future.

14 Q. Now through the period ending June 30, 2006,
15 has the Company scaled back any planned T&D investment
16 because it did not have a depreciation tracker?

17 A. No.

18 Q. And Puget provides both electric and gas
19 distribution service; is that correct?

20 A. Yes.

21 Q. On the electric side Puget faces similar
22 obligations to replace aging plant that other utilities,
23 other electric utilities, also face; is that correct?

24 A. That is correct.

25 Q. And similarly on the gas side Puget faces

0204

1 similar obligations in replacing aging plant that other
2 gas distribution companies face?

3 A. Yes. It's certainly dependent upon the age
4 of a particular utility's system and the size in terms
5 of if you -- depending upon when you made the initial
6 investment at what point in time that older plant needs
7 to be replaced. And so when you have had periods or
8 long historical periods of significant growth, then the
9 aging infrastructure that you need to remediate or
10 replace, that bucket of work is considerably larger than
11 if you have not had growth within your system.

12 Q. Now Puget has experienced customer growth
13 both on the electric utility and gas utility sides of
14 its business; is that correct?

15 A. That's correct.

16 Q. In your opinion, most utilities would view
17 growth in customers and growth in revenue as a positive
18 factor, wouldn't they?

19 A. Absolutely.

20 Q. And is Puget aware of any other utility that
21 has proposed a depreciation tracker mechanism similar to
22 the one proposed in this case?

23 A. I'm not aware of a specific similar tracker,
24 however, Mr. Story has done research in that area.

25 Q. Okay, I will make note of that, thank you.

0205

1 Now up to the present period, the
2 responsibility and risk of increasing depreciation
3 expense between rate cases has been born by
4 shareholders; is that correct?

5 A. Yes.

6 Q. And if the Company's depreciation tracker is
7 implemented, the responsibility and risk of increasing
8 depreciation expense between rate cases would fall on
9 rate payers; is that correct?

10 A. Yes, it is.

11 Q. Okay. Now you would agree, wouldn't you,
12 that depreciation expense is not as volatile in the same
13 way that natural gas and energy costs are volatile?

14 A. I would in terms of the -- I guess it's all a
15 matter of level of volatility. Certainly depreciation
16 expense can change significantly when there are large
17 investments that are being made.

18 Q. But in the way of differentiating,
19 depreciation expenses related to plant investment
20 doesn't tend to be volatile from month to month?

21 A. That's correct.

22 Q. Okay.

23 A. But certainly there are components of the
24 investments that are made in plant that can change quite
25 rapidly. We have seen a significant increase in basic

0206

1 materials and in labor, fuel costs, that have
2 dramatically increased over a relatively short period of
3 time.

4 Q. I believe that you're not the witness that
5 was involved in responding to our data requests
6 regarding depreciation expense volatility; do you
7 recall?

8 A. No, I don't recall that data request.

9 Q. I believe that was Mr. Story, so I will refer
10 those to him.

11 Ms. McLain, what test year is being used in
12 this current case?

13 A. The test year ended September 30th, 2005.

14 Q. Okay. And I would like you to refer to your
15 Exhibit 246, and I believe that's a table entitled PSE
16 Non-Revenue Producing T&D Investment Study.

17 A. Yes.

18 Q. Is my understanding correct from the subtitle
19 there that Puget is asking to update T&D plant additions
20 through June 30 of 2006?

21 A. This is an alternative to the depreciation
22 tracker.

23 Q. Right, and your proposal is to cover the
24 period from the 1st of October of 2005 to the end of
25 June 2006?

0207

1 A. Yes.

2 Q. Okay. Has Puget updated customer growth
3 through June 30th, 2006, to your knowledge?

4 A. Not on this table, but this table also
5 excluded all new customer construction or revenue
6 producing investments, so any project that was
7 affiliated with either a new customer construction
8 effort or a project that was specifically focused or
9 targeted for an existing customer was not included in
10 these investments. Additionally we exclude any
11 investment where the data was incomplete. So, for
12 example, if a project was completed and put in service
13 but the offsetting retirement had not yet been entered
14 into the records, we excluded those projects as well.

15 Q. Okay. In looking over the figures on Exhibit
16 246, it appears to me anyway that this includes both gas
17 and electric T&D additions.

18 A. Yes, that's correct.

19 Q. Is that correct, okay.

20 MR. FURUTA: Thank you, Ms. McLain.

21 I have no further questions, Your Honor.

22 JUDGE MOSS: Thank you, Mr. Furuta.

23 I don't have any other party indicating a
24 desire to cross Ms. McLain, so let me ask if there are
25 questions from the Bench.

