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1 BEFORE THE WASHINGTON UTILITIES AND
2 TRANSPORTATION COMMISSION

3 WASHINGTON UTILITIES AND)
4 TRANSPORTATION COMMISSION,)
5 Complainant,)DOCKET NO. UE-060266
6 vs.)DOCKET NO. UG-060267
7 PUGET SOUND ENERGY, INC.,)
8 Respondent.)Volume V
)Pages 432-632
)
)

9 A hearing in the above matter was held on
10 September 20, 2006, at 9:30 a.m., at 1300 South
11 Evergreen Park Drive Southwest, Room 206, Olympia,
12 Washington, before ADMINISTRATIVE LAW JUDGE DENNIS MOSS
13 and CHAIRMAN MARK SIDRAN, and COMMISSIONER PHILIP
14 JONES, and COMMISSIONER PATRICK OSHIE.

15
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1

PROCEEDINGS

2

Wednesday, September 20, 2006 at 09:33 AM

3

4

JUDGE MOSS: Let's be on the record.

5

6

Good morning, Mr. Finklea. You have not entered an appearance previously, so I would ask you to do the short form, since we have your detailed information.

7

8

9

10

11

12

MR. FINKLEA: Thank you, Your Honor. Ed Finklea representing the Northwest Industrial Gas Users of the law firm Cable Huston in Portland. Thank you.

13

14

15

16

JUDGE MOSS: Is there anyone else who hasn't previously entered an appearance in our hearing who would wish to do so this morning either present in the room or --

17

18

19

MR. BOEHM: Kurt Boehm on behalf of Kroger, 36 East 7th Street, Cincinnati, Ohio 45202. Thank you.

20

21

22

23

JUDGE MOSS: Anyone on the bridgeline that wishes to enter an appearance if they have not previously done so as a representative in this proceeding?

24

25

Hearing nothing, we will -- or I should ask, is there any preliminary business before we

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1 swear Dr. Dubin and get started?

2 Apparently not. Dr. Dubin, please raise
3 your right hand.

4

5 DR. JEFFREY DUBIN,

6 produced as a witness, having been first duly sworn,

7 was examined and testified as follows:

8

9 JUDGE MOSS: Thank you. Please be seated.

10

11 DIRECT EXAMINATION

12

13 BY MS. DODGE:

14 Q Would you please state your name and
15 title, and spell your name for the court reporter.

16 A Jeffrey Dubin, D-u-b-i-n. I am Professor
17 of Economics, California Institute of Technology.

18 Q Do you have before you what have been
19 marked for identification as Exhibit Nos. 81
20 through 91?

21 A Yes.

22 Q Do these constitute your prefiled direct
23 and rebuttal testimony and related exhibits in this
24 case?

25 A Yes, they do.

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1 Q Were they prepared by you, or under your
2 direction and supervision?

3 A Yes.

4 Q Are the prefiled direct and rebuttal
5 testimonies and accompanying exhibits true and
6 correct, to the best of your knowledge?

7 A Yes.

8 MS. DODGE: Your Honor, Puget Sound Energy
9 offers Exhibits 81 through 91 into evidence, and
10 offers Dr. Dubin for cross-examination.

11 (EXHIBIT OFFERED.)

12 JUDGE MOSS: Hearing no objection, those
13 will be admitted as marked.

14 (EXHIBIT RECEIVED.)

15 JUDGE MOSS: And the only one indicating
16 cross-examination for Mr. Dubin is Mr. Cedarbaum.

17

18 CROSS EXAMINATION

19

20 BY MR. CEDARBAUM:

21 Q Good morning, Dr. Dubin.

22 A Good morning.

23 Q Is it correct that the subject addressed
24 by your testimony concerns weather normalization
25 methodology?

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1 A Yes, it is.

2 Q And is it also correct that the
3 controversy between the Company and the Staff in
4 that area concerns the appropriate balance point
5 temperature, or temperatures to be used to
6 determine gas and electricity consumption?

7 A I would not say that that is the only
8 controversy that remains at this point. That is
9 certainly one area. There's a second controversy,
10 which is that Dr. Mariam is asking the Commission
11 to order the Company to embark on a new set of
12 studies, and those studies are somewhat
13 controversial to the Company, and something the
14 Company objects to doing.

15 Q But those studies relate to the issue on
16 balance point temperature, or his concerns with
17 respect to that?

18 A I don't think Dr. Mariam found any
19 difficulty with any other part of the testimony,
20 that's correct.

21 Q And in this case you advocate that the
22 Company used more than one balance point
23 temperature to weather normalize system-wide --
24 excuse me, to weather normalize system-wide and
25 rate schedule-wide electricity and gas consumption;

0441

1 is that correct?

2 A Yes, balance point temperatures are simply
3 points of measurement for the temperature
4 distribution, so that the issue is when does the
5 heating actually trigger in a certain house? And
6 in some houses it triggers at 65 degrees, and some
7 houses it triggers at lower temperatures.

8 And we found empirically that using more
9 than one balance point was the right way to go to
10 represent the bulk of homes on the Puget service
11 territory.

12 Q Is it correct that the Company adopts your
13 testimony for system-wide normalization, but not
14 for rate schedule-wide normalization? In other
15 words, they continue to use 65 degrees Fahrenheit
16 for the rate schedule normalization?

17 A In the case of gas for system-wide they
18 are using both balance point temperatures. But for
19 rate schedules, it's correct, the Company has not
20 adopted multiple base point temperatures.

21 Q And is it correct, if you can recall, that
22 in the 2004 rate case in which you also
23 testified -- do you recall that?

24 A Yes.

25 Q The Company in that case used 65 degrees

0442

1 Fahrenheit for both system-wide and rate schedule
2 normalization; is that right?

3 A Well, that's not exactly correct, because
4 the rate schedule normalization for electricity
5 uses two measures of the temperature distribution.
6 It's a little technical, but there are two
7 measurements used. Additionally, the rate schedule
8 work looks for a particular temperature dynamically
9 by passing through the data. And it doesn't use
10 65 degrees. It might use 50 degrees, or 55 degrees in
11 certain rate schedules.

12 So I would say that the Company's approach
13 in the previous general rate case relied on
14 multiple temperatures as well, and that's currently
15 the state of affairs.

16 Q Were the multiple temperatures that were
17 relied upon in the 2004 case the same as you are
18 recommending the current case?

19 A The rate schedule normalization has not
20 changed for electricity in this case from the 2004
21 GRC.

22 Q But system-wide it has?

23 A System-wide we have made adjustments. We
24 have added a second base point temperature.

25 Q As a general matter, would you agree that

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1 electricity and natural gas consumption vary by
2 customer class?

3 A Yes.

4 Q And is it also correct that electricity
5 and natural gas consumption fluctuate throughout
6 the day?

7 A Certainly.

8 Q If I could have you turn to Exhibit No.
9 92, which is a Staff cross exhibit for you. Do you
10 recognize this as your response to Staff Data
11 Request 401?

12 A Yes.

13 MR. CEDARBAUM: I would move the admission
14 of Exhibit 92.

15 (EXHIBIT OFFERED.)

16 JUDGE MOSS: No objection.

17 (EXHIBIT RECEIVED.)

18 Q BY MR. CEDARBAUM: Turning to Exhibit 93,
19 do you recognize this as your response to Staff
20 Data Request 402?

21 A Yes.

22 Q And your response in the second paragraph,
23 the second sentence refers to a 2004 residential
24 appliance survey. Do you see that?

25 A Yes.

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1 Q Is that the same survey that your Exhibits
2 88 and 89 relied upon? And those are JAD-8 and 9.

3 A Yes.

4 Q You may want to turn to 88 and 89,
5 although I'm not sure you will need to. But the
6 survey from 2004 was based upon a questionnaire
7 that's included in both of these exhibits; is that
8 right?

9 A That's correct.

10 Q Do you know if the Commission Staff
11 participated in the development of those
12 questionnaires?

13 A Actually, I don't.

14 MR. CEDARBAUM: Your Honor, I would move
15 the admission of Exhibit 93.

16 (EXHIBIT OFFERED.)

17 JUDGE MOSS: That will be admitted.

18 (EXHIBIT RECEIVED.)

19 Q BY MR. CEDARBAUM: Your response to Staff
20 Data Request 402, which is Exhibit 93, in the
21 second to last paragraph on the first page, refers
22 to ASHRAE. Do you see that?

23 A Yes.

24 Q As you indicate, that stands for the
25 American Society of Heating, Refrigerating and Air

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1 Conditioning Engineers?

2 A Yes.

3 Q So you have relied upon professional
4 organizations in your own work, such as this?

5 A Yes.

6 Q If you could turn to Exhibit 96 for
7 identification?

8 A Yes.

9 Q This references an organization called
10 IEEE. Do you see that?

11 A Yes.

12 Q And is it correct that that stands for the
13 Institute of Electrical and Electronic Engineers;
14 is that right?

15 A I think that sounds right.

16 Q Have you heard of that organization
17 before?

18 A Yes.

19 MS. DODGE: I am sorry. I have lost track
20 of where we are.

21 MR. CEDARBAUM: Exhibit 96. I jumped
22 ahead a little, sorry.

23 Q BY MR. CEDARBAUM: Is it correct that IEEE
24 is a professional organization that also studies --
25 that studies the relationship between energy

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1 consumption and thermal characteristics of
2 buildings?

3 A Not really.

4 Q Is that one of their functions?

5 A Not really. The IEEE is a professional
6 organization of members, and those members might
7 conduct studies and publish them in the IEEE. But
8 I don't think the IEEE is conducting studies per
9 se.

10 Q Do these studies concern, in some cases,
11 the relationship between energy consumption and
12 thermal characteristics?

13 A They have from time to time, yes.

14 MR. CEDARBAUM: Thank you. Your Honor, I
15 would move the admission of Exhibit 96.

16 (EXHIBIT OFFERED.)

17 MS. DODGE: PSE objects. We don't know
18 what this is or where it came from. It's never
19 appeared in this case before, this cross exhibit.
20 So we're looking for some foundation or questions
21 on it.

22 Q BY MR. CEDARBAUM: Have you ever seen this
23 document, Dr. Dubin?

24 A I have seen the document when it became
25 apparent to me you were going to use it for

0447

1 cross-examination, yes.

2 Q But not before then?

3 A I had never seen the document before then.
4 It wasn't identified by Dr. Mariam, or disclosed in
5 the weather collaborative. It was not in a paper I
6 produced.

7 Q Are you familiar at all with the
8 publications of IEEE with respect to energy
9 consumption and thermal characteristics of
10 buildings?

11 A I would say I am.

12 Q And this document that is included in 96
13 is not part of the basis for your familiarity?

14 A Well, you understand that as a journal,
15 this organization is publishing literally thousands
16 of articles a year. And what I do when I am
17 looking for a particular subject is I go off and
18 try to find topic areas, usually within economic
19 statistics, mathematics, and sometimes in
20 engineering. This is not one I had come across, or
21 I had read. It's a 1988 paper.

22 Q Is it correct that some of the studies and
23 documentation that you include in your own
24 testimony and exhibits concern studies that were
25 taken and documents that were written in the 1980s?

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1 A That's correct.

2 Q Let's move on then. If you could turn
3 to --

4 JUDGE MOSS: Are you withdrawing your
5 proffer?

6 MR. CEDARBAUM: Yes.

7 Q BY MR. CEDARBAUM: If you turn to Exhibit
8 94 for identification, do you recognize this as
9 your document to your response to Staff Data
10 Request 403?

11 A Yes.

12 Q And Exhibit 95, do you recognize that as
13 your response to Staff Data Request 404?

14 A Yes.

15 MR. CEDARBAUM: Your Honor, I offer
16 Exhibits 94 and 95.

17 (EXHIBIT OFFERED.)

18 JUDGE MOSS: Those will be admitted as
19 marked.

20 (EXHIBIT RECEIVED.)

21 Q BY MR. CEDARBAUM: If you could turn to
22 your rebuttal testimony, which is Exhibit 85.

23 A (Complies.)

24 Q At page 3.

25 A Yes.

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1 Q At line 6, beginning at line 6, you state,
2 "PSE worked long and hard, both within and in
3 addition to the collaborative process with
4 Commission Staff, to analyze and improve on its
5 weather normalization methodology."

6 Do you know whether or not the specific
7 balance point temperature that you have recommended
8 in this case was brought to Staff during the
9 collaborative process?

10 A I would say that the issue of additional
11 balance points did not come up during the
12 collaborative, so I guess the answer to that would
13 be no, as far as I know.

14 Q If you could look at Exhibit 86, page 6,
15 there's an entry for Staff Data Request 16. And I
16 am looking at the supplemental one, so this is the
17 third block -- excuse me, the second block up from
18 the bottom. Do you see that?

19 A Yes.

20 Q And the response portion of that block,
21 there's reference to a PSE survey. It's about the
22 third line down in the middle. Do you see that?

23 A Yes.

24 Q Is that the same 2004 survey we discussed
25 earlier?

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1 A Yes.

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

4 JUDGE MOSS: Thank you, Mr. Cedarbaum. I
5 want to be sure that I am clear on the exhibits.
6 You are not offering 97, either?

7 MR. CEDARBAUM: No. I am sorry. I need
8 to double-check.

9 JUDGE MOSS: While you are checking --
10 Mr. ffitch, you had prefiled a cross
11 exhibit, but you have no cross for this witness, as
12 I understand it?

13 MR. FFITCH: That's correct, Your Honor.

14 MR. CEDARBAUM: I wouldn't offer 97, but I
15 would offer 98. And I would ask the witness to
16 identify it if it's necessary, or we can stipulate
17 it.

18 (EXHIBIT OFFERED.)

19 JUDGE MOSS: It says PSE response to Staff
20 Data Request, I don't imagine the Company has an
21 objection to that. We will admit that.

22 (EXHIBIT RECEIVED.)

23 MR. CEDARBAUM: Thank you.

24 JUDGE MOSS: I will re-mark that as a
25 Staff exhibit.

0451

1 Any questions for Dr. Dubin from the
2 bench?

3 JUDGE MOSS: Apparently not.

4 Dr. Dubin, we appreciate you coming and
5 providing testimony today, and you may step down.

6 THE WITNESS: Thank you.

7 JUDGE MOSS: I believe our next witness is
8 actually a Staff witness.

9 MR. CEDARBAUM: Yes, Dr. Mariam.

10 JUDGE MOSS: Mr. Mariam is approaching the
11 stand.

12 DR. YOHANNES MARIAM,
13 produced as a witness, having been first duly
14 sworn, was examined and testified as follows:

15

16 THE WITNESS: I do.

17 JUDGE MOSS: Thank you. Please be seated.

18 (Discussion off the record.)

19 JUDGE MOSS: Let's go ahead,

20 Mr. Cedarbaum.

21

22 DIRECT EXAMINATION

23

24 BY MR. CEDARBAUM:

25 Q If you could please state your full name,

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1 spelling the last name.

2 A Yohannes Mariam, M-a-r-i-a-m.

3 Q And it's Dr. Mariam?

4 A Yes.

5 Q If you could please give us your business
6 address, and your employment capacity with the
7 Commission?

8 A My business address is 1300 South
9 Evergreen Park Drive, Southwest, Olympia,
10 Washington 98502. I work as an economist in the
11 regulatory section of the Commission.

12 Q Referring you to what has been marked for
13 identification as Exhibit 552, do you recognize
14 that as your direct testimony in this case?

15 A Yes, it is.

16 Q And that document was prepared by you, or
17 under your supervision and direction?

18 A Yes, it is.

19 Q And is it true and correct, to the best of
20 your knowledge and belief?

21 A Yes.

22 Q Referring you to Exhibits 553 and 554 for
23 identification, do you recognize those documents as
24 exhibits associated with your direct testimony?

25 A Yes, they are.

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1 Q And were they also prepared by you, or
2 under your supervision and direction?

3 A Yes.

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

6 A Yes, they are.

7 MR. CEDARBAUM: Your Honor, I would offer
8 Exhibits 552, 553, and 554.

9 (EXHIBIT OFFERED.)

10 JUDGE MOSS: They are admitted as marked.

11 (EXHIBIT RECEIVED.)

12 JUDGE MOSS: Mr. ffitch, I believe you
13 indicated a brief cross-examination for Dr. Mariam.

14 MR. FFITCH: Yes, Your Honor. Thank you.

15

16 CROSS EXAMINATION

17

18 BY MR. FFITCH:

19 Q Good morning, Dr. Mariam.

20 A Good morning.

21 Q You have been with the Commission since
22 1999?

23 A Yes.

24 Q And in the seven years with the
25 Commission, in your experiences is weather

0454

1 normalization a fairly contentious issue in rate
2 cases?

3 A It has been.

4 Q Does the Commission have a specific
5 established precedent or definite preferred method
6 for weather normalization outlined in rate case
7 orders?

8 MS. DODGE: Objection. I believe
9 Mr. ffitch is walking down a line of friendly
10 cross.

11 JUDGE MOSS: What is your position with
12 respect to the weather normalization issue,
13 Mr. ffitch. Is it adverse to Staff's?

14 MR. FFITCH: Your Honor, I can connect
15 this up very shortly. Our position on decoupling
16 is adverse to Staff. And there is a relationship
17 between weather normalization analysis and
18 decoupling in this case, and that's what I want to
19 explore. I am just establishing the background for
20 that.

21 JUDGE MOSS: I am confused. My
22 understanding of Dr. Mariam's testimony is that it
23 concerns the subject of the appropriate methodology
24 to be applied for weather normalization. And if
25 you are telling me you don't disagree with him on

0455

1 that, then I don't see why we would have you
2 crossing him.

3 MR. FFITCH: Your Honor, we don't have a
4 specific position on weather normalization, either
5 in agreement or disagreement, with Staff's position
6 or the Company's position. However, it's highly
7 relevant to the decoupling mechanisms that are
8 being proposed by different parties in this case,
9 and I'm simply going to ask him, I think at most,
10 three or four questions just to establish the
11 relationship between weather normalization and
12 decoupling.

13 MR. CEDARBAUM: Your Honor, I guess I
14 would object as well as being beyond the scope of
15 this witness' testimony, and there being no
16 foundation yet for any connection between this
17 witness' testimony and decoupling.

18 JUDGE MOSS: Well, I think I will sustain
19 Staff's objection. I don't see that it's within
20 the scope of his testimony, and cross is confined
21 to the scope of the witness' direct testimony.

22 So unless you can show us how it's somehow
23 reflected in his testimony, I will sustain the
24 objection.

25 MR. FFITCH: Simply asking Dr. Mariam, as

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1 the Staff's expert on weather normalization, a
2 topic that is included in Staff's general case to
3 provide some testimony that is relevant to the
4 issue. But if that's not persuasive to the bench,
5 I will conclude my questions.

6 JUDGE MOSS: Thank you.

7 MR. FFITCH: No further questions.

8 JUDGE MOSS: Dr. Mariam, it was a brief
9 stay on the stand, but we appreciate you being here
10 to provide your testimony today. And you may step
11 down.

12 THE WITNESS: Thank you.

13 JUDGE MOSS: I believe the next witness is
14 a PSE witness. Ms. Dodge? Ms. Carson? You will
15 be handling that, Ms. Dodge?

16 MS. DODGE: Yes, Your Honor. The Company
17 calls Mr. Ronald Amen.

18 JUDGE MOSS: Mr. Amen please raise your
19 right hand.

20

21 RONALD AMEN,
22 produced as a witness, having been first duly sworn,
23 was examined and testified as follows:

24 THE WITNESS: I do.

25 JUDGE MOSS: Thank you. Please be seated.

0457

1 Your counsel is bringing you some water there.

2

3

DIRECT EXAMINATION

4

5 BY MS. DODGE:

6 Q Mr. Amen, please state your name and
7 title, and spell your name for the court reporter.

8 A My name is Ronald Amen, A-m-e-n. I am
9 director at Navigant Consulting, Inc.

10 Q Do you have before you what have been
11 marked for identification as Exhibit Nos. 21
12 through 30?

13 A Yes, I do.

14 Q And do these constitute your prefiled
15 direct testimony and related exhibits in this
16 proceeding?

17 A Yes, they do.

18 Q Do you also have before you Exhibit Nos.
19 38 through 48?

20 A Yes.

21 Q Do these exhibits constitute the prefiled
22 direct testimony of Ms. Janet Phelps and related
23 exhibits, each of which you have adopted for
24 purposes of this proceeding?

25 A Yes.

0458

1 Q Do you have also have before you Nos. 31
2 through 37?

3 A Yes.

4 Q And are these your prefiled rebuttal
5 testimony and related exhibits?

6 A Yes.

7 Q As to your testimony and exhibits, were
8 they prepared by you or under your supervision and
9 direction?

10 A Yes, they were.

11 Q Did you assist in the preparation of
12 Ms. Phelps' exhibits and testimony?

13 A Yes.

14 Q And have you examined them, and are you
15 satisfied as to it their veracity?

16 A Yes, I am.

17 Q Do you have any corrections to your
18 exhibits for testimony?

19 MS. DODGE: And I should say we have
20 passed out an errata sheet for Mr. Amen.

21 JUDGE MOSS: Right. And so we don't need
22 those, other than through the errata.

23 Q BY MS. DODGE: With the corrections shown
24 on the errata sheet, are Exhibit Nos. 21 through 48
25 true and correct, to the best of your knowledge and

0459

1 belief?

2 A Yes.

3 MS. DODGE: Your Honor, PSE offers into
4 evidence Exhibits 21 through 48, and offers
5 Mr. Amen for cross-examination.

6 (EXHIBIT OFFERED.)

7 JUDGE MOSS: Those exhibits will be
8 admitted as identified.

9 (EXHIBIT RECEIVED.)

10 JUDGE MOSS: And let me see,
11 Mr. Cedarbaum, you have indicated about 15 minutes
12 for this witness.

13 MR. CEDARBAUM: Yes, Your Honor.

14

15 CROSS EXAMINATION

16

17 BY MR. CEDARBAUM:

18 Q Good morning, Mr. Amen.

19 A Good morning.

20 Q If I could have you turn to what has been
21 marked for identification as Exhibit 68.

22 A (Complies.) Yes, I have that.

23 Q Okay. At page 4 of the exhibit, this is a
24 page entitled, "Estimated Average Monthly Bill
25 Under Current and Proposed Rates for Rate Schedule

0460

1 23." Do you see that?

2 A Yes, I do.

3 Q And this shows the estimated average
4 monthly bill under current rates and your proposed
5 rates with a \$17 customer charge; is that right?

6 A That's correct.

7 Q And the current customer charge, as you
8 show in that current rate column, is \$6.25?

9 A Yes.

10 Q Is it correct that using the \$6.25, that
11 the current customer charge is about 8 percent of
12 the total current average bill that is shown of
13 \$959?

14 A I haven't calculated that number, but
15 I will accept it, subject to check.

16 Q 12 times \$6.25 as a percent of the \$959?

17 A Sure.

18 Q So under the current customer charge, 92
19 percent of the current bill is based on volumetric
20 rates; is that correct?

21 A Yes.

22 Q Would you agree or accept, subject to
23 check, that using your proposed customer charge of
24 \$17 per month, the customer charge represents about
25 20 percent of the total annual bill? That would be

0461

1 17 times 12 as a percent of the \$1006 that you show
2 on this page?

3 A Yes.

4 Q So on your proposed rate design, 80
5 percent of the bill is tied to volume?

6 A Yes.

7 Q So a smaller portion of the bill, 80
8 percent rather than 92 percent, under your proposed
9 customer charge is then tied to volume?

10 A Yes, that's correct and --

11 Q And wouldn't the potential savings for
12 conservation efforts for customers then be reduced?

13 A No. I think this goes to the issue of the
14 appropriate signal in terms of price for customers
15 where the real savings for customers is in the
16 price of the gas, the cost of the gas supply that
17 is part of the total rate.

18 The remaining cost, the fixed costs of the
19 system would be collected in the margin. So the
20 customer would pay ultimately perhaps less than
21 their share of the fixed costs of the system that
22 have been allocated to that rate class.

23 Q But if I am a customer and my bill now is
24 80 percent tied to how much gas I use, versus 92
25 percent under the current customer charge, don't I

0462

1 have -- isn't it the case that there is less volume
2 tied to the amount of gas that I am using -- less
3 of my bill is tied to the amount of the gas that I
4 am using?

5 A Well, that's true. But depending on the
6 size and type of the customer that you are in terms
7 of your consumption habits, you might actually save
8 more under the Company's customer charge proposal
9 than you would at existing rates.

10 Q Let's turn away from this document.

11 MR. CEDARBAUM: And, Your Honor, if I
12 haven't offered 68, I would do that now.

13 (EXHIBIT OFFERED.)

14 JUDGE MOSS: You have not. And there
15 being no objection, it will be admitted.

16 (EXHIBIT RECEIVED.)

17 Q BY MR. CEDARBAUM: I have a couple of
18 questions for you on the decoupling issue. Is it
19 correct that the primary issue between Staff and
20 the Company is whether or not to reflect the
21 effects of weather in a decoupling mechanism?

22 A That's the primary issue, yes.

23 Q And maybe this is an obvious question, but
24 is it correct that weather is unpredictable

25 A Highly unpredictable.

0463

1 Q So we can't know, sitting here today, that
2 this coming winter will be warmer than normal or
3 colder than normal?

4 A No. I think the one conclusion we can
5 reach, however, is that no matter what normal
6 weather that we set, it will be precisely wrong
7 when it comes to actual experience. That is, I do
8 doubt that you would ever find a case where you hit
9 the number on the button.

10 Q If that's true for this coming winter, the
11 same would be true for the winter after this one,
12 and the winter after that?

13 A Yes.

14 MR. CEDARBAUM: Your Honor, if I could
15 have a moment to make sure I am going to the right
16 cross exhibit next, because I'm not sure I have it.

17 THE WITNESS: Your Honor, could I have a
18 moment to get my calculator?

19 JUDGE MOSS: Yes, certainly. Maybe
20 counsel could hand it to you.

21 THE WITNESS: She doesn't know where it
22 is.

23 (Discussion off the record.)

24 MR. CEDARBAUM: Your Honor, I did have a
25 line of questions for Mr. Amen on Exhibit 49, which

0464

1 I think falls into the series for Mr. Hoff,
2 although it is a data request that, looking at it,
3 he answered jointly with Mr. Hoff.

4 JUDGE MOSS: What is the data request
5 number?

6 MR. CEDARBAUM: Exhibit 78.

7 JUDGE MOSS: That is identified as Exhibit
8 49 for this witness.

9 Q BY MR. CEDARBAUM: First of all, before we
10 pass by Exhibit 69, do you recognize this as your
11 response to Staff Data Request No. 411?

12 A No.

13 THE WITNESS: Yes.

14 MR. CEDARBAUM: I would offer Exhibit 69.

15 JUDGE MOSS: Do you mean 49?

16 MR. CEDARBAUM: I was referring to 69
17 since we had just talked about 68, and people's
18 books might have been open to that.

19 (EXHIBIT OFFERED.)

20 JUDGE MOSS: I lost track of what is going
21 on there.

22 MS. DODGE: The Company has no objection.

23 JUDGE MOSS: Can we stipulate in all of
24 the PSE responses to data requests that have been
25 offered as cross exhibits, instead of spending time

0465

1 going through them laboriously all the time?

2 MS. DODGE: The Company will stipulate to
3 the admission of Exhibits 49 through 69, with
4 simply the -- to note for the record that a
5 correction was made to 61, as well as to 66. And
6 we believe that those have all been handed out, and
7 you should have them.

8 JUDGE MOSS: Great. That will save some
9 time. Thank you.

10 (EXHIBIT RECEIVED.)

11 Q BY MR. CEDARBAUM: Looking at Exhibit 49,
12 which is your response to Staff Data Request 378
13 for the record, this data request involves Schedule
14 41; is that right?

15 A That's correct.

16 Q Have you looked at page 2 of the exhibit,
17 that bottom block, "The total number of 362
18 represents customers currently under Schedule 41
19 that would be better off in terms of having a lower
20 bill under Schedule 31"; is that right?

21 A That's correct. That number represents
22 29.6 percent of the total customers on rate 41.

23 Q Now, I don't know if you need to refer to
24 in your rebuttal testimony, but we can wait for you
25 if you do. But at page 31 of your rebuttal

0466

1 exhibit, which is also Exhibit 31, you say that the
2 proposed charges for Schedule 41 were developed to
3 send price signals that will encourage natural low
4 load factor customers to take service under
5 Schedule 31. Do you recall that?

6 A Can you provide me with the page again?

7 Q Page 31.

8 A And what line number are you referencing?

9 Q I am looking at -- starting at line 5 to
10 8.

11 A Okay. Okay. I am with you.

12 Q Is it correct that under the Company's
13 proposed rate design, the monthly savings to
14 customers to migrate back to Schedule 31 will
15 increase?

16 A Those customers that we just noted in the
17 data response would save by migrating back to rate
18 31.

19 Q And under your proposed rate design, the
20 purpose is they would save more than under the
21 current rate design?

22 A Well, they would save more than if they
23 remained on rate 41, certainly.

24 Q So that's the price signal that you are
25 talking about in your testimony?

0467

1 A Yes. What we're trying to do, and have
2 been trying to do for some time now, this issue
3 really dates back to the rate restructuring
4 proceeding that was conducted by the Commission in
5 the mid '90s. I believe it was UG 940814, where we
6 were seeking to realign both cost of service and
7 the rate schedules of the various customer classes
8 accordingly.

9 And one of the factors that had become
10 problematic over the years was the deterioration of
11 the load factor in general on rate 41, which was
12 designed for generally larger, firm, higher load
13 factor customers. And this deterioration of the
14 load factor manifested itself, and then the cost of
15 service results that we obtained for rate 41.

16 So the idea was that the smaller load
17 factor customers that had migrated to rate 41 from
18 the small commercial schedule rate 31, because the
19 price signal was aligned such that it was less
20 expensive for them to migrate to rate 41, did so.

21 And as we were trying to stop the
22 bleeding, if you will, the way to do that absent
23 some artificial constraint in a tariff where you
24 put a limitation, and say customers of this size or
25 this load factor cannot take service. We would

0468

1 rather it be at the time represented by the pricing
2 of the schedule, therefore, increasing the customer
3 charge more in keeping with the customer related
4 costs on rate 41. And establishing a demand charge
5 for the first time on that schedule would send
6 those price signals to the low load factor
7 customers, and give them that incentive to return
8 to the rate schedule that was really more
9 economical for them.

10 Q Other than the price signal that you have
11 just described, has the Company taken any measures
12 to inform the 362 customers on schedule -- that are
13 referenced in the data request response in Exhibit
14 49, that they would be better off on Schedule 31
15 rather than 41?

16 A Not to my knowledge. I would think that
17 would be a bit presumptive. And until we actually
18 have a change to the rate design that would, in
19 fact, apply to those 362 customers, it might be a
20 little ahead of the game.

21 Q I'm not talking about under the proposed
22 rates. I mean under current rates. To your
23 knowledge has the Company, under current rates,
24 informed customers under schedule -- other than the
25 rate design itself?

0469

1 A Well, under current rates they are not
2 better off under rate 31.

3 Q No, I am talking about the 362 customers
4 shown on page 2 of Exhibit 49. Those are customers
5 under schedule -- currently customers under
6 Schedule 41 that would be better off under Schedule
7 31. And so my question is simply, to your
8 knowledge, has the Company -- other than the rate
9 design itself which you have described, has the
10 Company done anything to inform those customers
11 that they would be better off under Schedule 31 in
12 the way of communicating with those customers, or
13 any other means that you know of?

14 A Well, as I said before, under current
15 rates, they wouldn't be better off under rate 31.
16 Only under the Company's proposed rates would those
17 362 customers be better served under rate 31.

18 Q Well, I thought when we first started
19 discussing this exhibit you agreed with me that
20 page 2 of this exhibit shows 362 customers
21 currently under Schedule 41 that would be better
22 off on Schedule 31. And maybe I misunderstood
23 that, but that's how I recall that exchange took
24 place.

25 A I am sorry. I presumed that you meant

0470

1 under the Company's proposed rates.

2 Q So there are not 362 customers under the
3 current rates that would be better off under
4 Schedule 31 who are currently on Schedule 41?

5 A That's correct.

6 Q So when you refer on page 2, that second
7 to last line that says, "There are a total of 362
8 Schedule 41 customers who, based on their load
9 factor and monthly usage, would benefit under
10 Schedule 31," you are referring to proposed rates
11 and not current rates?

12 A That's correct.

13 MR. CEDARBAUM: Thank you. Those are all
14 of my questions. Thank you.

15 JUDGE MOSS: Thank you, Mr. Cedarbaum.

16 Mr. Ffitch, you indicated about half an
17 hour.

18 MR. FFITCH: Yes, Your Honor.

19

20 CROSS EXAMINATION

21

22 BY MR. FFITCH:

23 Q Good morning, Mr. Amen.

24 A Good morning, Mr. Ffitch.

25 Q Does any part of your testimony take

0471

1 exception to the rate spread agreement reached
2 between the Joint Parties specifically to allocate
3 \$576,000 of the overall increase, the
4 transportation special contract customers, the
5 balance to the remaining classes?

6 A Well, I think the fact that the Company
7 proposed its own rate spread proposal that was
8 based on its Cost of Service Study, and was fully
9 supported by that Cost of Service Study, and the
10 fact that the Joint Parties in their testimony, as
11 I recall, said that they could not reach consensus
12 between them as to whether the PSE Cost of Service
13 Study or the Joint Parties' reliance, perhaps, at
14 least some of them, on the Commission basis Cost of
15 Service Study -- they couldn't come to a consensus
16 between themselves as to which was a better
17 indicator of cost causation on the Company's
18 system.

19 But because they couldn't reach consensus
20 and because they offered no evidentiary basis upon
21 which to suggest that the Company's Cost of Service
22 Study was inappropriate, or that there was no
23 specific criticism of any change that the Company
24 made to the allocation methods under the Commission
25 basis study, there was really nothing to rebut.

0472

1 Q So that's a way of saying no, your
2 testimony does not take exception to that rate
3 spread agreement, and explain why?

4 A I have explained why.

5 Q Would you turn to Exhibit 60, please.
6 That's one of our cross-examination exhibits. It's
7 a response to Public Counsel 18. And there you
8 were asked if the Company prepared an analysis of
9 the typical use of new apartment/condo natural gas
10 customers, correct?

11 A Yes, I see that.

12 Q And you indicated that the Company has not
13 prepared such analysis, right?

14 A I understand that based on the wording of
15 the data request that the Company has not prepared
16 analysis of the typical use of new apartment or
17 condo natural gas customers, yes, that's true.
18 However, I think one can look no further than the
19 tariff of the Company and its line extension policy
20 where standard usage levels are presented for not
21 only single-family homes, but duplex, triplex,
22 four-unit residential dwellings, as well as
23 apartment complexes.

24 Now, these standard consumption levels are
25 updated periodically by the Company --

0473

1 MR. FFITCH: Your Honor, excuse me. This
2 seems to be going quite a bit beyond my question,
3 which was whether a study was prepared.

4 THE WITNESS: Well, if Public Counsel is
5 interested in obtaining information about the
6 consumption characteristics of these customers, I
7 am merely saying that there is information in the
8 Company's tariff with regard to that.

9 Q BY MR. FFITCH: Are you aware of the
10 housing trend in the greater Puget Sound region
11 insofar as it affects Puget Sound's company mix?

12 A I don't have any specific information
13 related to the housing mix of PSE's customers, no.

14 Q Do you know if the percentage of new gas
15 customers who are apartment/condo residents is
16 greater than the percentage of existing gas
17 customers who live in apartments or condominiums?

18 A No, I do not know that.

19 Q Can I ask you to turn, please, to the next
20 Exhibit No. 61. This was corrected by the Company,
21 and the correct copy has been distributed. Are you
22 familiar with that correction, Mr. Amen?

23 A Yes. In preparation for cross when I had
24 been made aware that this response would be a
25 cross-examination exhibit, I asked the Company to

0474

1 verify those load factor numbers. Because at first
2 blush a couple of them looked a bit odd to me. And
3 then in so doing, I discovered that one of them, in
4 fact, needed to be corrected.

5 Q So it's just a change to one number, and
6 could you just tell us what that is?

7 A Well, in the table presented in Exhibit
8 61, the load factor under docket No. UG 040640 has
9 been changed from 20.39 percent to 31.01 percent.
10 This table actually is illustrative of the
11 situation of --

12 MR. FFITCH: Your Honor, there's no
13 question pending. I simply asked for the
14 correction to be identified, and the witness is
15 beginning to make a statement. I'm not sure about
16 what.

17 JUDGE MOSS: Let's wait for a question.

18 THE WITNESS: Certainly.

19 Q BY MR. FFITCH: This exhibit indicates
20 that the residential natural gas load factor is
21 decreasing, doesn't it?

22 A It does in this table, because the load
23 factors in this table represent different peak day
24 demand. The point I was about to make relates to
25 this. And that is in the line labeled UG 060267,

0475

1 the load factor of 23.9 percent is based on the
2 Company's design day peak, whereas in the other
3 cases it is not, with the exception, I believe -- I
4 may correct myself here, but with the exception
5 that in UG 950278 the number 22.6 percent was also
6 initially presented in testimony in exhibits by the
7 Company as the load factor based on its design day
8 peak.

9 This goes to the variability that one gets
10 when in cost of service you base your peak day on
11 historical peaks that can vary depending on the
12 particular period. Whereas if you use a more
13 stable peak based on the Company's design day,
14 which is the basis upon which they design their
15 system, and which is also the basis in their
16 integrated resource plan that they have spent time
17 acquiring resources, then have you a more stable
18 representation of peak day.

19 Q Apart from that issue do you disagree that
20 the residential load factor generally is decreasing
21 for the Company?

22 A It's hard for me to tell from these
23 numbers, because they are based on different peak
24 days. If they were all based on the Company's
25 design day, I could perhaps draw a conclusion. But

0476

1 from this information, I really can't.

2 Q Can I have you next turn to Exhibit 62,
3 please.

4 A (Complies.)

5 Q That's your response to Public Counsel
6 Data Request 24. And there you were asked to
7 provide any studies regarding the treatment of
8 fixed costs in rate designs of several industries,
9 hotel, grocery, et cetera; is that correct?

10 A That's correct.

11 Q And the Company had said it had not done
12 so. Would you agree that these industries that are
13 listed, hotel, grocery, petroleum, et cetera, have
14 substantial fixed costs?

15 A Yes. And I am a bit surprised that the
16 list didn't include a few others; for example,
17 cable TV, telephone, in particular cellular
18 telephone companies, internet service providers,
19 rental car companies. These are all companies that
20 also have considerable fixed costs, and actually
21 have fixed cost pricing.

22 For example, cellular service is a lot of
23 free talk time, unlimited miles for your rental
24 car, basic service for cable is a fixed charge. So
25 I would have expected the list to be even a little

0477

1 larger than this.

2 JUDGE MOSS: Mr. Amen, I am going to ask
3 you to try to confine your answers to the question
4 that is asked. That went far beyond what he asked
5 you.