0208

1 Commissioner Oshie.

2

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

4 BY COMMISSIONER OSHIE:

5 Q. Ms. McLain, a couple of questions. I want to
6 engage you in what the Company examines before it makes
7 a decision to invest in transmission and distribution,
8 so let's start with a question as to whether you're
9 familiar with the term non-wire solution?

10 A. I am.

11 Q. And can you please describe that, your
12 understanding of that term?

13 A. Yes. Non-wire solution looks at other
14 alternatives to construction of electric either
15 transmission or distribution system. And so in our
16 planning efforts for the electric system, we will,
17 particularly in an area where growth is occurring and
18 loads are growing, if we're looking to add electric
19 system capacity, we not only want to look at a wires
20 solution, but we also want to see if there may be
21 another alternative, a non-wires solution as well.

22 Q. Would you describe then what programs or
23 alternatives that you examine in making the decision as
24 to whether you want to make an investment, in other
25 words what non-wire alternatives do you examine in your

0209

1 analysis of the need for new investment?

2 A. We will look at -- and this is an area where
3 there is growth in technology, so there are a number of
4 pilots that are taking place, but it may include things
5 like demand response, the installation of technology at
6 a substation level to reduce the voltage ever so
7 slightly so that perhaps an investment does not need to
8 be made of additional electric system capacity. It can
9 also include distributed generation or existing
10 generation that perhaps is not economic if you looked at
11 it from a purely generation standpoint but you were able
12 to add in the value associated with the offsetting
13 reduction in the wires investment.

14 Q. And you would -- the Company as well, let's
15 talk about natural gas very briefly, the Company looks
16 at solutions other than adding new facilities when
17 making decisions as to how to serve its customers; is
18 that true?

19 A. That is true.

20 Q. An example of that may be the I believe you
21 have a liquid natural gas facility on the Olympic
22 Peninsula there by I think by Purdy?

23 A. In Gig Harbor, yes.

24 Q. Yeah, which was an alternative to increasing
25 the size of the transmission system to deliver gas to

0210

1 that community?

2 A. That's correct, on the gas system.

3 Q. Now the Company examines, let's go back to
4 electric, the Company examines its non-wire solutions,
5 but does it have any demand response programs within its
6 tariff or alternatives that it can actually turn to
7 before it -- as an alternative to investment?

8 A. Not that I'm aware of. We have had some
9 pilots that we have looked at from time to time and I
10 believe have had discussions on, and we have certainly
11 used some techniques predominantly in more I will say
12 emergency types of situations. But we have particularly
13 on the transmission side, the electric transmission
14 side, going in to Kitsap County where our customers are
15 served through Bonneville transmission line, we have
16 worked with Bonneville and the other public utilities to
17 run several pilots in that area to see if demand
18 response and load control and other alternatives may be
19 an opportunity not to say eliminate a project but to at
20 least defer it from a cost effective standpoint. And so
21 we have been in conversations and have had some pilot
22 activity where we have made phone calls to customers
23 asking them to temporarily reduce at critical peak
24 periods.

25 Q. In your experience, do you have an estimate

0211

1 as to how long it would take the Company to educate the
2 public and in effect institute, if you will, and
3 implement the demand response program as an alternative
4 to building new facilities?

5 A. I don't have a precise, there's hasn't been
6 any analysis that I'm aware of that looks at the
7 required need of educating consumers in order to be able
8 to rely on some of these demand response alternatives.
9 But there is, looking at technology for example, whether
10 it be technology that is installed at the residential
11 home where the thermostat can be reduced a couple of
12 degrees or on a hot water facility to prevent the hot
13 water from heating at this exact moment when you have a
14 critical peak period, some of that technology is
15 becoming more -- is being looked at and piloted as well.
16 And so there may be mechanisms that not only require or
17 that may not require education of the consumer but is
18 simply built in to appliances and technology in the
19 future.

20 Q. And let me, I will just restate the question,
21 it's your understanding that the Company doesn't have
22 any demand response programs in play right now?

23 A. That's correct.

24 COMMISSIONER OSHIE: All right, thank you, no
25 further questions.

0212

1 JUDGE MOSS: Anything further from the Bench?
2 Commissioner Jones.

3

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

5 BY COMMISSIONER JONES:

6 Q. Good afternoon, Ms. McLain.

7 A. Good afternoon.

8 Q. Could you turn to your, just a couple of data
9 related discrepancies, turn to page 241, your prefiled
10 direct, and there was a -- page 12, lines 12 through 14,
11 you were talking about the large capital investments in
12 the energy delivery system, and you quote a -- I think
13 it's a gas main project, is it not?