6 THE WITNESS: I'm sorry, Your Honor.

7 Q BY MR. FFITCH: Since we are presented
8 with this list in this particular exhibit, would
9 you agree that these industries recover
10 substantially all of their revenues volumetrically,
11 and essentially none of them have a monthly or
12 annual customer charge? The hotel customer doesn't
13 have to pay a monthly charge for access to the
14 hotel, correct?

15 A No, he or she does not.

16 Q Just as one example.

17 A Correct.

18 Q So you would agree with the question?

19 A I was considering whether or not I have
20 ever seen any water company tariffs where there was
21 a customer charge, but I just don't recall.

22 Q Moving on to another topic area, you are
23 adopting the testimony and exhibits of Ms. Phelps
24 in this case, correct?

25 A That's correct.

0478

1 Q And I will ask you a couple of questions
2 about special contracts. Could you turn to
3 exhibit -- response to Public Counsel's 68. And I
4 believe that's Exhibit 65. Exhibit 65 C says
5 "Confidential Exhibit" that I intend to stay away
6 from the confidential material in my questions.

7 MS. DODGE: Could I note for the record
8 that the cover sheet of this exhibit, the first
9 page, as well as the second, states that these
10 materials are highly confidential. And I think
11 that's an error. They are confidential, and they
12 were provided on yellow paper consistent with that
13 designation.

14 JUDGE MOSS: I am sorry. They are --

15 MS. DODGE: They are confidential, but not
16 highly confidential.

17 JUDGE MOSS: That's how they are marked.
18 Okay.

19 THE WITNESS: I am sorry. I may have
20 misheard you, Mr. ffitch, but as I understand it,
21 the Attachment A to the data request is entirely
22 confidential. That is the sum total of the three
23 special contracts.

24 MS. DODGE: However, just the information
25 that has been boxed.

0479

1 Q BY MR. FFITCH: That's my understanding.
2 If you look at this exhibit, there are boxes around
3 certain words. And that information within the box
4 is confidential?

5 A I see. I didn't understand that. Thank
6 you.

7 Q And I appreciate the assistance of
8 co-counsel on that clarification. This exhibit
9 consists of an Attachment A, the complete copies of
10 the special contracts associated with special
11 contract customers included in the contracts class
12 of the natural gas Cost of Service Study of the
13 Company, right?

14 A That's correct.

15 Q Can you turn to page 4 of the exhibit,
16 please.

17 A (Complies.)

18 Q And the first contract there is dated
19 March 13, 1997, correct?

20 A Yes.

21 Q And if we go down to clause 7 on the same
22 page, we see this is a contract with a 10-year
23 term, right?

24 A That's correct.

25 Q So this contract will expire a few months

0480

1 after the rates in this docket take effect; am I
2 right?

3 MS. DODGE: Your Honor, I would like to
4 object for the record, to the extent the witness is
5 being asked to provide a legal interpretation of
6 these contracts. We don't object to his testifying
7 as to his understanding.

8 JUDGE MOSS: That's fine. That's noted
9 for the record.

10 Go ahead, Mr. ffitch.

11 Q BY MR. FFITCH: Well, I believe the
12 question was, Mr. Amen, whether this contract has a
13 10-year term as stated in clause No. 7?

14 A Yes. This is the provision stated in
15 clause No. 7. I am uncertain as to whether there's
16 any continuation provisions in the contract.

17 Q And I guess I did have a follow-up to
18 that, which was that, obviously, if you do the
19 math, that expires shortly after the rates in this
20 docket would take effect if, in fact, it's a
21 10-year contract, correct?

22 A Correct.

23 Q And if you wanted to look for an
24 extension, that's fine. I can wait while you do
25 that.

0481

1 A (Reading document.)

2 JUDGE MOSS: I think we can move along,
3 Mr. ffitch. If there's anything of that nature, it
4 can be brought out on redirect.

5 Q BY MR. FFITCH: Can you look at page 11 of
6 the contract group? That's the second contract.

7 A I see that.

8 Q And that's dated February 1997?

9 A Yes.

10 Q And, again, in clause 6, that's a 10-year
11 term. And, again, that would expire shortly after
12 the rates in this case would take effect, correct?

13 A That's correct.

14 Q And then if you go to page 18 of this
15 exhibit --

16 MS. DODGE: I am sorry. What was the
17 number?

18 MR. FFITCH: Page 18.

19 Q BY MR. FFITCH: That contract is dated
20 February 27, 1995?

21 A Yes.

22 Q And here for the term we have to turn over
23 to page 24, the clause 4. And there at the bottom
24 part of the page, do you see it's a 20-year term
25 for this contract?

0482

1 A Yes.

2 Q So that will obviously be in place for
3 quite a few years after the rates would take effect
4 here?

5 A Yes.

6 Q Now, if you could turn to pages 29 and 30
7 of the contract -- actually, the exhibit, it is the
8 same contract, that 29 and 30 to the exhibit.
9 Clauses 8, 9, and 10 of this contract provide that
10 when the UTC approves a rate increase to the
11 tariffed rate for transportation service, then the
12 customer charge, demand charge, and commodity
13 charge under this tariff will increase as well. Is
14 that what the contract says?

15 MS. DODGE: PSE objects to the questions
16 as to the language of the contract, which speaks
17 for itself. There's been no foundation laid, in
18 addition, that this witness has any particular
19 knowledge about scope of the terms in this contract
20 and how they were to be interpreted.

21 JUDGE MOSS: I think they are
22 straightforward enough. But, Mr. ffitch, I do have
23 one question for you to clarify. You said
24 increase. I think these clauses all talk in terms
25 of a change, don't they?

0483

1 MR. FFITCH: I stand corrected, Your
2 Honor.

3 JUDGE MOSS: So let's do be precise in our
4 questions. But the language is straightforward
5 enough that a layperson can understand it and give
6 their interpretation of it. So go ahead.

7 Q BY MR. FFITCH: Is that your nonlawyer
8 understanding of these provisions, Mr. Amen?

9 A That they are -- these various charges
10 will change upon the change to the tariff rate 57?
11 Is that the question?

12 Q Yes.

13 A Yes. They will change in various ways, as
14 I understand it.

15 Q In the Company's exhibits, or your
16 exhibits, have you computed and taken into account
17 the additional revenue the Company would receive
18 under this contract if the requested rate increase
19 in this case is approved?

20 MS. DODGE: Objection; assumes a fact that
21 is not in evidence.

22 JUDGE MOSS: Overruled.

23 JUDGE MOSS: The question is, whether he
24 performed a study, as I understood the question.

25 MR. FFITCH: That's correct.

0484

1 THE WITNESS: Well, I know that the
2 revenues have been presented on a before and after
3 basis. I need to consult an exhibit.

4 JUDGE MOSS: Sure.

5 THE WITNESS: (Reading document.) In
6 looking at Exhibit 44, Mr. Ffitch, this is the
7 Company's revenue allocation exhibit. And from the
8 information I see here under the line marked
9 contracts --

10 JUDGE MOSS: What page?

11 THE WITNESS: This would be page one of 19
12 of Exhibit 44. -- I don't see that the special
13 contract class is receiving any increased revenue
14 under this schedule.

15 Q BY MR. FFITCH: Okay. Thank you. New
16 topic. Could you please turn to Exhibit 50.
17 That's the response to Public Counsel 93, the fat
18 one.

19 A Yes. Very fat. Yes.

20 Q Are you there? In general, this data
21 request response provides an overview of decoupling
22 activity in state jurisdictions across the country.
23 Is that a fair summary?

24 A Yes, I think so.

25 Q And in part B you were asked to confirm

0485

1 that the decoupling has only been approved by
2 regulatory Commissions in four states, correct?

3 A Yes. That was the question.

4 Q And if we go over to the next page of the
5 exhibit, page 2, and look at response B, towards
6 the bottom of the page you confirm -- you state,
7 "Yes. Although proposals are pending in several
8 states, been granted by final Commission order only
9 in the following four states" -- or "in the
10 following four states." And that's California,
11 Maryland, North Carolina, and Oregon, right?

12 A Yes. I must update that number, however,
13 because I just learned a few days ago, on September
14 13, in the state of Ohio, Electran Energy Delivery
15 Company received approval under a settlement for
16 decoupling mechanism. Which I believe now brings
17 the talley to 14 states where decoupling has either
18 been approved, or is currently under consideration.
19 Including Washington Gas Light, which also last
20 week just filed in the state of Virginia. They
21 already have a decoupling mechanism approved in
22 Maryland, but they just filed in Virginia.

23 Q So the total number of approvals you are
24 stating is now five, correct?

25 A Yes.

0486

1 Q And the total number of states where
2 consideration is occurring is an additional nine
3 states?

4 A Yes.

5 Q It's possible that those petitions could
6 be withdrawn or denied, isn't it?

7 A Or approved.

8 Q Or approved. I know that you are --

9 A I am optimistic.

10 Q You are optimistic.

11 A Yes, I am.

12 Q Let's look at part C of this question.
13 Essentially you were sort of asked to confirm this
14 again, that there weren't any other kinds of
15 proposals approved besides the four, and you have
16 confirmed it again, and referred back to B. You
17 did anticipate my next question, which is, are
18 there any updates since September 6, and we have
19 one more. And Navgant has provided expert
20 testimony in a number of these cases, hasn't it?

21 A Yes. I believe we listed those.

22 Q I believe you did on page 4 of the
23 exhibit.

24 A Yes.

25 Q So counting Washington, there would be a

0487

1 total of four states where you supported adoption
2 of decoupling?

3 A That's correct.

4 Q Has your consulting firm ever opposed
5 adoption of a decoupling mechanism?

6 A Opposed?

7 Q Yes.

8 A No, I --

9 Q I was checking, because the wording is
10 very specific. So I wanted to make sure there
11 weren't other kinds of activities you were involved
12 in.

13 A No. That would not be the case.

14 Q And in general, the bulk of the other
15 answers, or questions and answers in this data
16 request go to explain the status of the decoupling
17 cases in a variety of other jurisdictions, right?

18 A Yes.

19 Q Would you please turn to Exhibit 24 of
20 your direct testimony. This is RJA 4, Charts
21 Regarding Use of Customer.

22 A (Complies.)

23 Q And these -- are you there?

24 A Yes, I am.

25 Q And these charts indicate that declining

0488

1 residential and commercial and industrial use per
2 customer is a long-term phenomenon going back to at
3 least 1995, correct?

4 A Yes. And when we say commercial
5 industrial, it's generally the smaller, commercial
6 industrial heat-sensitive load.

7 Q And can we turn now to Exhibit 56.

8 A (Complies.)

9 Q That's response to Staff 132.

10 A I am there.

11 Q Now, the decline that you have shown on
12 the last exhibit that we looked at is being
13 experienced by other gas utilities in the country,
14 is it not?

15 A Yes.

16 Q And, in fact, it's generally common to the
17 US residential market as a whole?

18 A Yes, I believe that's true. The
19 attachment to the data request analysis prepared by
20 the American Gas Association discusses that in some
21 detail.

22 Q And, again, you are a bit ahead of me, but
23 I do want to look at that study. You are correct
24 that the attachment is a June 2003 study by the AGA
25 regarding patterns in residential natural gas

0489

1 consumption from '97 to 2001, correct?

2 A Yes.

3 Q And if we look at the chart at the bottom
4 of the page that actually indicates that they are
5 tracing declining use per residential customer back
6 to 1980, correct?

7 A Yes, and that's weather adjusted.

8 Q And if we turn over to page 4 of the
9 exhibit, which is the next page of this study, page
10 2 of the study, there's an executive summary. And
11 this lists a variety of factors that are
12 contributing to the decline, does it not?

13 A Yes.

14 Q Regional variations, space heating
15 efficiency, water heating efficiency, and the
16 others listed on page 6 after the chart?

17 A Yes.

18 Q Now, regarding regional differences, could
19 you please turn to page 7 of the exhibit and look
20 at table 1. That table reflects, does it not, that
21 the decline in residential use in the West is
22 actually below the national average, right?

23 A Can you point me, Mr. ffitch, to where the
24 national average is?

25 Q The top line of the United States.

0490

1 A Oh, yes, thank you. Yes, it is.

2 Q And, I mean, the chart speaks for itself,
3 but the West is smaller than everybody except the
4 Northeast in terms of rate of decline, is it not?

5 A Yes.

6 Q Can you please turn to pages 14 and 15 of
7 the study, and that's the exhibit pages. And on
8 that page they begin to talk about some of the
9 other factors that affect declining residential
10 usage, housing characteristics are discussed there.

11 And then at the bottom of the page they
12 start to list other factors, including geographic
13 population shifts. And then moving to page 15,
14 there are a number of factors listed at the bottom
15 that are not quantified; water conservation,
16 economic influences, environmental regulations and
17 the like, correct?

18 A Yes.

19 Q If we turn to page 20 of the exhibit,
20 that's a subsequent study from the American Gas
21 Association, is it not?

22 MS. DODGE: Your Honor, I object at this
23 point that this appears to be marching through the
24 exhibit.

25 MR. FFITCH: I have one more question,

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1 Your Honor.

2 MS. DODGE: The exhibit speaks for itself.
3 There's been no question that goes beyond it.

4 JUDGE MOSS: Ask your final question,
5 Mr. Ffitch. But I don't know that it's
6 particularly an evidentiary objection. But there
7 really is no reason to go through and confirm what
8 the documents say, because you can point to them on
9 brief and we can look at them then, which we will
10 certainly do. But go ahead with the last question
11 and tie this stuff up.

12 Q BY MR. FFITCH: Tying back to the
13 beginning of the line of questioning on the
14 declining rate of usage, this study beginning on
15 page 20 shows, does it not, the rate of decline has
16 actually decreased dramatically over the rate for
17 the past two decades; isn't that right? And that's
18 in the first paragraph on page 20, about the third
19 line down -- fourth line down, excuse me.

20 A (Reading document.) Yeah. And I think
21 part of that is based on a forecast as well.
22 There's a forecast period that goes all the way out
23 to 2020. And at the time this document was
24 prepared in advance of September 21, I suppose that
25 was the forecast. I think changes in the

0492

1 marketplace today may impact that rate of decline.
2 Hopefully it will not decline, but perhaps even
3 increase. Things like the Energy Policy Act,
4 National Plan for Action on Energy Efficiency might
5 impact the rate, for example.

6 MR. FFITCH: May I have one moment, Your
7 Honor?

8 JUDGE MOSS: Yes.

9 MR. FFITCH: Your Honor, those are all of
10 the questions. And I believe the cross exhibit is
11 admitted.

12 JUDGE MOSS: They have all been admitted.
13 Thank you. Appreciate it.

14 We're going to take our morning recess, so
15 let's be back at, say, 10 after.

16 (Brief recess.)

17 JUDGE MOSS: On the record.

18 Before we resume our cross-examination I
19 want to say that as a matter of process, going
20 forward, we're going to do something that I
21 probably should have started at the outset, but
22 which we just had a demonstration of the efficiency
23 of doing, and that is to the extent we have
24 cross-examination exhibits identified, I would like
25 for you all to look through those and ascertain

0493

1 whether you have any objections.

2 If you do not -- or as to those you do not
3 have objections, we're going to stipulate those in.
4 We're spending far too much time walking witnesses
5 through, is this your response to so and so. So
6 we're not going to do that anymore. We're going to
7 adopt that as a practice in hearings going forward,
8 and you will hear more about that.

9 But for purposes of this hearing, that is
10 what we will do going forward, and we will begin
11 that this afternoon with our next witness. So
12 having said that, we will turn to the Northwest
13 Energy Coalition, Ms. Glaser.

14 MS. GLASER: Thank you.

15

16 CROSS EXAMINATION

17

18 BY MS. GLASER:

19 Q Good morning, Mr. Amen.

20 A Good morning.

21 Q I would like to focus some questions on
22 your rebuttal testimony, which is Bench Exhibit 31.
23 And start with some questions regarding PSE's new
24 proposal to raise the customer charge to \$17 for
25 residential customers, even if decoupling is

0494

1 approved, which is a change in the Company's
2 recommendation. That is PSE's proposal at this
3 time, isn't it?

4 A Yes, it is.

5 Q And you state on page 8 of your rebuttal
6 testimony that one reason for the change is that a
7 rate design of the small customer charge -- and I
8 quote, "conveys improper price signals to
9 customers." By improper, do you mean too high?

10 A I am sorry. Where are you?

11 Q I am on page 8 of your rebuttal testimony,
12 which is Bench Exhibit 31.

13 JUDGE MOSS: Just Exhibit 31. We
14 distinguish bench exhibits.

15 THE WITNESS: And where on page 8?

16 Q BY MS. GLASER: In your answer in lines 12
17 through 16, I think it reads, "In reality, however,
18 such a rate design conveys improper price signals
19 to customers, because it recovers fixed costs
20 through the volumetric components of the utility's
21 rate structure."

22 A Yes.

23 JUDGE MOSS: I'm not sure what you are
24 answering. Are you answering that it's because
25 it's too high? That's the original question.

0495

1 THE WITNESS: I'm not saying they are too
2 high. I am saying they are improper. When you
3 have 98.4 percent, roughly, of the Company's fixed
4 costs in the Company's marginal revenue, I think
5 it's inappropriate to recover a large amount of
6 these fixed costs through volumetric rates.

7 What is appropriate to be recovered
8 through volumetric rates is the obvious, which is
9 the cost of the commodity, which varies.

10 Q So you are saying the appropriate price
11 signal should be the marginal cost of gas?

12 A And the marginal cost of gas in this case,
13 because of the operation of the PGA mechanism, is
14 the average cost of gas.

15 Q So imagine, if you will, a customer who is
16 considering installing some more insulation in
17 their home, or perhaps an energy efficient
18 appliance. Shouldn't the price signal that person
19 would respond to include the long-term marginal
20 cost of gas perhaps over a 20- to 40-year period as
21 opposed to something just in that one year?

22 A If the customer had information on the
23 long-term cost of gas as it might affect that
24 customer, that might be some information that they
25 would consider.

0496

1 Q And do you believe gas prices in that time
2 frame would likely be going up, going down, or
3 staying the same?

4 A If I knew the answer to that, I probably
5 wouldn't be here today. But I think there are
6 industry forecasts that suggest that gas prices,
7 and there may be regional differences, but in
8 general will maintain the relatively high levels
9 that we have today for some time.

10 Q And to give the right price signals,
11 shouldn't also we include in that marginal price an
12 amount to cover environmental externalities due to
13 exploration of new natural gas sites, or perhaps
14 greenhouse gas effects?

15 A I don't know that the customer would even
16 understand those particular elements that you
17 mention, or how they might be conveyed.

18 Q But they are, in fact, true costs?

19 A They are costs of the supply.

20 Q Thank you. And then I know you did review
21 Ms. Steward's direct testimony, Exhibit 561. And
22 she cites a study there, and it's on page -- bottom
23 of page 9, top of page 10.

24 JUDGE MOSS: Excuse me, Ms. Glaser -- are
25 we talking about pages in Ms. Steward's

0497

1 testimony --

2 MS. GLASER: In Ms Steward's testimony --

3 JUDGE MOSS: You need to give us just a
4 moment to get that.

5 Do you have a copy of that, Mr. Amen?

6 THE WITNESS: I am looking for it, Your
7 Honor.

8 JUDGE MOSS: Was that page 9?

9 MS. GLASER: Bottom of page 9, top of page
10 10.

11 THE WITNESS: The exhibit number again?

12 MS. GLASER: The Exhibit No. is 561.

13 THE WITNESS: I am at page 9 of --

14 Q BY MS. GLASER: The very bottom line,
15 page --

16 COURT REPORTER: Stop. You cannot talk at
17 the same time. I lost both the question and
18 answer.

19 THE WITNESS: All I said was I am at the
20 bottom of page 9 of Ms. Steward's testimony.

21 Q BY MS. GLASER: And the very last sentence
22 on that page begins, "Additionally, a recent study
23 by the American Council for an Energy Efficient
24 Economy suggests that accelerated energy efficiency
25 and renewable energy investment in the Pacific

0498

1 Northwest may help bring down natural gas prices by
2 up to 38 percent."

3 A Yes, I see that.

4 Q So there's a benefit to conservation over
5 and above avoiding marginal gas prices, or avoiding
6 the one-year gas price, or the price signal in a
7 rate?

8 A Absolutely.

9 Q Then you also state -- and this is on page
10 8 of your rebuttal.

11 A Are we finished with Ms. Steward?

12 Q We're finished with Ms. Steward, yes, and
13 we're on page 8 of your rebuttal testimony.

14 A Yes, I am.

15 Q And you have in lines 16 through 21 a
16 number of things that occur, when in fact, customer
17 charges are too low, or when what you refer to as
18 an undesirable situation exists?

19 A Yes.

20 Q And the third point is it promotes
21 inefficient use of the gas utility system; is that
22 correct?

23 A That's correct.

24 Q So do you believe PSE's customers are
25 doing too much conservation?

0499

1 A I'm not sure how that question relates to
2 the third item there necessarily, but --

3 Q Can I clarify, inefficient use of a system
4 would be kind of too much, or presumably too much
5 of an existing system.

6 A Well, certainly the point of my testimony
7 here is that the highly volumetric rate structure
8 promotes inefficient use of the gas utility
9 system --

10 Q Because it's too much conservation that
11 would be going on --

12 JUDGE MOSS: Ms. Glaser, you need to let
13 the witness finish.

14 THE WITNESS: No. No. No. Not at all.
15 And I think it's the Company's stated objective to
16 try and encourage as much energy conservation on
17 the part of its customers as it can. It's doing
18 quite a good job of it already, in my estimation.
19 They have been doing energy conservation for
20 natural gas since 1993. They have achieved 1.1
21 million decatherms of conservation on gas up to
22 2004. I think they are doing a great job of
23 encouraging customers to conserve, and to continue
24 to conserve.

25 Q BY MS. GLASER: So do you believe that

0500

1 Company funded conservation efforts acquire
2 conservation that would not otherwise have been
3 accomplished by market prices alone?

4 A I certainly think it works in concert with
5 what the market might provide on its own to ensure
6 that we're doing all that we can do.

7 Q And in your opinion, is there evidence
8 that retail customers tend to have what might be
9 called a higher discount rate than a regulated
10 utility, or that they would typically not pay for
11 many conservation measures that have a payback of
12 more than a few years?

13 A Well, now I think you are getting into
14 territory that is beyond my testimony. And
15 certainly there will be a Company witness coming
16 up, Mr. Shirley, who could probably better address
17 that.

18 Q Thank you. And are there not other
19 barriers to conservation, such as lack of perfect
20 information, and lack of capital that might reduce
21 the amount of conservation acquired by the market
22 alone?

23 A Again, you are exploring areas that are
24 beyond the scope of my testimony.

25 Q Okay. In summary, in terms of this topic

0501

1 area, the existing residential customer charge is
2 \$6.25. The Company initially proposed to increase
3 it to \$8.25.

4 Do you still believe that with the
5 customer charge in the range of \$6 to \$8, that the
6 volumetric price signal customers receive is too
7 low when you add to that price signal the effects
8 of all of the things we have discussed above, which
9 would be the long-term price of gas, environmental
10 externalities, the elasticity benefits cited in the
11 study in Ms. Steward's testimony, customers' high
12 discount rates, and other market barriers?

13 A I just think it's inappropriate, and I
14 have stated in my testimony why it's inappropriate.
15 I think the appropriate price signal relates -- for
16 gas customers relates to the commodity cost of gas.
17 It's some 69 percent of the rate that they pay.
18 You get an adequate incentive from that alone.

19 Q So it's not an issue of inefficiency of
20 the price signal? The efficient price signal for
21 an economist would be the full, long-term marginal
22 cost; is that correct?

23 A Yes, I suppose so.

24 Q Thank you. I now want to turn to some of
25 the new evidence introduced in your rebuttal

0502

1 testimony, and some of that is on page 9 as
2 evidence to justify the new proposal to raise the
3 customer charge. So if you would turn to page 9 --

4 A Okay.

5 Q Let's see, you state that "PSE's proposal
6 to collect a greater share of customer related cost
7 via monthly customer charges is not unusual in the
8 gas distribution industry." And you bring in
9 evidence here, you cite a survey of utilities
10 prepared by the American Gas Association, and
11 conclude that gas utilities -- and this is lines 9
12 through 12, "Gas utilities have proposed increases
13 to their monthly service or customer charges to
14 more closely reflect their fixed cost of service in
15 rates."

16 But then you state at the bottom of the
17 page that "The gas association reports stated that
18 decoupling provides similar benefits."

19 A Yes.

20 Q Do you agree with the last statement?

21 A Yes.

22 Q So --

23 A It's my testimony.

24 Q So with decoupling, there's really not
25 that need for the increase in customer charges?

0503

1 A Well, I think they actually work
2 complimentary to one another. The higher customer
3 charge subjects less fixed costs to be recovered in
4 a volumetric rate, which works very well with
5 decoupling, because then there's less that is
6 subject to recovery under a decoupling mechanism.

7 And aside from the other benefits of
8 higher fixed charges, I think they work very well
9 in concert with one another. They are not mutually
10 exclusive.

11 Q On page 10, referring also to the American
12 Gas Association Survey, you report that the results
13 from over 90 jurisdictions and 42 states are
14 included in that. And there was a question about,
15 "What percentage of the utility's fixed costs do
16 you estimate is recovered in the monthly service
17 charge?" And your answer that was reported as
18 coming back, is the typical response, was that only
19 one-third of the fixed costs were recovered by the
20 customer charge.

21 However, I believe on lines 14 through 17
22 on page 10 of your testimony you clarify that the
23 \$17 per month proposal would recover 60 percent of
24 the total distribution costs for a residential
25 class.

0504

1 A That's correct. And that would be
2 approximately 100 percent of the customer-related
3 costs, fixed costs.

4 Q And isn't that fairly atypical of the
5 industry practice in the study you just referenced?

6 A Well, it is higher than the current
7 average, I will allow that. And there has been, of
8 course, as the study states, movement to raise
9 customer charges. And I think this would be a
10 setting, taking a leadership position, if you will,
11 with regard to the recovery of customer related
12 costs.

13 Q All right. Now I would like to change
14 topics in terms of the decoupling mechanism you
15 have proposed. There are some differences in how
16 your proposal would treat new customers within the
17 mechanism and the proposal that the Northwest
18 Energy Coalition and, in fact, WUTC Staff have put
19 forward. And I would like to ask you a question
20 regarding the proper design of a decoupling
21 mechanism, as it applies to new customers.

22 A Okay.

23 Q Do you agree that one goal, if we were to
24 properly structure a decoupling mechanism, would be
25 to treat new customers in such a way that it would

0505

1 be neutral to both shareholders and customers,
2 compared to what would happen without decoupling?
3 So basically if people would be neutral about
4 whether we have decoupling or not. Is that a good
5 goal?

6 A Yes I think so. And it's related to my
7 testimony, my rebuttal testimony where I talk about
8 preserving the balance between revenues and costs
9 that one would see under traditional regulation. I
10 think the goal of decoupling is to mimic that.

11 Q And if new customers tend to use less
12 energy than existing customers, wouldn't it be
13 appropriate to adjust in the decoupling mechanism
14 for that different new customer use than the
15 existing customer use?

16 A No, I don't think it would be.

17 Q How do you say that given your answer to
18 the previous question?

19 A Well, the fact that new customers are
20 using less is part of the reason that the Company's
21 margins are eroding. And so absent the Company's
22 proposal to reflect new customers in the same
23 fashion that it reflects existing customers, it
24 would, unfortunately, tend to suggest -- it would
25 put the Company in the position of trying to get

0506

1 new customers to use more, which would be contrary
2 to the conservation ethic and the conservation
3 goals of the Company.

4 So I think it's an unnecessary
5 complication to try and determine some different
6 usage level for new customers, and certainly the
7 costs related to acquiring new customers is not
8 going down. In fact, it's going up. If you look
9 at the line extension policy --

10 Q I really haven't asked that question.

11 A Well, you have asked me if it's
12 inappropriate or if it's appropriate to reflect new
13 customers at lower consumption levels, and I am
14 telling you why that is not the case.

15 MS. DODGE: Your Honor, I would ask the
16 witness be allowed to finish his answer.

17 JUDGE MOSS: Yes, Ms. Glaser. Don't
18 interrupt the witness, please.

19 THE WITNESS: I was going to point out
20 that the standard costs that are contained in the
21 Company's line extension policy, I believe it's
22 Schedule 107, clearly show that the costs of adding
23 new customers is going up. I think the factors
24 that I see in there related to service line,
25 extension cost has gone up some 12 to 13 percent

0507

1 since they were last updated.

2 Q But you do continue to agree that one goal
3 of a properly structured decoupling mechanism is
4 the Company would collect the same amount of
5 revenues with decoupling as it did without
6 decoupling as it relates to new customers?

7 A Yes, I think that's correct. The idea is
8 that decoupling will collect the revenue from all
9 customers, both existing and new customers, that
10 would be the same as if the Company experienced
11 normal weather, and didn't experience some of the
12 other factors that are causing consumption to
13 decline. Which in highly volumetric rate
14 scenarios, it causes the margin to erode.

15 So the idea then is to collect the same
16 amount of fixed costs, the Company's marginal
17 revenues, as one would under conventional perfect
18 conditions, if you will.

19 MS. GLASER: Thank you. I have no further
20 questions.

21 JUDGE MOSS: Mr. Finklea, Northwest
22 Industrial Gas Users.

23

24

25

0508

1 CROSS EXAMINATION

2

3 BY MR. FINKLEA:

4 Q Good morning, Mr. Amen. I am Ed Finklea
5 representing the Northwest Industrial Gas Users. I
6 have a couple of questions that go to Exhibit 31,
7 your rebuttal testimony.

8 A Yes, good morning, Mr. Finklea.

9 Q And I am on pages 31 and 32 of that
10 testimony.

11 A (Complies.)

12 Q Am I correct that under your current
13 Schedules 57 and 87, that currently there already
14 exists a disparity between those two schedules?

15 A A disparity in what way?

16 Q In the -- well, let's break that down.
17 Schedule 57 is a transportation schedule, right?

18 A That's correct.

19 Q And Schedule 87 is a sales rate?

20 A That's correct.

21 Q And within 87, there's a margin for the
22 use of the PSE distribution system, and then
23 there's a commodity that the customer purchases?

24 A Yes, that's correct.

25 Q And for Schedule 57, the customer

0509

1 purchases their own commodity, so they are only
2 seeing a margin?

3 A Yes.

4 Q And so sometimes we, in focusing on
5 designing transportation rates, compare the
6 transportation rate that a customer would pay to
7 the sales rate, the margin that they would pay
8 inside the sales rate?

9 A Yes, with the exception that, of course,
10 there's -- if you are a sales customer under rate
11 87, you would pay procurement charge which you
12 wouldn't pay under rate 57. You are paying a
13 balancing charge instead. So those are a couple of
14 unique differences, cost-based differences between
15 the two schedules.

16 Q From a customer's perspective, when they
17 are making a choice between being a transporter or
18 being a sales customer, and say their choices are
19 57 or 87, they take all of those other than the
20 commodity into account in making their decision as
21 to which rate to be on?

22 A Yes.

23 Q And presently the rate for Schedule 57,
24 which has no commodity, is slightly higher than the
25 margin for Schedule 87; is that correct?

0510

1 A Actually, I would like to consult an
2 exhibit, if I could, on that because I thought
3 certainly the Company's intent was to, as best they
4 could, equalize the margins in terms of the block
5 rate structure between those two schedules. And I
6 haven't studied it recently.

7 And I am turning to Exhibit 44, page 6 of
8 19. And, Mr. Finklea, as I look at this rate
9 design schedule, you see Schedule 87 in the initial
10 box, and you see Schedule 57 below it. And under
11 proposed rates of the Company, if you look at the
12 block rates under delivery charge, I believe they
13 are the same between rate 57 and rate 87 -- 57 and
14 87, yes.

15 Q The block rates themselves are the same?

16 A Yes.

17 Q But you mentioned in an earlier answer
18 that in addition to the block rate, a Schedule 57
19 customer pays a balancing charge whereas a sales
20 customer pays a procurement charge?

21 A Yes. As they should.

22 Q And we have no dispute with that. My
23 question goes to your observations regarding the
24 Joint Parties' proposal versus what the Company is
25 proposing for the 57 and 87 design. And am I

0511

1 correct that from a rate design perspective, that
2 narrowing the disparity between Schedules 57 and 87
3 is a legitimate concern, and a legitimate objective
4 of any rate design that we choose for those two
5 schedules?

6 A Yes. I think it's a legitimate objective.
7 That has been the case, been the objective of the
8 Company for some time now, as I understand it,
9 because the customers that take service under these
10 two schedules are typically the same. They migrate
11 back and forth from time to time, depending on some
12 of those factors that you discussed in terms of gas
13 prices versus the Company's cost of gas, and so
14 forth. But I think that's been an objective of the
15 Company over the years.

16 Q So if the Joint Parties' proposal for the
17 rate design narrows that disparity, you don't find
18 that to be a problematic objective?

19 A I don't find that to be problematic. I
20 fail to understand how their rate design proposal
21 does that. The Company's rate design proposal for
22 rate 57 and 87 recovers the incremental revenues,
23 or the incremental marginal revenues that we were
24 proposing to recover from Schedules 57 and 87 in
25 the cost-based charges that we identified, that

0512

1 being the two that you mentioned earlier,
2 procurement charge and the balancing charge.

3 And as I point out in my testimony, the
4 proposal of the Joint Parties departs from that.

5 And, in fact, raises one of the two charges, I
6 believe it's the procurement charge, to something
7 like 130 percent of cost, and leaves the balancing
8 charge at something like 4 percent of cost.

9 And instead, the block structure is
10 altered such that the very large customers in rate
11 57 actually will experience a slight decrease, even
12 though there's been a revenue increase assigned to
13 the schedule. And I believe the Company's proposal
14 is superior in that it's focused on those specific
15 cost elements that I have discussed. And it's a
16 more ratable spreading of the increase. And I have
17 no objection to the, you know, as I stated before,
18 to the intent or the goal, but I don't think it's
19 been achieved in this case by the Joint Parties'
20 proposal.

21 Q And if in the design procurement charge
22 and the balancing charge for the two services, if
23 instead of narrowing the gap between them you
24 actually enhance the gap, it is true that you could
25 give customers an incentive to be sales customers

0513

1 where they would otherwise remain as transporters?

2 A Well, the Company's intent was certainly
3 nothing of the sort. The Company's intent was to
4 design these particular cost-related elements that
5 are unique to one schedule, and that is the
6 procurement charge is unique to the sales schedule,
7 and the balancing charge is unique to the
8 transportation schedule, to place those charges as
9 close to cost as possible, and let the chips fall
10 where they may, if you will.

11 Those are the costs, and we would like to
12 recover those costs through those rates. And I
13 think that does not increase any disparity. It
14 actually sends the appropriate price signal to
15 those customers as to the cost of those two
16 services.

17 MR. FINKLEA: I have nothing further.

18 JUDGE MOSS: Thank you, Mr. Finklea.

19 Ms. Spencer, I think we can finish by the
20 noon hour.

21

22 CROSS EXAMINATION

23

24 BY MS. SPENCER:

25 Q Good morning. I'm Elaine Spencer, and I

0514

1 am representing Seattle State --

2 JUDGE MOSS: You need to use the
3 microphone.

4 THE WITNESS: Good morning, Ms. Spencer.

5 Q BY MS. SPENCER: You have been asked a
6 couple of times about the rate design and rate
7 spread proposal put forward by a panel of
8 Mr. Lazar, Ms. Steward, and Mr. Schoenback as
9 described in Exhibit 581 and 586. You have
10 reviewed those two exhibits?

11 A Yes.

12 Q That proposal indicates \$576,000 to the
13 four interruptible customer classes, doesn't it?

14 A I believe that's correct, yes.

15 Q And those are schedules 85, 86, 87, and
16 57?

17 A Yes.

18 Q And just to make sure I am correct, an
19 interruptible customer is a customer that -- whose
20 service can be discontinued during periods of peak
21 demand; is that correct?

22 A Yes.

23 Q And the other schedules are firm
24 customers, which means that the Company has to be
25 prepared to serve them even during periods of peak

0515

1 demand?

2 A That's correct.

3 Q Now, how does the amount of the revenue
4 increase which was assigned to the interruptible
5 classes by the panel's proposal, compared to the
6 amount of the revenue increase which Puget asked
7 for from the four interruptible classes --

8 MR. CEDARBAUM: Your Honor, at this point
9 I will object. This appears to be going down a
10 line of friendly cross to the extent that both the
11 Company and Seattle Steam are opposed to the joint
12 position of the other parties. Preliminary
13 questions were just foundation questions, but now I
14 think this is starting to get past that.

15 JUDGE MOSS: In what way is your position
16 adverse to the Company's position on this subject?

17 MS. SPENCER: The Company's position, as I
18 have understood it, is to basically say they are
19 interested in their revenues, and they have not
20 come forward to explain in any fashion, that I
21 understand, how the two relate.

22 My interest here is on behalf of the
23 interruptible customers. And I think it's
24 important for the Commission to understand from the
25 interruptible customers' perspective what the two

0516

1 proposals are.

2 JUDGE MOSS: I didn't hear anything in
3 there that tells me what adversity you have to
4 PSE's proposal. Are you opposed to what PSE is
5 proposing for the interruptible customers?

6 MS. SPENCER: We believe that -- that is a
7 "yes" or "no" question, so I am going to give
8 you -- we believe they are closer to correct than
9 the panel is closer to correct.

10 I would also note, Your Honor, that we
11 don't have an expert witness who has testimonial
12 knowledge about these schedules. This is the only
13 witness I can ask about what exactly it is they are
14 asking for, and what would be asked for under the
15 Commission basis. So this is in order to get the
16 evidence in front of the Commission. This is my
17 opportunity.

18 JUDGE MOSS: Well, I think Mr. Amen's
19 testimony will have to stand on its own two feet
20 and not be supplemented through cross-examination.
21 I think Mr. Cedarbaum is correct that you are
22 engaging in friendly cross-examination to bolster
23 your case in some way.

24 You do have a witness, and that's the
25 proper way to put on your case in terms of a

0517

1 proposal that may be different from what else has
2 been proposed. So I will sustain the objection.

3 Q BY MS. SPENCER: Would you describe the
4 concept of parity to the Commission?

5 A Yes. Actually, I believe I have a
6 definition of parity in my testimony.

7 MR. CEDARBAUM: Your Honor, before the
8 witness answers, I will renew the same objection.
9 I don't see how any additional questions could be
10 anything other than friendly cross.

11 JUDGE MOSS: That's an abstract
12 proposition that I am not willing to accept. We
13 have to have the questions before we have an
14 objection to them.

15 THE WITNESS: On page 22 of Exhibit 21 of
16 my direct testimony I talk about parity at the
17 bottom of the page. Parity being the cost of
18 service and the comparison of the total cost of
19 service to the indicated cost of service for each
20 class. And if you assume that the cost of service
21 for the system is 1.0, then the closer that those
22 classes parity ratio, which is a revenue to cost
23 ratio, the closer those approach 1.0, the closer
24 they are to parity.