14 A. Yes.

15 Q. And I have a difficult time understanding
16 what the final --

17 A. Numbers?

18 Q. Yeah, dollar amount, and is it 9 mile 3
19 million or is it 342 million or 34 million, what is it?

20 A. It's 34 million, and it's 9 miles of high
21 pressure gas main.

22 Q. And this is a gas main project?

23 A. Correct.

24 Q. Is this in the 2005 budget, or is it in the
25 forecast of 2006 and 7 budget?

0213

1 A. No, it was a completed project, I believe it
2 was -- it may have been completed in '04, and it may
3 have gone in service in '05, but that general time
4 applies.

5 Q. For the record, at least on the gas energy
6 delivery system, could you provide for the record the
7 three most capital intensive gas projects that you have
8 completed in the last two years, let's say 2004 and
9 2005, to give us an indication of where this fits in?

10 A. Yes.

11 Q. Now if you would turn to your Appendix 244,
12 please.

13 JUDGE MOSS: Let me interrupt.

14 COMMISSIONER JONES: Oh, I'm sorry, Judge.

15 JUDGE MOSS: We'll make that Bench Request, I
16 assume we're going to be getting a written response to
17 that, so that will be Bench Request Number 4.

18 Ms. Carson, do you understand the Bench
19 Request?

20 MS. CARSON: Could we have that repeated.

21 COMMISSIONER JONES: Yes, could you provide
22 the three most capital intensive gas, on the gas side
23 not the electric side, gas projects for the 2004 and 5
24 period.

25 THE WITNESS: And I assume that's specific

0214

1 single projects as opposed to programs?

2 COMMISSIONER JONES: Yes.

3 BY COMMISSIONER JONES:

4 Q. Now, Ms. McLain, would you turn to your
5 Exhibit 244 where you list I think three pages of T&D
6 capital expenditures by category.

7 JUDGE MOSS: I would just mention that's a
8 confidential exhibit.

9 COMMISSIONER JONES: Judge, is it appropriate
10 to talk not about specific numbers but trends?

11 JUDGE MOSS: Well, ask the witness.

12 COMMISSIONER JONES: Okay.

13 BY COMMISSIONER JONES:

14 Q. Why don't I try this one, Ms. McLain, in your
15 arguments, both in your prefiled direct and your
16 rebuttal, and especially as it affects the tracking
17 mechanism proposed, you talk about the increasing T&D
18 investments and the need for increasing expenditures,
19 capital expenditures, both in gas and electric; is that
20 correct?

21 A. Yes.

22 Q. On the gas side, is it true that the
23 forecasted number for 2006 to 2007 actually decreases
24 after you net out new customers?

25 A. Yes.

0215

1 Q. And on the electric side, is it true that the
2 number is a fairly substantial increase after you net
3 out new customers?

4 A. Yes.

5 Q. So it differs from gas to electric; is that
6 correct?

7 A. Yes.

8 Q. Okay. Could you turn to page 34 I think as
9 revised of your direct testimony dealing with
10 reliability measures. Are you there yet?

11 A. Yes, I'm there.

12 Q. Again, this is confidential information I
13 think, but what I want to address is the new, the basic
14 assumptions for your planning for 2006 and 2007. Are
15 you including from a WECC standpoint all of the current
16 standards under the WECC RMS System and as well as the
17 NERC, any modifications to the NERC standards that have
18 become effective in the last year or so?

19 A. If they are known, we have included -- if the
20 standards exist, we have included our plans associated
21 with the transmission system, yes.

22 Q. I think there is a FERC rulemaking on
23 mandatory reliability standards or possible new
24 reliability standards to be implemented both by the NERC
25 and perhaps by the WECC, are you including any of those

0216

1 potential requirements in that rulemaking in your
2 estimate of total expenditures?

3 A. No, what we are including are improvements
4 that we have in some cases agreed upon relative to
5 regional discussion with -- relative to the transmission
6 system. So, for example, if conversations have taken
7 place, and I used an example in my testimony of a
8 project, transmission project, where we reconducted a
9 line but there was also work that Bonneville Power
10 Administration needed to perform on their system, as did
11 Seattle City Light, in order to achieve the full benefit
12 of that transmission upgrade. So certainly projects
13 where there has been dialogue between intertied
14 transmission operators, those projects are also
15 included, but not specific to what we would envision
16 taking place with the reliability standards moving
17 forward.

18 Q. So is it fair to assume that that number,
19 that those reliability standards could in fact impose
20 more obligations and more investments on the Company?

21 A. They could, yes.

22 Q. And when do you anticipate those requirements
23 becoming a little clearer, at least from a known and
24 measurable standpoint?

25 A. We're following the dialogue and discussion,

0217

1 and certainly we have participants that participate in
2 the IEEE dialogues or NERC WECC committees, but at this
3 point I don't know that I have an idea of when they may
4 take place.

5 Q. On the electric side of T&D investments, is
6 it fair to summarize that the biggest component of, by
7 subcategory based on the way you presented it to the
8 Commission, that your biggest increasing component in
9 the last year or so and in the future will be electric
10 reliability investments?

11 A. In the near term, yes.

12 COMMISSIONER JONES: Thank you.

13 JUDGE MOSS: Okay, that would complete our
14 questions from the Bench, let me ask if that prompted
15 anything from those who examined this witness?

16 No.

17 Any redirect?

18 MS. CARSON: Yes, I do have some redirect.

19

20 R E D I R E C T E X A M I N A T I O N

21 BY MS. CARSON:

22 Q. Ms. McLain, Mr. ffitch asked whether Puget
23 asserts that the Commission is denying the Company
24 recovery of prudently incurred costs, and you said no.
25 But did his question address the timing of that recovery

0218

1 or regulatory lag?

2 A. As I understood the question, it was to a
3 certain extent a hypothetical question and did not touch
4 on when the timing of the recovery would take place.

5 Q. Is the company more concerned with this
6 regulatory lag at this time than it has been in the
7 past?

8 A. Yes, we are. Certainly the dollar amount of
9 investment is and has been growing and is continuing to
10 -- we expect it to continue to grow. We have seen not
11 only do we have a larger system, the system is
12 continuing to age, but we're also looking at how to best
13 address the system through our best practice work or
14 dialogues with other utilities in terms of programs that
15 they have implemented from a remediation standpoint. We
16 have adopted and are continuing to look at how do we
17 best care for our system to meet our customer
18 expectations, and we are seeing more programs being
19 focused on the reliability and the upgrade of aging
20 infrastructure and systems in general. So, for example,
21 we have had a cable replacement program, we envision and
22 have put forward plans for a pole replacement program,
23 we expect new findings to come about, new technology to
24 be developed whereby we are making more investments in
25 our aging infrastructure as well.

0220

1 thing, for those out of state witnesses that no parties
2 have cross, should we perhaps pick a time where they
3 should at least be made available for planning purposes
4 in case there are questions from the Bench?

5 JUDGE MOSS: We'll take that up if need
6 arises and give them adequate opportunity to prepare.

7 MR. FURUTA: That would be great, thank you,
8 Your Honor.

9 JUDGE MOSS: All right, then I think we can
10 let the Commissioners get back to the important other
11 business pending before the Commission, and we'll take
12 care of a couple of housekeeping matters, and then we'll
13 all go have a leisurely dinner somewhere.

14 In terms of our exhibits, now let's see,
15 Mr. Cedarbaum, you distributed to me earlier the
16 revisions to Mr. Russell's testimony, actually just one,
17 page 24 I guess, the parties all have that, is that
18 right?

19 MR. CEDARBAUM: I have extra copies.

20 MS. DODGE: We do.

21 JUDGE MOSS: Okay. If anybody doesn't have
22 that, I just want to point out that it was distributed
23 and we will be substituting it in our materials.

24 Does anybody anticipate additional exhibits
25 that are not currently identified that we will need to

0221

1 deal with tomorrow?

2 MR. FFITCH: Yes, Your Honor.

3 JUDGE MOSS: Okay, Mr. ffitich, do you have
4 those with you?

5 MR. FFITCH: No, Your Honor, I do not.

6 JUDGE MOSS: Okay, well, let's -- what's the
7 volume like, just a couple?

8 MR. FFITCH: Yes, these would be for
9 Mr. Valdman.

10 JUDGE MOSS: Okay, is he up tomorrow then?

11 MS. DODGE: He's first thing in the morning,
12 so can you let us know what is coming?

13 JUDGE MOSS: Yeah, let's go ahead and find
14 out what we've got coming, and it may turn out that the
15 parties already have it.

16 MR. FFITCH: That was my plan. We received
17 responses to Data Requests 24 and 25 I believe it was
18 Friday, and we would like to identify a response to
19 Joint Data Request 24 as an exhibit for Mr. Valdman.
20 And then 3 pages from number 25, which is an EEI report,
21 pages 24, 25, and 30. Based on, you know, past
22 experience, it may be that the Company would like to put
23 in the full report. Frankly I don't know how big the
24 report is, we were provided with a link to the report
25 and have just identified these three pages.