25 Q BY MS. SPENCER: Would you turn to Exhibit

0518

1 41, page 1.

2 A (Complies.)

3 Q Under the Company's Cost of Service Study,
4 what is the existing parity ratio for the four
5 interruptible classes?

6 A The revenue to cost ratios are shown on
7 line 18. And before we get too far into it, I
8 might mention that the original Exhibit 41 is --
9 has really been updated from the original filing
10 through a response to Public Counsel Data Request
11 005. So when I reference those ratios, I will be
12 referring to that updated schedule.

13 Q And what is --

14 JUDGE MOSS: Has that been made an
15 exhibit, Public Counsel, or your response to Public
16 Counsel 5?

17 THE WITNESS: I'm not sure, Your Honor, in
18 the chain of -- because other data requests
19 referred to it. I'm not sure if it's a
20 cross-examination exhibit or not.

21 JUDGE MOSS: These numbers on Exhibit 41,
22 as it exists today, are these numbers not correct
23 then? Should they be updated?

24 THE WITNESS: Yes.

25 JUDGE MOSS: We need to have that piece of

0519

1 paper then.

2 MR. FFITCH: I don't believe we have
3 identified that as an exhibit. I'm not absolutely
4 certain, but Public Counsel 5 --

5 MS. DODGE: It's Exhibit 36.

6 JUDGE MOSS: 36.

7 MS. DODGE: Sorry, RJA 16 -- Exhibit 36,
8 yes.

9 MR. FFITCH: That's Staff Response to
10 Puget 5.

11 MS. DODGE: Sorry.

12 Q BY MS. SPENCER: Mr. Amen, do you have the
13 updated data in front of you?

14 A Yes, I do.

15 Q Perhaps you could simply, then, from the
16 updated data give me the answer to the question,
17 what is the current parity ratio for each of the
18 four interruptible classes? And then perhaps later
19 we could make the entire data response an exhibit.

20 A Certainly, I can do that.

21 JUDGE MOSS: I think that would be an
22 appropriate thing to do.

23 THE WITNESS: The revenue to cost ratio
24 for interruptible class 85 is 1.55. For
25 interruptible Schedule 86, it's 1.665. For rate

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1 87, it is 1.40. And for rate 57, it is 1.724.

2 Q BY MS. SPENCER: Thank you. And perhaps
3 so that we have them all together, can you give us
4 the parity ratio for the residential, commercial,
5 and industrial large volume transport ends?

6 A Certainly. For residential rate 23, it is
7 .862. For rate Schedule 31, 36, et cetera, the
8 small commercial industrial, it is 85.2. For rate
9 Schedule 41 --

10 Q 85.2 or --

11 A .85, I am sorry. For rate Schedule 41
12 it's 1.135. And those are the primary schedules.
13 There's, you know, rentals and CNG service, and so
14 forth, but if you are interested I can give you
15 those.

16 Q Sure. If you have them right there.

17 A For the transportation contracts, it's
18 1.008. For CNG service, it's .018. And for the
19 rentals schedule, it's .559.

20 Q Under the Company's proposed rate
21 increase, would that be line 39 on page 1 of
22 Exhibit 41?

23 A Line 39 would be the revenue to cost
24 ratios that result from the Company's proposed
25 revenue allocation.

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1 Q And how, under the Company's proposed
2 revenue allocation, would the revenue to cost
3 ratios for the four interruptible customers change,
4 if that's been updated?

5 MR. CEDARBAUM: Your Honor, for the
6 record, and I'm not sure, but Exhibit 584
7 includes -- it's an exhibit to the joint testimony
8 of Staff, Public Counsel and Northwest Industrial
9 Gas Users. And it does include that Company
10 response to Public Counsel Data Request No. 5.

11 MS. DODGE: Although I think the excerpt
12 there may only be the Commission basis, not the
13 Company's, but we can look at that.

14 THE WITNESS: I believe that's correct,
15 it's based on a Commission basis study, I believe.

16 MR. CEDARBAUM: I apologize for the
17 interruption. I thought we had the document in the
18 record that you have been reading from.

19 JUDGE MOSS: Apparently not.

20 Q BY MS. SPENCER: Could you give us, then,
21 the revenue to cost ratio that would result for the
22 four interruptible classes if the Company got what
23 it was asking for?

24 A Okay.

25 MR. FFITCH: Your Honor, I object, maybe

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1 anticipating Mr. Cedarbaum's objection, that this
2 is continuing down a line of friendly cross, in my
3 view. The witness is simply using the -- counsel
4 is simply using the Company witness to conduct
5 direct examination on this area, because they don't
6 have their own witness intended to elicit
7 information which is favorable to their position
8 when they don't have an adverse position to that of
9 the Company.

10 JUDGE MOSS: And so far all we have had is
11 some updated numbers, but where are you going?

12 MS. SPENCER: My final question, Your
13 Honor, is going to be -- I don't have in front of
14 me the updated numbers. On the original sheet the
15 Company was asking for an increase in the parity
16 ratio of the four interruptible customers. We have
17 established that the interruptible customers'
18 parity ratio is already way beyond everybody else.
19 And I want to ask this witness why the parity ratio
20 should be getting more disparit under their theory.

21 JUDGE MOSS: That doesn't sound friendly
22 to me, Mr. ffitch. What do you think?

23 MR. FFITCH: I think the entire line of
24 questions is tantamount to friendly cross, Your
25 Honor.

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1 JUDGE MOSS: I will overrule the
2 objection, and why don't you answer that, the last
3 question, if you can.

4 THE WITNESS: The parity ratios or the
5 revenue to cost ratios under the Company's proposal
6 for those classes would increase somewhat. And the
7 reason for that is really outlined in my testimony
8 where I have stated that the Company, first of all,
9 felt that every class should participate to some
10 degree in the revenue increase.

11 So naturally those interruptible schedules
12 would, under that objective, have to get some
13 revenue increase. And any revenue increase to
14 those schedules are going to cause their revenue to
15 cost ratios to increase to some extent.

16 However, the Company was focused in that
17 effort to identify, as I mentioned under
18 cross-examination by Mr. Finklea, that we targeted
19 those increases to specific cost elements that we
20 think are important to be addressed. That being
21 procurement charge for the sales customers under
22 rate 87, and the balancing charge for the customers
23 served under rate 57.

24 So we think there's a good reason for it,
25 albeit it does result in additional revenues from

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1 those schedules.

2 MS. SPENCER: I have nothing further.

3 JUDGE MOSS: Thank you. Is Mr. Roseman --
4 I don't have my glasses on. Are you in the room?

5 MR. ROSEMAN: I am, and I have no
6 questions.

7 JUDGE MOSS: Thank you very much. Any
8 questions from the bench for this witness?

9 COMMISSIONER OSHIE: I have a few
10 questions, but I believe Commissioner Jones has as
11 well. But Phil can speak for himself. But I need
12 to be out at noon.

13 JUDGE MOSS: Well, it being noon, we will
14 be at luncheon recess, and we will see you again
15 after lunch. We will come back at 1:30.

16 (Lunch recess taken.)

17 JUDGE MOSS: Let's be on the record.

18 Mr. Finklea, off the record I have given
19 you leave to ask one question of the witness before
20 we turn to questions from the bench.

21

22 FURTHER CROSS EXAMINATION

23

24 BY MR. FINKLEA:

25 Q Mr. Amen, in your discussions with

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1 Ms. Spencer you were discussing the parity ratios,
2 the current ratios and the ratios under the
3 Company's proposal. Am I correct that under the
4 Joint Parties' proposal for rate spread and design
5 for Schedules 85, 86, 87, and 57, that the ratios
6 move closer to parity than either the current rates
7 or the Company's proposal?

8 A No, that's not correct. They would --

9 Q Isn't it correct that that is the case for
10 Schedule 57?

11 A Mr. Finklea, I don't have the Joint
12 Parties' exhibit in front of me that would show me
13 their proposed increase for rate 57.

14 JUDGE MOSS: Mr. Finklea, is it necessary
15 to go down this line with this witness? We have
16 the panel's testimony that shows what the proposal
17 does, so we can compare the two, can't we, on
18 brief?

19 MR. FINKLEA: I believe if I can ask one
20 question, but it is true that we will have the
21 panel next week. That's certainly the case.

22 JUDGE MOSS: This is question three, so I
23 want you to move along.

24 Q BY MR. FINKLEA: The current revenue to
25 cost ratio for Schedule 57 is 1.724, is what you

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1 said this morning. And of the four schedules that
2 you were discussing with Ms. Spencer, that's the
3 one that is the furthest out from parity if the
4 goal were to be to have all the schedules at 1, as
5 you were talking about.

6 A Yes, that's true.

7 Q And so of the four Schedules 85, 86, 87,
8 and 57, Schedule 57 is the one that is the furthest
9 out under current rates?

10 A It's the furthest from parity, that's
11 correct.

12 Q So if it got less of an increase than some
13 of the others, that would presumably move it closer
14 to parity, correct?

15 A Yes, that's correct.

16 MR. FINKLEA: That's all.

17 JUDGE MOSS: Thank you.

18 MS. SPENCER: Judge Moss, I now have a
19 copy of the response to Public Counsel Data Request
20 No. 5. What is your pleasure about how that
21 becomes an exhibit?

22 JUDGE MOSS: Well, if that updates this
23 information -- and I believe the witness' testimony
24 is that it should be updated?

25 THE WITNESS: Yes, that's correct, Your

0527

1 Honor.

2 JUDGE MOSS: Then I think we will take it
3 as a supplement to -- well, I should ask counsel,
4 would it be agreeable to counsel for Puget to make
5 this a supplement to Exhibit 42, which would
6 basically be the obligation to update responses to
7 data requests would be deemed satisfied in that
8 way.

9 THE WITNESS: Actually, Your Honor, it
10 would be an update to Exhibit 41.

11 JUDGE MOSS: Okay. You are quite right.

12 MS. DODGE: Yes, that's fine.

13 JUDGE MOSS: Then make the requisite
14 copies for counsel, the bench, I need 9, and hand
15 it up at the end of the day or tomorrow.

16 MS. SPENCER: Thank you, Your Honor.

17 JUDGE MOSS: Now, we will turn to the
18 questions from the bench.

19 Commissioner Oshie, I understand you have
20 questions.

21 COMMISSIONER OSHIE: Yes, thank you, Your
22 Honor. I have a few questions.

23

24

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1

EXAMINATION

2

3

BY COMMISSIONER OSHIE:

4

Q I would like to start with a general

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discussion of the Commission's action with regard

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to decoupling mechanisms, and one in particular

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that was proposed by Pacificorp in its last rate

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case. And I don't want to recite the number in the

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docket, but our order was issued, I believe, in

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April of 2006. And I would like to know if you had

11

an opportunity to review the comments the

12

Commission has made with regard to the Pacificorp's

13

decoupling mechanism?

14

A No, I have not.

15

Q Let me, then, offer it to you, if you

16

will, as an opportunity for you to comment,

17

because -- and I'll read from our order, paragraph

18

108. "We must reject the specific joint proposal

19

offered by the Company and NRDC, however, for the

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following reasons." And there are two reasons that

21

I don't need to go into here.

22

But the third reason, "The Company has

23

failed to identify and commit to incremental

24

conservation measures as a counterbalance to its

25

potential reduction in risk."

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1 Now, it's my understanding from the
2 Company's testimony, your testimony, that the
3 Company is not proposing any specific incremental
4 conservation measures, to use the term
5 counterbalance, the potential reduction in risk as
6 a recommendation to this Commission for us to
7 support the decoupling proposal. Is my
8 understanding correct?

9 A Well, Commissioner, my testimony doesn't
10 focus really on the nature of the conservation
11 efforts of the Company necessarily, or the degree
12 to which they might increase. I think that I will
13 have to leave that to a Company witness to
14 elaborate on. But --

15 Q Well, excuse me just for interrupting, but
16 you are the Company's witness with regard to
17 decoupling, are you not?

18 A That's correct.

19 Q And I would expect from your testimony
20 that you would have included all the reasons as to
21 why the Company believes that its proposed
22 decoupling mechanism should be supported?

23 A Yes, I have. And, in fact, I have
24 mentioned that the Company's aggressive stance with
25 regard to energy efficiency and conservation

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1 measures, and that they face this very real dilemma
2 that every dollar they spend to reduce therm
3 consumption brings with it a reduction in unit
4 margin recovery.

5 And so I believe that even though the
6 Company has demonstrated that it's taken a
7 leadership role with regard to energy conservation,
8 particularly in the Northwest, that they still face
9 this dilemma with regard to the disincentive
10 without decoupling.

11 And in terms of the amount of energy
12 conservation measures that they would implement, I
13 think -- it's been my experience that the Company
14 would do everything it possibly could; that is,
15 what is cost effective, what might be low hanging
16 fruit, what might be considered a windfall.

17 So I think that there's been no indication
18 that they would do anything other than everything
19 that they find to be useful and cost effective for
20 customers.

21 Q I guess I got the impression from your
22 testimony -- and I don't disagree with that. I
23 do -- my reaction is I also understand the
24 Company's asking for incentives in order to
25 accomplish certain energy efficiency objectives.

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1 So you have the removal of the
2 disincentive, yes, but there's an additional
3 request, if you will, or incremental cost that the
4 customers might be asked to cover, which is some
5 further incentive to increase the Company's
6 interest in accomplishing energy efficiency as a
7 resource within its portfolio.

8 But let's get off of that for a minute,
9 and I understand your testimony, and I would -- no
10 particular link to any specific energy efficiency
11 measures or programs that the Company ties with is
12 decoupling proposal.

13 A And I would just add, Commissioner, that
14 it's my understanding, and Mr. Shirley can correct
15 me if I am wrong, but I don't believe the Company
16 was asking for additional incentives on the gas
17 conservation, only on the electric.

18 Q Only on the electric. Let me go back to
19 our order in the Pacificorp case. And one of the
20 areas that we requested that companies provide
21 detailed information in a request for decoupling
22 proposal was the impact of the mechanism on low
23 income customers.

24 So my question to you is whether the
25 Company has done an analysis of its proposed

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1 decoupling mechanism on low income customers. And
2 if it has, what the results of that analysis has
3 been.

4 A Well, with regard to low income, one thing
5 that we did do, and Mr. Hoff presents this in his
6 rebuttal testimony, is to try and distinguish the
7 usage characteristics of low income customers from
8 the general population of customers.

9 And Mr. Hoff shows in his rebuttal
10 testimony that they are not that unlike the general
11 population of residential customers. And he has a,
12 I believe a histogram as an exhibit that shows a
13 comparison. And so the decoupling mechanism would
14 impact those low income customers, much as it would
15 impact the general population of residential
16 customers.

17 And I think that that exhibit and
18 Mr. Hoff's discussion of low income customers does
19 in fact, provide that information.

20 Q Do you think that the decoupling mechanism
21 as one that has been proposed here might impact low
22 income customers more? Do you have an opinion on
23 that, a personal opinion?

24 A I think that the decoupling mechanism is
25 fair to all customers, including low income. But I

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1 think in particular where it's combined the
2 Company's proposal on the customer charge, that
3 they work complimentary to one another, and help
4 reduce bill volatility, in particular volatility in
5 winter bills when low income customers need that
6 relief the most. And so I believe that the two in
7 combination provide benefits to low income
8 customers.

9 Q And if the proposed \$17 customer charge
10 would not be adopted by the Commission, then your
11 answer would be --

12 A That there would be greater volatility in
13 the customers' bills, and therefore, there would be
14 less of a benefit to low income customers.

15 Q Would you also agree that as certain
16 customers become more efficient in their use of --
17 or frankly conserve, let's use that term, conserve
18 in their use of natural gas, and if there were
19 decoupling mechanisms in place that the fixed costs
20 would be spread -- or the shortfall on fixed costs
21 would be spread among all customers within that
22 class? That's my understanding.

23 A Yes, that's correct.

24 Q So those customers, over time that either
25 can't afford to make either their homes or their

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1 appliances more efficient, will over time begin to
2 pay more and more of the overall cost to the class
3 to what is in relation to the fixed charges. Does
4 that make sense to you as well?

5 A Well, I think that those customers that
6 you speak of will pay no more in terms of the
7 shortfall than any other customers in that class.
8 All customers will pay a little bit more provided
9 there is a year when there's, in fact, a shortfall.
10 Because of the inclusion of weather, it could be
11 the opposite where there could be a credit or a
12 rebate, if you will, because of the impact of
13 weather. And those benefits are symmetrical in
14 that regard.

15 But I think that therein lies the
16 responsibility of the provider of energy
17 conservation programs to ensure that low income
18 customers, who may not otherwise have the ability
19 to fund those kinds of conservation measures, could
20 get help to do so.

21 Q So I guess I am assuming from your answer
22 that you would agree with at least my assumption?

23 A I think so.

24 Q Let's talk a little bit about the
25 customers that remain. Just in general, the impact

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1 of the decoupling mechanism on all customers, not
2 just low income. And I want to refer you to
3 Exhibit 68.

4 A (Complies.)

5 Q If you will turn, Mr. Amen, to page 4?

6 A Yes, I have.

7 Q It looks -- is this exhibit prepared by
8 you or by Mr. Hoff?

9 A Both Mr. Hoff and myself have reviewed it
10 and participated in it.

11 Q And specifically with regard to page 4, is
12 that a chart, if you will, a graph or a table that
13 you prepared?

14 A Well, I did not prepare it, but I reviewed
15 it, yes.

16 Q Well, I guess my question is, as I
17 understand it, this table refers to the impact of
18 the proposed decoupling mechanism by month on the
19 customers -- on customers based on their average
20 therm per month?

21 A Well, it is not related to the impact on
22 customers from decoupling. What it is is the
23 impact on a typical residential customer from the
24 overall rate increase, including the proposed \$17
25 customer charge.

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1 Q Well, I guess, then, I misunderstood the
2 table. And what my question really is, is given
3 the structure, if you will, of the decoupling
4 mechanism, how is that going to affect those
5 customers who are either -- either the high end or
6 the low end, if you want to depict it this way, of
7 the bell curve of usage within -- the customers
8 within the residential class, specifically?

9 How is it going to affect those customers
10 who use within the 10 percent of the lowest usage
11 unit, and the highest 10 percent of the customers
12 within that class? And did the Company do
13 analysis, or did you do analysis of the impact of
14 those customers? And, again, try to get a sense,
15 if you will, of across the class of customers
16 affected by the decoupling mechanism, within those
17 usage levels, how is it going to affect those
18 customers?

19 A Well, of course the decoupling mechanism
20 itself, the impact of the decoupling mechanism will
21 depend as well on where that customer charge is
22 established. And Mr. Hoff prepares a very good
23 analysis of the customer charge in terms of bill
24 impacts. He puts it through the paces, if you
25 will, of the criteria that not only Ms. Steward

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1 believed to be important, but frankly, in my
2 experience, a lot of commissions believe are
3 important in judging rate design.

4 And, of course, the more the customer
5 uses, the large use customers will benefit from a
6 reduction in the volumetric charge, more so
7 certainly than others. And the low use customers
8 will pay more, which helps to actually address the
9 fairness within the class in terms of their
10 appropriate level of fixed cost recovery. Having
11 said that --

12 Q That's assuming that the \$17 customer
13 charge would be approved by the Commission?

14 A That's correct. And when I mentioned
15 before that it depends on where that charge is set,
16 that is to say, the lower the amount of the fixed
17 cost margin is subject to recovery in a volumetric
18 rate, the less that will be subject to recovery
19 under the decoupling mechanism.

20 So that will reduce whatever potential
21 adjustment there might be annually as a result of
22 the operation of the decoupling mechanism.

23 Q Do you think, Mr. Amen, that you could
24 prepare an analysis of the Company's decoupling
25 proposal with and without the customer charge

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1 proposal that the Company has made on those -- and
2 do it in bands, 10 percent, 20, 30, incrementally
3 up to the 90 to 100 percent range of those
4 customers, so the full range, if you will, of the
5 customers from the highest to the lowest usage?

6 A Certainly. I think that we can do that.
7 Until you came to your last criteria, I was going
8 to say that we have done it. But we haven't done
9 it over a stratified group of residential
10 customers.

11 We have compared, through data responses,
12 the impact of the decoupling adjustment that we
13 have modeled, but started out with what I presented
14 in my exhibits in terms of modeling the impact.
15 And we have done it for current rates, proposed
16 rates, the \$17 customer charge, but we haven't
17 done, as you suggest, something that crosses the
18 spectrum of residential customers.

19 Q Would it be difficult to do the same for
20 the other customer classes that are being -- that
21 are also included within the decoupling mechanisms
22 purview, if you will?

23 A It may be a little more difficult task in
24 that, for example, the rate 31 class is a very
25 disparit, less homogenous class.

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1 Q I'm going to suggest that we start with
2 the residential class. And then, perhaps, we can
3 extrapolate from the information received from that
4 the impact on the other classes that are proposed
5 to fall within the decoupling mechanisms.

6 A Very well.

7 JUDGE MOSS: We will make this Bench
8 Request No. 8.

9 Do you have that in mind, Ms. Dodge?

10 MS. DODGE: I think we do.

11 JUDGE MOSS: By the way, I am reserving
12 802 for that, and we will reserve 801 for No. 7.

13 (BENCH REQUEST NO. 8.)

14 Q BY COMMISSIONER OSHIE: I have one other
15 question, Mr. Amen, and this goes to the impact of
16 the decoupling mechanism. And I want to turn you
17 to Exhibit 21 T, page 50.

18 I really have two questions on pages 50
19 and 51 that deal with the impact on the different
20 rate schedules. And let's start on page 50,
21 beginning on line 8. You state, "At the end of
22 year one, the balance in the decoupling adjustment
23 account was 14.4 million."

24 Now, when I read that, I assumed that that
25 meant that shortfall in the recovery of the fixed

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1 component of the revenues of the Company were \$14.4
2 million short. Is that my understanding? Correct?

3 A It would relate to those fixed costs that
4 are collected through the volumetric charge, yes.
5 And that was modeled under conditions of -- in
6 particular, I think this being year one, was based
7 on forecasted use per customer. And then over the
8 top of that I layered an actual year's worth of
9 weather variability from 2003 to model how it would
10 operate under those conditions.

11 Q And if we drop down to 16, line 16, there
12 you describe, "Continuing with the simulation, the
13 balances at the end of years two and three were
14 \$19.3 million and \$15.8 million respectively." And
15 now is that a cumulative balance, or is that an
16 incremental increase, if you will, and the under
17 recovery of the fixed costs?

18 A That would be an incremental number.

19 Q And you go through the same analysis, and
20 I won't walk you through that, on page 51 with
21 regard to rate Schedules 31, 36, and 51?

22 A That's correct.

23 Q Now, when I do the math here on page 50,
24 and I come up with \$49.5 million for the three
25 years -- and you can, if my math is suspect, but

0541

1 you can check it if you will.

2 Now, I want to turn you to your rebuttal
3 testimony, 31 RT, on page 18.

4 A (Complies.)

5 Q And there you are responding to
6 Ms. Steward's testimony. And on line 5 of page
7 18 -- excuse me, line 6, "Such correction does not
8 shift risk to customers, but rather reduces risk
9 for both customers and the Company." And there you
10 are describing the operation of the decoupling
11 mechanism.

12 A Yes.

13 Q I guess my question is, when I read your
14 testimony from 21 T and you are describing there an
15 approximately \$50 million shortfall revenues for
16 the Company, and then when I read this I thought,
17 well, how can that be true if there's a \$50 million
18 shortfall that could be recovered from the
19 customers, how does that not shift risk from the
20 customers -- or from the Company to the customers?
21 I just -- can you reconcile that?

22 A Certainly. Because the period that I
23 chose for weather variability were the years 2003
24 through 2005. And I took the three most recent
25 years of weather experience. Those happened to be

0542

1 all three in a row, warmer than normal years.

2 And as I recall, 2003 was something like
3 4.8 percent warmer than normal, and the other two
4 were similar. I think the low was perhaps 3.6
5 percent warmer than normal. But nevertheless, they
6 were all three warmer than normal.

7 And so it just so happened in the
8 simulation, because of the impact of weather, those
9 created the levels of shortfall that you see.
10 However, we don't know what the next year will
11 bring. It could be colder than normal, and in that
12 event it would tip the other way.

13 And so each year really is a symmetrical
14 level of risk that weather will either be warmer or
15 colder than normal. And the risk is symmetrical,
16 as I stated in my testimony, because the Company
17 will either, on the one hand, under collect its
18 costs or over collect. And the customers will
19 either underpay or overpay those fixed delivery
20 costs.

21 So the scenario I chose probably could
22 have included a cold year, but it just didn't.

23 Q So I guess, as far as my consideration of
24 your testimony in 21 T, with regard to the
25 shortfall, I should not give that a lot of weight

0543

1 because it's just referring to three abnormally
2 warm years, and you could have chosen others to
3 have a more representative amount?

4 A Yes. And I probably could have tried to
5 pick years that were colder than normal to make all
6 of the numbers negative, but I chose not to.

7 COMMISSIONER OSHIE: Thank you, Mr. Amen.

8 No more questions.

9 JUDGE MOSS: Mr. Jones, I believe you had
10 questions.

11 COMMISSIONER JONES: Yes, thank you,
12 Judge.

13

14 EXAMINATION

15

16 BY COMMISSIONER JONES:

17 Q Mr. -- is it "Amen" or "Amen"?

18 A "Amen".

19 Q I see you are a graduate of the University
20 of Nebraska?

21 A That's correct.

22 Q Did you root for the Huskies or the
23 Huskers?

24 A I am required to root for both, because my
25 daughter is a graduate of the University of

0544

1 Washington.

2 Q I have a couple of questions, and it
3 mainly concerns activities in other states with
4 decoupling. And if you are not familiar with the
5 details of the proposal, I will understand negative
6 answers, but I will ask you a few questions anyway.

7 I think in your testimony you talk about
8 cases in Maryland, North Carolina, California,
9 and --

10 A Oregon.

11 Q Oregon. Which of these states' decoupling
12 orders are you most familiar with, or are you
13 familiar with all of them?

14 A I am somewhat familiar with all of them.
15 I am probably more so familiar, perhaps, with
16 Oregon's order, and to a lesser extent Maryland,
17 because Washington Gas Light is a client of mine
18 and I modeled some of the provisions of the
19 Company's proposal after theirs.

20 Q Since you mentioned that, is Northwest
21 Natural also a client of yours? I see that they
22 purchase your NCI model, do they not?

23 A Yes, from time to time they have been a
24 client of mine.

25 Q Have you been a party, or have you been

0545

1 assisting them in either the initial 2002 case, or
2 in the update of the Northwest Natural decoupling
3 proceeding in Oregon?

4 A No, I did not.

5 Q These are going to be factual questions.
6 If you could respond with a "yes" or "no", or
7 fairly crisp response, I would appreciate it.

8 In the state of Maryland, the weather
9 issue, is weather excluded or included?

10 A It's included.

11 Q Were there rate of return limitations,
12 over earnings limitations in the Maryland order?

13 A I believe in the Maryland order for
14 Baltimore Gas and Electric, the first decoupling
15 mechanism approved in Maryland in 1999, that there
16 was a recognized reduction in the authorized rate
17 of return.

18 Q What about the issue of establishing an
19 overall ROR limit, rate of return limit?

20 A I believe there isn't one.

21 Q What about the establishment of a DSM
22 target, or some commitments to promote energy
23 efficiencies in the gas?

24 A I'm not familiar that there were any
25 specific targets for DSM or energy efficiency.

0546

1 Q Could you answer the same questions for
2 the North Carolina order with Piedmont? Are you
3 familiar with that --

4 A I am familiar enough, Commissioner, to
5 know that there were targets, of sorts. The
6 Company -- this was part of a settlement, by the
7 way, that was reached in North Carolina. And the
8 Commission approved that settlement based on, the
9 Company did make a commitment to fund a certain
10 amount of demand sight management programs or
11 energy conservation measures that they had not done
12 before.

13 And beyond that, they have a provision in
14 their mechanism whereby if the total adjustment --
15 and you will forgive me if I am a little vague on
16 this, but I believe the total adjustment under the
17 decoupling mechanism is greater than the weather
18 component of that adjustment by a certain amount,
19 that that will be contributed in addition to
20 additional energy conservation programs up to a
21 cap. I believe it's \$750,000.

22 Q I'm going around the country. Let's go to
23 California, and end with Oregon. California's
24 order was Southwestern Gas. For those criteria,
25 again weather, rate of return limitation, or ROE

0547

1 adjustment and DSM target.

2 A California is somewhat unique in that they
3 have been doing this for a long time, since really
4 the 1980s. So it's evolved over time. The
5 Southwest Gas mechanism just kind of evolved a
6 little bit more recently to include all factors,
7 including weather, which is what all the other
8 California utilities already had.

9 And so they weren't required, to my
10 knowledge, to make any additional commitments in
11 terms of energy conservation, and there was no ROR
12 cap, in that in California you have an annual
13 proceeding to determine rate of return. So there's
14 different pieces to the regulation there in
15 California of things like that. So it didn't -- it
16 wasn't part of the decoupling mechanism.

17 Q And finally, the state of Oregon that is
18 the closest to home. As I understand their
19 mechanism, it's different because of the Energy
20 Trust of Oregon, that there was a public purpose
21 fund, a surcharge, and they created an independent
22 entity to administer these efficiency programs,
23 correct?

24 A That's correct.

25 Q Were there any -- for example, run through

0548

1 those three criteria briefly, especially the last
2 one on DSM conservation commitments required as
3 part of the order.

4 A I am a little -- ironically, as I
5 mentioned, I was more familiar with the Oregon
6 order. But I don't know that the Company made any
7 incremental contributions to that trust. They do
8 have a mechanism whereby they collect fees from the
9 customers from a surcharge that goes into the
10 trust. But I'm not clear as to what, if any,
11 incremental amount the Company has to contribute.

12 And as far as I know, there's no ROR
13 limitation. I know there was some discussion of
14 the impact of ROE, and that would be considered in
15 the Company's next rate case in terms of the
16 potential impact on their cost of capital from
17 having the decoupling mechanism.

18 And I note that recently they did receive
19 a rating upgrade on the part of one of the rating
20 agencies for their credit. And they are in the A
21 category, so they were already in pretty good
22 shape. But they did cite specifically that the
23 operation of the decoupling mechanism combined with
24 their weather normalization adjustment was part of
25 the reason for the upgrade.

0549

1 Q Finally, as part of your review for this
2 proceeding, did you have a chance to review the
3 2005 Integrated Resource Plan of Puget Sound Energy
4 specifically as it applies to natural gas and the
5 potential for energy efficiency?

6 A I reviewed portions of the 2005 least cost
7 plan.

8 Q That's the one I am referring to.

9 A And I, frankly, don't recall with respect
10 to the gas energy efficiency target anything
11 specific about that. I am sorry.

12 Q Well, I am sure Mr. Shirley will address
13 that in more detail. Thank you.

14 JUDGE MOSS: Chairman Sidran.

15

16 EXAMINATION

17

18 BY CHAIRMAN SIDRAN:

19 Q Good afternoon. I want to close the loop,
20 I think, on the questions my colleagues asked
21 related to risk shifting, and rate of return, or
22 return on equity.

23 Leaving aside the issue of conservation
24 for the moment, isn't the primary purpose of trying
25 to deal with this issue in terms of weather

0550

1 normalization to increase the likelihood that the
2 Company will recover a greater percentage of its
3 margin?

4 A Yes.

5 Q And were you here yesterday for the
6 testimony of any of the witnesses?

7 A No, I was not. I am sorry.

8 Q Yesterday we heard from a couple of
9 witnesses from the Company, including the witnesses
10 on cost of capital, and I think it's fair to say
11 that both Mr. Valdman and Professor Morin accepted
12 the proposition that if the Commission were to
13 adopt several proposed mechanisms, including
14 specifically decoupling, it would have, from the
15 Company's perspective, a salutary effect of
16 reducing their risk. And that that might be
17 reflected, to some degree, in terms of a return on
18 equity, because we were discussing yesterday a
19 range of reasonableness about where one might set
20 the return on equity, and that that is influenced
21 by the perceived risk in the market of investing in
22 the Company's stock.

23 Would it be fair to say that a decoupling
24 mechanism, while I realize your testimony is
25 talking about risk shifting between customers &

0551

1 Company, but in the context of the Company's return
2 on equity or rate of return, that a decoupling
3 mechanism, as you suggested the credit rating
4 agencies viewed Northwestern's decoupling
5 mechanism, has the effect of reducing risk from the
6 market's perspective?

7 A I think that's fair to say, Commissioner.
8 I think, in fact, one of the credit agency reports
9 that I think I even cited in my testimony supports
10 that. That companies that have these mechanisms in
11 place generally have a better view in the
12 marketplace when it comes to the risk of its
13 security.

14 Q Presumably that risk has to go somewhere.
15 So wouldn't it be fair to say that this does in
16 some way shift that risk now borne by the Company
17 under recovery of its margin, and puts some risk on
18 the customers that they will, in effect, be paying
19 more of that margin, which isn't that part of the
20 purpose of the mechanism?

21 A Well, again, I think that the benefits
22 remain somewhat symmetrical in that the customers
23 will also benefit in the long term from a lower
24 overall cost of capital, perhaps as a result. And
25 presumably then pay rates that would be lower than

0552

1 they otherwise would be.

2 CHAIRMAN SIDRAN: Thank you.

3 JUDGE MOSS: If there's nothing further
4 from the bench, did those questions -- do those
5 questions require any follow on? Apparently not.

6 Is there any redirect?

7 MS. DODGE: Very briefly, Your Honor.

8

9 REDIRECT EXAMINATION

10

11 BY MS. DODGE:

12 Q Mr. Amen, first, briefly the discussion
13 around the updates to your Exhibit 41, this is the
14 gas company's Cost of Service Study. You referred
15 to the updates that were in the Company's response
16 to Public Counsel's Data Request 5, which will be
17 made into a supplemental exhibit.

18 A Yes.

19 Q Did the changes made in that updated gas
20 Cost of Service Study result in any changes to the
21 Company's rate spread, or rate design conclusions
22 or proposal?

23 A No, it did not.

24 Q Then I wanted to return to Ms. Glaser's
25 questions early on. And if you would look at your

0553

1 rebuttal testimony, Exhibit 31, page 8.

2 A I am there.

3 Q There was quite a bit of discussion on
4 line 19, that third point that you make in your
5 testimony.

6 A Yes. The point I think you are referring
7 to is with regard to promoting inefficient use of
8 the gas utility system.

9 Q Yes. Would you then look at Exhibit 67,
10 please, one of your cross exam exhibits?

11 A (Complies.) Yes, I am there.

12 Q Is this a data request response -- is
13 Exhibit 67 a data request response that you
14 prepared to further explain what you meant by your
15 third point?

16 A Yes, that's correct. In fact, if you look
17 at the question, that was opposed in the data
18 request by Commission Staff. They are referencing
19 that page and line of my testimony, and then the
20 response is provided to illustrate the concept
21 there that I was talking about in terms of
22 efficient use of the gas system.

23 MS. DODGE: Thank you. That's all.

24 JUDGE MOSS: Thank you.

25 Mr. Amen, I believe that completes our

0554

1 examination of you today. I appreciate you coming
2 and giving us your testimony.

3 THE WITNESS: Thank you. Thank you, Your
4 Honor.

5 JUDGE MOSS: You may step down.

6 And the Company may call its next witness.

7 MS. DODGE: The Company would call
8 Mr. David Hoff.

9

10 DAVID HOFF,
11 produced as a witness, having been first duly sworn,
12 was examined and testified as follows:

13

14 THE WITNESS: I do.

15 JUDGE MOSS: Thank you. Please be seated.

16

17 DIRECT EXAMINATION

18

19 BY MS. DODGE:

20 Q Please state your name and title, and
21 spell your name for the court reporter.

22 A It's David Hoff, H-o-f-f. And I am
23 manager of pricing and cost of service.

24 Q Do you have before you what have been
25 marked as Nos. 181 through 199?

0555

1 A I do.

2 Q Do these exhibits constitute your prefiled
3 direct and rebuttal testimony and exhibits in this
4 proceeding, as well as the testimony and exhibits
5 of Mr. James Heidell that you have adopted in this
6 proceeding?

7 A Yes.

8 Q As to your prefiled direct and rebuttal
9 testimonies and exhibits, were they prepared by you
10 or under your supervision and direction?

11 A Yes.

12 Q And as to Mr. Heidell -- Mr. Heidell's
13 exhibits that you have adopted, are you familiar
14 with them and have you examined their substance and
15 support?

16 A Yes, I am. And I am familiar with them.

17 Q Do you have any additions or corrections
18 to make to any of these exhibits?

19 A Yes, I do. After I filed my rebuttal
20 testimony there was -- it referenced an error in
21 one of the joint customer exhibits, and they have
22 since corrected that error. And so since I
23 referenced that error in my testimony, I would like
24 to make those changes, if that's all right.

25 JUDGE MOSS: This is 186?

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1 THE WITNESS: This is Exhibit 186. And it
2 would start on page 8. And that was the revision
3 to Exhibit 587 that was brought in September 12,
4 and that's what is causing this change.

5 And so I would delete lines 15, 16, 17,
6 and 18 on page 186.

7 Q BY MS. DODGE: I am sorry. Page 8?

8 A I am sorry. Not page 186, it's page 8 of
9 Exhibit 186.

10 And then on page 9, I reference several
11 numbers that have been changed in that exhibit, so
12 those numbers would change. The first one is at
13 line 2, page 9, it reads now \$11.15. That should
14 be changed to \$12.51.

15 Then on line 5 there is a number \$13.36
16 that should be changed to \$13.35. At line 14,
17 there's an amount of \$6.38 that should be changed
18 to \$6.80. On line 15 there's an item, \$11.15.
19 That should be changed to \$12.51. And on line 16,
20 there's a sentence that begins with the word
21 "Correcting," and ends at "\$13.36."

22 I would like to replace that entire
23 sentence with the following: "Using PSE's cost of
24 capital the Joint Parties' calculation should be
25 \$13.35."

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1 And, again, at line 18, there's \$13.35
2 should be -- \$13.36 should be \$13.35. And \$6.36
3 should be \$6.35. And then in the footnote,
4 footnote 5, the last sentence has an amount \$8.77.
5 That should be changed to \$9.65. And \$6.38 should
6 be changed to \$6.80.

7 And in addition, we have prepared a change
8 to Exhibit 187.

9 MR. FFITCH: Your Honor, may I ask the
10 witness to repeat the deletions on page 8. I
11 apologize. I didn't catch them.

12 THE WITNESS: The deletion on page 8 was
13 the entirety of paragraph lines 15 through 18.

14 MR. FFITCH: Thank you.

15 JUDGE MOSS: And I will note for 187 the
16 Company previously distributed the corrected pages,
17 and I believe we all have those in our possession.