0222

1 JUDGE MOSS: In the abstract, does the
2 Company have any sense of whether it would want to put
3 in the whole report, or can we figure that out?

4 MS. DODGE: We can look at that tonight, and
5 we will --

6 JUDGE MOSS: All right, well, you all decide
7 that, and whichever way everybody agrees it should be
8 done, just bring that paper tomorrow.

9 MR. FFITCH: All right, and I'm sure we won't
10 have an objection to the whole thing coming in.

11 JUDGE MOSS: Well, we don't want to reproduce
12 it if it's not necessary, so if you can consult with
13 Ms. Dodge.

14 MR. FFITCH: We also have a couple of pages
15 from the 1979 annual report.

16 JUDGE MOSS: Also for Mr. Valdman?

17 MR. FFITCH: For Mr. Valdman.

18 JUDGE MOSS: And what annual report is that?

19 MR. FFITCH: 1979 Puget Sound Energy Annual
20 Report.

21 JUDGE MOSS: 1979?

22 MS. DODGE: Is there a reason this wasn't
23 made available, it's been around since 1979 presumably.
24 We had a cross-exhibit deadline last Wednesday for a
25 reason.

0223

1 JUDGE MOSS: Ms. Dodge, I always try to be a
2 little bit flexible if the number is small, and
3 particularly these last two, for example, apparently
4 just got the response.

5 MR. FFITCH: That is the reason, Your Honor,
6 it's a reasonable question, but it's connected to
7 information that's in the exhibit or Joint Response 25
8 that we just got, and that triggered --

9 JUDGE MOSS: 24 or 25?

10 MR. FFITCH: 25.

11 JUDGE MOSS: Oh.

12 MR. FFITCH: Both 24 and -- the entirety of
13 24 we're identifying as a response, and then 25 is an
14 EEI report we're identifying pages, this is confusing,
15 pages 24 and 25 of 25.

16 JUDGE MOSS: Okay, I'm not confused by that,
17 but you refer to them as joint, and that is confusing
18 me.

19 MR. FFITCH: They were joint data requests
20 related to some of the joint stipulations.

21 JUDGE MOSS: All right.

22 MR. FFITCH: And also page 30 of that EEI
23 report.

24 JUDGE MOSS: All right.

25 MR. FFITCH: So that triggered some -- that

0224

1 page 30 triggered some questions that led us to the
2 1979 --

3 JUDGE MOSS: Okay, is that it --

4 MR. FFITCH: -- material.

5 JUDGE MOSS: -- for Mr. Valdman?

6 MR. FFITCH: Yes, Your Honor. We have some
7 other matters for other witnesses.

8 JUDGE MOSS: I wanted to mark these. I will
9 mark these as 771, 772, and 773 for identification.

10 MR. FFITCH: So Exhibit 24 is 771?

11 JUDGE MOSS: Correct.

12 MR. FFITCH: Or DR 24 rather 771.

13 JUDGE MOSS: Correct.

14 MR. FFITCH: DR 25 772.

15 JUDGE MOSS: Correct.

16 MR. FFITCH: And then 26 is the annual report
17 pages?

18 JUDGE MOSS: Well, 773 is the annual report
19 pages.

20 MR. FFITCH: Yeah, I'm sorry.

21 MS. DODGE: Mr. ffitich, do you have a copy of
22 the 1979 annual report?

23 MR. FFITCH: A complete copy?

24 MS. DODGE: Yes.

25 MR. FFITCH: I believe so. I believe I can

0225

1 get that this afternoon.

2 MS. DODGE: Well, if you don't have it, we
3 can probably get it too, but I thought it might save
4 some running around.

5 MR. FFITCH: I believe Mr. Lazar has a copy
6 of it, yes.

7 JUDGE MOSS: Actually, let's go off the
8 record for the rest of this, and then we will
9 memorialize it at the appropriate moment tomorrow.

10 (Discussion off the record.)

11 JUDGE MOSS: We spent a little time off the
12 record discussing some changes to our exhibit list in
13 terms of some additions by Mr. ffitch and some
14 replacements, also emendation or amendment I suppose I
15 should say to the cross-examination estimates by
16 Northwest Energy Coalition.

17 There being no other business today, we will
18 stand in recess until 9:30 tomorrow morning.

19 (Hearing adjourned at 2:45 p.m.)

20

21

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25