18 THE WITNESS: And I am sorry. I do have
19 one other change. At page 11, I unfortunately
20 misquoted Ms. Steward. At line 11 she said --

21 JUDGE MOSS: What exhibit?

22 THE WITNESS: 186, page 11.

23 JUDGE MOSS: All right.

24 THE WITNESS: Line 11. I have the word
25 rates -- it reads, "fairness, rate stability for

0558

1 the Company." And she had said "revenue
2 stability," so "rate" should be changed to
3 "revenue."

4 JUDGE MOSS: In both places?

5 THE WITNESS: Just that one place. It is
6 "rate stability for the customers" is the correct
7 term.

8 Q BY MS. DODGE: With those corrections, are
9 Exhibits 181 through 199 true and correct, to the
10 best of your knowledge and belief?

11 A They are.

12 MS. DODGE: The Company offers into
13 evidence Nos. 181 through 199, and makes Mr. Hoff
14 available for cross-examination.

15 (EXHIBIT OFFERED.)

16 JUDGE MOSS: Hearing no objection, those
17 will be admitted as marked.

18 (EXHIBIT RECEIVED.)

19 JUDGE MOSS: Let's do try with our
20 subsequent witnesses, when we have minor
21 corrections such as these, to submit the errata
22 sheets. It saves time.

23 Mr. Cedarbaum, I think you have indicated
24 some cross?

25 MR. CEDARBAUM: Yes.

0559

1 CROSS EXAMINATION

2

3 BY MR. CEDARBAUM:

4 Q Hello, Mr. Hoff?

5 A Hello.

6 Q This morning I discussed with Mr. Amen the
7 relationship between Schedules 31 and 41, and I
8 asked him, under the Company's proposed rates,
9 assuming they were adopted, whether the Company had
10 any plans to notify customers on Schedule 41 that
11 they would be better off under 31. And I am
12 wondering if you could answer that question.

13 A I don't know if there's any specific plans
14 as of this time, but we certainly could do that and
15 might very well do that.

16 Q So you wouldn't be opposed to that sort of
17 requirement?

18 A No, I would not.

19 Q If I could have you turn to page 8 of your
20 rebuttal testimony, Exhibit 186. At line 12 you
21 criticize the Joint Parties' customer charge
22 calculation because you state they exclude, without
23 explanation, allocated customer costs that are
24 included in the Commission basis of gas cost of
25 service methodology and the PSE methodology. Do

0560

1 you see that?

2 A Yes.

3 Q And the calculation that you are
4 referencing, is it correct that is contained within
5 the Joint Parties' -- what was marked as Exhibit
6 587 which is Joint 7?

7 A Yes.

8 Q Prior to the lunch break I provided,
9 through counsel, to you a copy of a document that I
10 explained was a Heidell Exhibit Page, two pages
11 from the 2004 rate case. Do you recall that?

12 A Yes, I have that in front of me.

13 Q Have you had a chance to review that
14 document?

15 A I have.

16 Q Is it correct that the Joint Parties'
17 customer charge calculation and the current case
18 uses the same sort of service categories that were
19 included in Mr. Heidell's exhibit from the 2004
20 rate case that I provided you?

21 A I really don't know. I have not -- I was
22 not in my position at that time, and I really
23 haven't had enough time to review this in that kind
24 of detail, so I really don't know.

25 Q But if you were -- if we were to compare

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1 on Exhibit 587 the line items under the column cost
2 of service category to the line items for cost of
3 service categories in the document I showed you
4 before lunch, we could just determine whether
5 there's a complete overlap, or where they differ;
6 is that right?

7 A I am sorry. What are you comparing?

8 Q I'm comparing the cost of service
9 categories that are included on Exhibit 587 --

10 A Oh, that's the Joint Parties.

11 Q That's Joint 7, with the exhibit from the
12 2004 rate case that I provided to you this morning.
13 So we could compare the line items between those
14 two exhibits and determine where they are
15 different?

16 A I suppose you could.

17 MR. CEDARBAUM: Your Honor, to make this
18 easier, this is not a prefiled cross exhibit, but I
19 have made copies of the document that I have just
20 discussed with Mr. Hoff. And I would propose to
21 have that marked as a Staff Cross Exhibit.

22 MS. DODGE: Company objects. This was
23 provided right before the break. This was not made
24 a part of the Joint Parties' response testimony or
25 exhibits. It's been in existence since 2004, and

0562

1 it could have easily been brought forward putting
2 the Company in a position to respond to it.

3 As it is, when it's brought up at the last
4 minute, it's additional supplemental evidence. The
5 Company will not have the opportunity to consider
6 it and respond to it in the way that these
7 proceedings are supposed to proceed.

8 MR. CEDARBAUM: In the press of business
9 to get ready for the hearings, we don't always get
10 every exhibit put together, and that's always been
11 acknowledged by the Commission, and some leniency
12 has been given. I think this is a fair exhibit
13 that responds directly to Mr. Hoff's testimony on
14 page 8 of his rebuttal.

15 MS. DODGE: Which makes it surrebuttal --

16 MR. CEDARBAUM: He's had a copy of the
17 exhibit for three hours now. I don't see why this
18 would not be admissible.

19 JUDGE MOSS: Well, Ms. Dodge, do you
20 seriously contend that you need opportunity to file
21 additional testimony with respect to this single
22 exhibit?

23 MS. DODGE: We can't know, because we
24 don't know what argument Staff is intending to
25 make. What we're saying is not that it should have

0563

1 been a cross exhibit, but that it should have been
2 in their response testimony in July, because then
3 the Company has an opportunity to rebut it.

4 When parties bring forward new evidence at
5 the hearing, they are putting in surrebuttal with
6 no motion. That means they are not providing any
7 cause why they couldn't have put it in the response
8 case giving the Company an opportunity to consider
9 it and rebut it. So what it does is it inserts
10 additional evidence that they then use in their
11 brief in a manner we can't know, and we're left
12 responding to arguments on brief where the evidence
13 wasn't fully developed.

14 MR. CEDARBAUM: This is not something we
15 could have put in earlier testimony since it's a
16 response to a discussion of Mr. Hoff in his
17 rebuttal case. It's simply a cross-examination
18 exhibit, which we didn't pre-file last week.
19 That's all it is.

20 JUDGE MOSS: I will overrule the
21 objection, and let it in. I will mark it as 203.

22 (Exhibit No. 203 was marked for
23 identification.)

24 (EXHIBIT RECEIVED.)

25 JUDGE MOSS: What do we call it,

0564

1 Mr. Cedarbaum?

2 MR. CEDARBAUM: I would call it Exhibit
3 304 from Docket No. UE-040640. If I could pass up
4 nine copies, I will do that.

5 JUDGE MOSS: Sure. You can pass them to
6 Commissioner Jones, and he can pass them down this
7 way.

8 MR. CEDARBAUM: Say the number again, Your
9 Honor. I didn't catch that.

10 JUDGE MOSS: 203.

11 MR. CEDARBAUM: If we are ready, I could
12 move on to a different subject.

13 JUDGE MOSS: Please do.

14 Q BY MR. CEDARBAUM: Turning, Mr. Hoff, to
15 your rebuttal testimony at page 14, lines 15 to 18,
16 you discuss Ms. Steward's bill impact analysis.
17 And then you state, "Bill impact is best analyzed
18 by looking at the annual average monthly bills of
19 each customer; i.e., the sum of the 12 monthly
20 bills for each customer for the year divided by
21 12." And I am looking at the impact during the
22 months when the customers' bill is the highest. Do
23 you see that testimony?

24 A Yes, I do.

25 Q And your average annual billing analysis

0565

1 is what you presented in Exhibit 189 to support the
2 \$17 customer charge; is that right?

3 A Yes, it is. And I should note at figure 1
4 is a comparison of looking at the two different
5 types of analysis showing the percent of the bills
6 under the average annual bill frequency analysis
7 versus the percentage of bills that fall in the
8 monthly bill frequency analysis.

9 Q Can you tell me, if you know, is it
10 correct that an annual average monthly bill is what
11 a customer pays under the Company's budget plan
12 payment -- budget payment plan?

13 A Certainly they will pay an average annual
14 bill. There will be a true-up at the end of that
15 year to make up the difference between how much
16 they have actually paid and how much they owe. But
17 I believe that true-up does, in fact, happen within
18 a year.

19 Q On a month-to-month basis, they are paying
20 an annual amount?

21 A It's an estimated annual amount that gets
22 trued up, depending on what their actual usage was,
23 whether it was colder or warmer than normal, those
24 sorts of things.

25 Q Do you know how many customers the Company

0566

1 has under the budget payment plan?

2 A I understand there was an inquiry to the
3 Company. I didn't answer it directly. It wasn't
4 directed to me, but I think for gas it's in the
5 neighborhood of 70,000 customers.

6 Q So is it correct that the vast majority of
7 customers of the Company do not receive, on a
8 monthly basis, an averaged annual amount -- excuse
9 me --

10 A Do not pay on a monthly basis?

11 Q Right. On a monthly basis, the vast
12 majority of the customers don't pay an annual
13 average monthly bill?

14 A Well, they pay it in 12 months. They pay
15 it over the year. They don't pay it on an
16 individual monthly basis, that's correct. That's
17 the whole point of this, because we're -- with the
18 \$17 charge, that monthly charge gets more even over
19 the years, which we think customers -- obviously
20 70,000 prefer that with their total bill, and this,
21 of course, is just talking about their margin
22 bills.

23 MR. CEDARBAUM: Thank you, Mr. Hoff.

24 That's all I have.

25 JUDGE MOSS: Thank you, Mr. Cedarbaum.

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1 Mr. ffitch, Public Counsel, has indicated
2 some cross. And let me ask if there are going to
3 be any objections to Public Counsel's cross
4 exhibits which are responses -- which are PSE
5 responses to data requests.

6 MS. DODGE: No objection. Only a note
7 that there is an agreed replacement 202.

8 JUDGE MOSS: Has that been distributed?

9 MS. DODGE: I believe so.

10 JUDGE MOSS: So those will be admitted as
11 marked.

12 (EXHIBIT RECEIVED.)

13 MR. FFITCH: I would ask counsel to
14 refresh my memory on what the replacement does.

15 Does that include the response to 13?

16 MS. DODGE: That's correct.

17 MR. FFITCH: Thank you.

18

19 CROSS EXAMINATION

20

21 BY MR. FFITCH:

22 Q Good afternoon, Mr. Hoff. I want to start
23 out with getting a definition, if I can. In your
24 testimony you use the term straight fixed variable
25 quite a bit, do you not?

0568

1 A I do.

2 Q And how do you define fixed cost in this
3 context? Is it the standard accounting definition
4 of interest expense and depreciation expense, or do
5 you include additional costs in that definition?

6 A It's the costs that don't vary by volume.

7 Q So it includes additional costs beyond
8 interest and depreciation? Maybe I can help you by
9 asking you about specific things, whether they are
10 included or not. That will expedite it.

11 A And let me --

12 Q I was ultimately going to direct you to
13 Exhibit 187, your DWA 7.

14 A (Looking for documents.)

15 Q Actually, I will let you find it. I had a
16 preliminary question before that.

17 A Let me --

18 JUDGE MOSS: While the witness is looking
19 there, the bench does not have more than one page
20 for Exhibit 202. I gathered it was in some way
21 supplemented.

22 MS. DODGE: Do others need copies?

23 JUDGE MOSS: Thank you.

24 Q BY MR. FFITCH: Mr. Hoff, are you ready?

25 A Just about. So you are referring me to --

0569

1 I was actually looking at Ms. Phelps' testimony.

2 Q Well, before we get to the exhibit, when
3 you define -- or do you include in fixed costs the
4 operation and maintenance expenses for the company?

5 A A portion of them that are allocated to
6 demand and customers.

7 Q Do you include return on equity and taxes?

8 A The portion that is allocated to demand
9 and customers, yes.

10 Q I am sorry?

11 A The portion that is allocated to demand
12 and customers.

13 Q And how about administrative and general
14 customers?

15 A The portion, again, that is allocated to
16 demand and customers.

17 Q And the reason I was referring to it in
18 Exhibit 39, which is Ms. Phelps' exhibit at page 3,
19 there is a detailing of the revenue requirement
20 that is allocated. And it has three categories,
21 demand, commodity, customer. And at the bottom it
22 says, Total Fixed Costs. And that's the portion of
23 the other total revenue requirement that -- so
24 those would be the fixed costs that I am talking
25 about.

0570

1 JUDGE MOSS: So we have a clear record, I
2 am showing Exhibit 39 as being Ms. Phelps'
3 qualifications.

4 THE WITNESS: I am sorry. It's Exhibit
5 41.

6 Q BY MR. FFITCH: Thank you. Would you
7 please now turn to your Exhibit 187, which is DWH
8 7, and actually go to page 5, which is the one that
9 you just corrected today.

10 Okay. Is this calculated assuming each
11 customer is responsible for an equal share of the
12 Company's investment in service pipe, and the other
13 costs that you have totaled up there? And I am
14 referring to lines 201 through 204.

15 A So the cost per customer is exactly what
16 it says it is. It's the total cost divided by the
17 number of customers.

18 Q So that's an equal share for each
19 customer?

20 A If each one of them paid that amount, that
21 would be equal share. That is the amount per
22 customer, yes.

23 Q And that's regardless of whether they are
24 single-family customers in large lot subdivisions,
25 or apartment dwellers?

0571

1 A That's correct.

2 Q Or row house customers and townhouse
3 developments?

4 A That's correct. Most of these costs don't
5 vary. The cost of sending out bills, for instance,
6 doesn't vary by where you are, and that sort of
7 thing.

8 Q Has the Company done any analysis in this
9 docket of the costs it incurs to provide service to
10 apartment dwellers as distinct from single-family
11 customers?

12 A Not in these customer costs, no.

13 Q Just a couple of questions about
14 elasticity, Mr. Hoff. In general, with price
15 elasticity, if you have a price increase you would
16 expect some decline in use; and conversely, if
17 there's a price decrease, you would expect some
18 increase in use of electricity, correct?

19 A As I remember from my economics many years
20 ago, elasticity is a percentage change in quantity
21 divided by the percentage change in price. And so
22 that's what it is. If you have a percentage change
23 in one of them, it's how much the other one
24 changes.

25 Q And has the Company computed the

0572

1 elasticity effect of its proposed residential rate
2 design with the significant reduction in the price
3 per therm that customers would see at the margin?

4 A We have not separately calculated that.
5 We have, to the extent that we use any forecasted
6 numbers in the exhibits, those forecasted numbers
7 would have included in them price elasticity
8 effects, as well as effects of conservation and
9 other things.

10 Q I'm sorry. Does that mean that you have
11 pro formed in any additional margin that you would
12 expect to receive as a result of an elasticity
13 effect?

14 A We have not. Pro forma is for historic
15 years, not forecast years.

16 Q And the Company has not done any studies
17 of the contributing cause to decline on average use
18 per customer based on isolating new customer
19 impacts, or conservation impacts, or elasticity
20 effects, has it?

21 A I believe we answered some data requests
22 indicating that we didn't -- have not done any
23 detailed analysis.

24 Q I think that's correct. You are referring
25 to Exhibit 202, which is Response to Public Counsel

0573

1 Data Request 76.

2 A Right.

3 Q And that's the --

4 A So as the addition of PC 13 says, we have
5 done some residential surveys that look at what
6 people are doing, but we haven't actually
7 quantified the effects.

8 Q And you actually go on to say that this
9 would be a complex undertaking, and you are looking
10 at the response to 13. And you might not even have
11 the data to perform that easily?

12 A That's what we said, yes.

13 MR. FFITCH: Thank you, Mr. Hoff.

14 I have no further questions, Your Honor.

15 I believe those exhibits are --

16 JUDGE MOSS: They are in. Thank you very
17 much, Mr. ffitch.

18 Any questions for this witness from the
19 bench?

20 COMMISSIONER OSHIE: No.

21 JUDGE MOSS: Any redirect?

22 MS. DODGE: No, Your Honor.

23 JUDGE MOSS: With that, Mr. Hoff, we thank
24 you for being here and providing your testimony.
25 You may step down.

0574

1 (Brief recess taken.)

2 JUDGE MOSS: Let's be back on the record.

3 And we have our next witness seated here,

4 Mr. Shirley, I believe.

5 THE WITNESS: Yes.

6

7 CALVIN SHIRLEY,

8 produced as a witness, having been first duly sworn,

9 was examined and testified as follows:

10

11 THE WITNESS: I do.

12 JUDGE MOSS: Thank you. Please be seated.

13

14 DIRECT EXAMINATION

15

16 BY MS. DODGE:

17 Q Mr. Shirley, please state your name and

18 title and spell your name for the court reporter.

19 A My name is Calvin Shirley, go by Cal.

20 Last name is spelled, S-h-i-r-l-e-y. And I am vice

21 president of Energy Efficiency Services.

22 Q And do you have before you what have been

23 marked as Exhibits 371 through 393?

24 A I do.

25 Q Are these your prefiled direct and

0575

1 rebuttal testimonies and related exhibits in this
2 proceeding?

3 A Yes, they are.

4 Q Were they prepared by you, or under your
5 direction and supervision?

6 A Yes.

7 Q Are they true and correct, to the best of
8 your knowledge and belief?

9 A They are.

10 MS. DODGE: Your Honor, PSE offers into
11 evidence 371 through 393, and offers Mr. Shirley
12 for cross-examination.

13 (EXHIBIT OFFERED.)

14 JUDGE MOSS: Hearing no objection, those
15 will be admitted.

16 (EXHIBIT RECEIVED.)

17 JUDGE MOSS: And let's talk about the
18 cross-examination exhibits. Have we had a chance
19 to review those?

20 MS. DODGE: PSE will stipulate into
21 evidence Exhibits 394 through 414, with two
22 notations for the record. There was, for Exhibit
23 396, there was a PSE replacement exhibit that has
24 been distributed. And this was a corrected
25 response to PSE's Data Request 84, and included the

0576

1 rest of the attachments.

2 MR. FFITCH: Your Honor, to clarify, it
3 was not a correction, it was a supplementation.

4 MS. DODGE: It was a correction of our
5 original response that had some errors in the
6 description of what the attachments were.

7 JUDGE MOSS: How many pages is the exhibit
8 now?

9 MS. DODGE: 292. We were correcting PSE's
10 prior errors.

11 JUDGE MOSS: It's 292 pages long?

12 MS. DODGE: Yes.

13 JUDGE MOSS: I don't believe I have
14 distributed that, but I had it.

15 Off the record.

16 (Discussion off the record.)

17 JUDGE MOSS: Back on the record. The
18 other correction --

19 MS. DODGE: Not a correction, a notation
20 to the record that Northwest Energy Coalition, in
21 Exhibit 412, has had a chart that was simply pulled
22 out of the chapter of the least cost plan. And if
23 anyone is interested, the entire Chapter 7 of PSE's
24 least cost plan is now part of the Exhibit 396.
25 But I think we had determined to keep 412 in

0577

1 because it's one piece of paper, and might be
2 convenient.

3 JUDGE MOSS: Yes, we had previously
4 discussed that off the record. We do have 396 up
5 here. I have it. I just don't have it in my
6 notebook, so we're in good shape. I will mark
7 those Exhibit Nos. 394 through 414 as admitted
8 pursuant to the stipulation. Appreciate that.

9 (EXHIBIT RECEIVED.)

10 JUDGE MOSS: Are we ready for
11 cross-examination, Ms. Dodge?

12 MS. DODGE: Yes, Your Honor.

13 JUDGE MOSS: Mr. Cedarbaum, you have
14 indicated 10 minutes.

15 MR. CEDARBAUM: With the admission of 413,
16 I have no more questions.

17 JUDGE MOSS: Thank you.

18 Mr. ffitch.

19 MR. FFITCH: Thank you, Your Honor.

20

21 CROSS EXAMINATION

22

23 BY MR. FFITCH:

24 Q Good afternoon, Mr. Shirley. In your
25 direct testimony, or as one of your exhibits you

0578

1 submitted the Settlement for Conservation from the
2 2001 Puget Sound Energy general rate case, correct?

3 A Yes, I believe that's correct.

4 Q And you can look at it if you want to. I
5 want to ask you if in that settlement the Company
6 committed to pursue all cost effective energy
7 efficiency. And I can give you a reference if you
8 like.

9 A You should give me the reference. I
10 believe that's true, but I would like the
11 reference.

12 Q Referring to Exhibit 373.

13 A I am there.

14 Q And page 1 of the exhibit, and then I am
15 referring to section C, paragraph 3.

16 A I see it.

17 Q And, again, just to refresh, my question
18 was under the settlement, did the Company commit to
19 pursue all cost effective energy efficiency --

20 A Yes --

21 MS. DODGE: Objection. This speaks for
22 itself. It's a far longer sentence than that.

23 JUDGE MOSS: Well, I think we have the
24 witness' answer, so let's go on.

25 Q BY MR. FFITCH: Now, if you could please

0579

1 turn to Exhibit 394, that's the November 18 Puget
2 Sound Energy letter. That's one of your cross
3 exhibits.

4 A (Complies.)

5 Q Do you have that?

6 A It's a letter to --

7 Q It's an advice letter dated November 18,
8 2005, Exhibit 394.

9 A Yes.

10 Q Do you have that?

11 A To Ms. Washburn?

12 Q Correct.

13 A Yes, I have that.

14 Q And that is in general a terrifying letter
15 for your natural gas conservation programs?

16 A Yes, it is.

17 Q And at the time of that filing, this
18 letter represents, does it not, the Company's best
19 efforts to reach the conservation targets that were
20 referred to in the stipulation we just looked at,
21 or the settlement that we just looked at?

22 A I believe it is.

23 Q Thank you. Now, can I ask you to turn to
24 page 2 of that exhibit?

25 A (Complies.)

0580

1 Q And in the third paragraph you refer to
2 some electric target. There's a stretch target of
3 40 average megawatts with a penalty threshold of 33
4 average megawatts, correct?

5 A Correct.

6 Q And is that over a two-year period?

7 A Yes.

8 Q And your -- I mean, Puget Sound's energy
9 efficiency budget is based on that amount, correct
10 on an annual basis?

11 A On which amount, Mr. ffitch?

12 Q On the target, the stretch target of 40
13 average megawatts for two years?

14 A That's correct.

15 Q And it's true, isn't it, that the Company
16 communicates this target of 20 average megawatts,
17 or 40 average megawatts for two years to the
18 Northwest Power Planning Council?

19 A We do.

20 Q And that's because the power planning
21 counsel is looking at the potential for energy
22 efficiency in the Northwest, right?

23 A Yes.

24 Q And if we look at -- still looking at that
25 paragraph 3, you have indicated that that electric

0581

1 target is an acceleration beyond the least cost
2 planning base lines, right?

3 A We refer to it as a stretch.

4 Q But then in the third line, fourth line of
5 the paragraph, you also refer to the acceleration.
6 The exhibit speaks for itself, but that is --

7 A Yes. Yes. Yes.

8 Q Now, let's look at the gas part of this
9 discussion. Their stretch targets for gas are 4.2
10 million therms, and the so-called penalty target is
11 3.4 million therms; is that correct?

12 A Yes.

13 Q And as you point out in this letter, that
14 falls short of the guidance of the least cost plan,
15 correct?

16 A Correct.

17 Q By contrast with the sort of greater
18 amount of success on the electric side?

19 A Correct.

20 Q And this letter extends the programs
21 through the end of 2007, right?

22 A That is right.

23 Q Now, is there, in terms of these gas
24 targets that we just looked at, is there an
25 organization on the gas side comparable to the

0582

1 Northwest Power Planning Council to which you
2 report these energy efficiency targets?

3 A Not to my knowledge, no.

4 Q Now, in an effort to achieve or acquire
5 energy efficiency on the gas part of its business,
6 the Company has issued an RFP recently, has it not?

7 A That's right.

8 Q And you received, if I recall from the
9 record, six responses to that RFP. And of those
10 you found only one acceptable, correct?

11 A If you are referring to the gas portion of
12 that --

13 Q I am referring to the gas portion.

14 A That's correct. But it's more than that
15 for the entire RFP process.

16 Q And on the electric side, what was the
17 result on the electric side?

18 A I don't recall precisely. It's in my
19 testimony, but I believe it's about a dozen or
20 more.

21 Q And that was the number of applications or
22 number of proposal?

23 A Proposals.

24 Q And how many were accepted on the electric
25 side?

0583

1 A I think there was a short list of a little
2 more than half dozen. And we are proceeding with
3 negotiations with some of those short listed
4 proposers.

5 Q Now, you have testified that there's no
6 easier obvious way to get more gas energy
7 efficiency than what you have been able to achieve
8 today; is that right?

9 A If you are referring to what we have set
10 as our target or what we have actually accomplished
11 today -- can you clarify for me?

12 Q Well, let me direct you to your testimony.
13 Maybe that will help.

14 A Okay. Okay.

15 Q I am keying off of something you said on
16 Exhibit 379. This is your rebuttal Exhibit 379,
17 page 26?

18 A Okay. I am there.

19 Q The paragraph starts at line 4, and you
20 are referring to the response to the RFP, are you
21 not? And you say, starting at line 9, "From the
22 energy service market's response to the Company's
23 RFP, it is apparent that there are no easy or
24 obvious solutions to acquiring significantly more
25 energy gas savings," correct?

0584

1 A Yes.

2 Q So there you are referring to acquisition
3 of actual savings through energy efficiency, right?

4 A Right. But I should point out that this
5 is specifically in reference to the RFP, and it
6 doesn't necessarily reflect in this paragraph the
7 other things that we have been doing to try to
8 acquire additional savings for gas. The RFP is
9 just one of those in which we were not required by
10 statute to actually do, but --

11 Q But isn't it fair to say, Mr. Shirley, as
12 a general proposition, the process of setting
13 energy savings targets and designing programs is
14 tempered by practical realities?

15 A That would be fair, yes.

16 Q And some of those realities include
17 experience of contractors', reliability of savings
18 estimates, product availability, things of that
19 nature?

20 A Those would be some of the factors.

21 Q And Puget has identified a number of
22 barriers to achieving gas efficiency targets, has
23 it not, in its own analysis?

24 A That's true. But I would also add in
25 identifying those barriers we also make it our

0585

1 business to try to find every opportunity to
2 overcome those barriers.

3 Q And how long have you been in your
4 position, Mr. Shirley?

5 A A little over three and a half years.

6 Q And in your opinion, does Puget Sound
7 Energy have a strong long-term commitment to energy
8 efficiency in both electric and gas service?

9 A Yes, it does. It's one of the reasons I
10 joined the Company.

11 Q During the time that you have been with
12 the Company, has Puget ever actively opposed
13 adoption of more energy efficient building codes,
14 or appliance standards?

15 A Since 1979?

16 Q Since the time you have been with them.

17 A Since I have been here, not to my
18 knowledge, no.

19 Q To your knowledge, have they actively
20 opposed those things since the 2001 settlement on
21 conservation that we just looked at?

22 A Again, building codes?

23 Q Building codes, more efficient -- excuse
24 me, more energy efficient building codes, more
25 energy efficient appliance standards?

0586

1 A Not to my knowledge, no.

2 Q Has the Company ever actively opposed,
3 during your term with the Company, customer funded
4 energy efficiency measures?

5 A No. We have typically advocated on all
6 accounts.

7 MR. FFITCH: Thank you. Your Honor, I
8 don't have any more questions.

9 Thank you, Mr. Shirley.

10 JUDGE MOSS: Thank you, Mr. ffitch.

11 Ms. Glaser, do you have some
12 cross-examination for Mr. Shirley?

13 MS. GLASER: Yes, I do.

14

15 CROSS EXAMINATION

16

17 BY MS. GLASER:

18 Q Good afternoon. I am Nancy Glaser with
19 the Northwest Energy Coalition. It's a challenge
20 to organizing the papers I have here.

21 There are a number of topics that I would
22 like to talk with you about this afternoon, but I
23 would first like to start -- and I can build on
24 some of the things that Mr. ffitch has asked about
25 in terms of the size and merit of conservation

0587

1 targets as they relate to the decoupling
2 mechanisms, and proposed not just by the Company
3 which has no explicit conservation target; is that
4 correct?

5 A Say that again?

6 Q The Company's decoupling proposal has no
7 explicit conservation achievement that is required
8 to get decoupling; is that correct?

9 A To my knowledge, no.

10 Q And some of the other parties have, in
11 fact, Northwest Energy Coalition for one,
12 recommended that there be explicit targets?

13 A As it relates to decoupling?

14 Q Yes.

15 A I have heard of that, yes.

16 Q You speak in your rebuttal testimony, and
17 add what you say is a word of caution about over
18 reliance on your least cost plan, or your resource
19 plan in setting program targets. That was on page
20 26 of your rebuttal testimony, if you would like to
21 refer to that; is that correct?

22 A I am there. I am there.

23 Q What I would like you to do, if you would,
24 is turn to Exhibit 412, which is the one-page
25 exhibit, which is a table with an excerpt from your

0588

1 2005 -- yours being Puget Sound Energy's least cost
2 plan.

3 A I am there.

4 Q Are you there?

5 A Uh-huh.

6 Q This table summarizes in one chart,
7 really, what the both technical and achievable
8 conservation potential is for your service
9 territory over the 20-year period 2006 to 2025; is
10 that correct?

11 A Yes.

12 Q And if we look across sectors, you find
13 that the achievable cost effective conservation,
14 which is in the far right-hand section of that
15 chart --

16 A I see it.

17 Q -- is only 28 percent in total of what has
18 technically been identified as available out there.
19 So there has been a substantial discount of what is
20 technically available to what is achievable over
21 the 20-year period?

22 A Correct.

23 Q And if I would divide that total of the
24 10.5 million decatherms, which is more like 105
25 million therms of potential -- achievable potential

0589

1 over the 20 years, that translates into a steady
2 state investment of 5.25 million therms per year;
3 is that correct?

4 MS. DODGE: Objection, Your Honor. That's
5 a fairly involved calculation --

6 THE WITNESS: I'm not sure I follow --

7 Q BY MS. GLASER: And the total, the bottom
8 right-hand --

9 A Yeah. I see 10 million decatherms --

10 Q Would be 105 million therms --

11 JUDGE MOSS: Let me caution, we cannot
12 have you both speaking at the same time.

13 Q BY MS. GLASER: So 105 million therms
14 overs a 20-year period is a little more than 5
15 million therms per year, as a uniform level of
16 investment to achieve all that has been identified
17 as achievable?

18 A Without having worked out the arithmetic,
19 that sounds close to being correct.

20 Q Subject to check, it is 5.25 million
21 therms per year?

22 A Uh-huh.

23 Q If that --

24 A For the achievable?

25 Q For the achievable.

0590

1 A Uh-huh.

2 Q And then if you would turn to Mr. Weiss'
3 direct testimony, which is Exhibit No. 502.

4 A I do not believe I have that.

5 Q Page 11, if you could turn to page 11 of
6 that testimony, please.

7 A (Complies.)

8 Q There's a chart toward the upper portion
9 of the page.

10 A Okay. I see that.

11 Q So this summarizes in one table the
12 Northwest Energy Coalition's conservation target
13 proposed. And basically if I give an example here,
14 if Puget Sound Energy, for example, in line 8
15 achieved 2.1 million therms of conservation in any
16 one year under the decoupling mechanism, this
17 proposal recommends that 50 percent of approved
18 margin could be recovered under that decoupling
19 mechanism.

20 A I see that.

21 Q So there's kind of an increasing incentive
22 level. And I would like you to look at that table
23 and let me know if you see anything in the range of
24 5.25 million therms per year, the number that would
25 be at a steady state required to be implemented as

0591

1 part of that chart?

2 A Are you referring to between lines 5 and
3 11?

4 Q Yes.

5 A (Reading document.) And one clarifying
6 question, is that -- when you refer to 5.25
7 million, is that an annual number?

8 Q That's an annual number, 5.25 million
9 therms per year times 20 years would result in the
10 total achievable conservation being implemented by
11 2026.

12 A In answering your question, I do not see
13 5.25 million here.

14 Q So we basically have recommended an
15 incentive proposal within the decoupling mechanism
16 which would provide for 100 percent recovery should
17 Puget Sound Energy achieve 3.1 million therms of
18 energy conservation per year. Is that not correct?

19 A That appears to be what you have here.

20 JUDGE MOSS: Before you go on, Ms. Glaser,
21 I'm no mathematical genius. But if we're talking
22 about \$10 million over 20 years, I don't think that
23 works out to 5 million a year.

24 MS. GLASER: No. 10 million decatherms,
25 which is 105 million therms. So if you divide that

0592

1 by 20 --

2 JUDGE MOSS: So we have to be cautious not
3 to mix therms and decatherms.

4 MS. GLASER: And this is confusing in a
5 variety of the charts and exhibits that you look
6 at. I have scratched my head about that many
7 times.

8 Q BY MS. GLASER: So, in fact, in this
9 particular proposal, 100 percent of margin recovery
10 would be earned in a decoupling mechanism to the
11 extent Puget Sound Energy achieved 60 percent of
12 what has been identified as achievable cost
13 effective conservation in its least cost plan?

14 A According to what it says here?

15 Q Uh-huh.

16 A That would appear to be close to being the
17 case, yes.

18 Q And would you, again, say that that is
19 over relying on a least cost plan to put together a
20 strong incentive program for conservation
21 achievement?

22 A At this point, I don't know, Ms. Glaser.
23 I would need time to really take a look at it, only
24 because the 2.1 million therms that we have
25 currently as our target was significantly vetted

0593

1 through our own analytical process, and in
2 negotiations with CRAG. If we had felt that what
3 you have here, 3.1 million therms, was doable, we
4 would have had that.

5 So it's hard for me to give you an answer
6 right here and now. The targets that we have are
7 the ones that we have. And we think that it's
8 going to be very difficult for us to even reach the
9 2.1 million therms. When we typically set a
10 stretch target, the stretch target usually means
11 that there's probably as much as an 80 percent
12 chance of us not meeting that target.

13 Q And do you agree -- I think this is a
14 matter of fact in the record, but your
15 performance -- and it's been an outstanding
16 performance -- in 2004 was 3.2 million therms of
17 conservation?

18 A Per year?

19 Q In 2004 for that year, and 2005, 2.9
20 million therms?

21 A Yes. And if I can add to that, we had set
22 a penalty target similar to what we have here
23 in '04 and '05 with a stretch target of 5 million
24 therms over two years. We found opportunities to
25 go beyond that to hit 6 million therms.

0594

1 Consequently, we're not -- the 2.1 million therms
2 is not because we want to rest on our laurels.
3 We will try to go and get everything we can.

4 And this does show some of the limitations
5 of the least cost plan in terms of over reliance on
6 different program planning purposes.

7 Q Although our recommendation did discount
8 that plan by 40 percent?

9 A It did.

10 Q That's a substantial discount.

11 A Understood.

12 Q So we basically have proposed an incentive
13 schedule that requires conservation performance for
14 decoupling to be something we would support that
15 really would require performance at a level
16 comparable to recent Company accomplishments, and
17 up to 60 percent of what you have identified as
18 achievable; is that correct?

19 A Based on what you have here in terms of
20 what you are proposing?

21 Q Yes.

22 A That sounds like a reasonable
23 characterization, but I would guardedly say that
24 with respect to achievable, there are a number of
25 market barriers that often the least cost plan does

0595

1 not consider. And some of the things that we have
2 encountered in this biennium will inform the 2007
3 least cost plan. And it may result in downsizing
4 the achievable numbers that are in the least cost
5 plan.

6 Q So would you turn to Exhibit 371 -- I am
7 sorry, 375.

8 A (Complies.)

9 Q This is an attachment to your direct
10 testimony.

11 A Okay.

12 Q It's a 10-page attachment, so I turn you
13 to page 7, please.

14 A I am there.

15 Q So this is a table that summarizes gas
16 program cost effectiveness. And as I understand it
17 it includes, on the far right-hand side, both a
18 utility cost test and a total resource cost test.
19 I think those are the two right-hand columns of the
20 chart; is that right?

21 A Yes. Uh-huh.

22 Q So what you see is a utility cost benefits
23 over costs?

24 A Yes.

25 Q And the total resource cost benefits over

0596

1 cost ratio is, for example -- I don't want to try
2 to plan your programs for you, or even say I could
3 do that, but certainly it looks -- for example, as
4 I look down the utility cost, the benefits to the
5 utility over the cost of the utility, which is the
6 second to the right-hand column?

7 A Yes.

8 Q In total showing that the utility receives
9 benefits twice as great as the costs it incurs to
10 do programs might lead me to believe that there is
11 significant room for improvement in terms of some
12 of the costs of conservation that are now borne by
13 customers, or those outside the utility being borne
14 by the utility, and still much more conservation
15 might be implemented. Is that not a way to
16 interpret this table?

17 A I would be cautious about that type of
18 interpretation for a couple of reasons. One, the
19 bottom line is for the planning purposes what we
20 use is the total resource cost test, which is the
21 far right column. And I will use one of the items
22 on this chart as an example, which is gas
23 single-family weatherization. And I use that only
24 because it is marked as the highest area of
25 potential by the least cost plan.

0597

1 What it, in fact, shows here is something
2 that we found to be totally different when we got
3 into the market. It shows a higher level of
4 utility cost benefit and TRC than we actually
5 found. We, in fact, had to struggle to find a way
6 to actually make that program cost effective, even
7 with customer participation.

8 So some of the numbers here we have found
9 in reality in the marketplace have been downsized.
10 And I just used that one example.

11 Q So Commissioner Oshie earlier today
12 referred to some orders put out in the Pacificorp's
13 dockets that outlined a number of issue areas that
14 the Commission would like to review, or to see
15 before it would act on any decoupling mechanism.
16 And we had summarized those in Mr. Weiss' direct
17 testimony. That was on page 27, I think, if you
18 wanted to see the full list.

19 But I would draw your attention to two of
20 those items. If you want to find the list, it's
21 page 27 of Exhibit 502.

22 A Yes, I have got it.

23 Q And line 11 through 14, line 11 says that
24 there would be interest in the identification of
25 incremental conservation measures expected to be

0598

1 implemented. And the next one is development of a
2 target for energy conservation to be achieved
3 through this mechanism, meaning the decoupling
4 mechanism, relative to the base line conservation
5 programs currently in rates, and the Company's
6 integrated resource plan.

7 A Correct.

8 Q So since the Company's proposed decoupling
9 mechanism does not require any explicit level of
10 conservation performance, what additional
11 conservation activities can customers count on if a
12 decoupling mechanism is approved?

13 A What I would say is that what we try to do
14 is be the standard bearer for how aggressive we are
15 with respect to our conservation programs. Our
16 single-family gas weatherization program is new.
17 And, in fact, even at the behest of the governor we
18 accelerated the implementation of that a year ahead
19 of time.

20 Secondly, we're looking at additional
21 measures, such as tankless hot water heaters. You
22 don't find those in the least cost plan. You don't
23 find them in supply curves. But we see there's
24 potential market opportunity, so we're pursuing new
25 technology and new measures all the time.

0599

1 What we're looking for is to provide
2 maximum benefit to customers, and essentially to
3 lower our overall curve on energy use with respect
4 to gas.

5 So I'm not clear necessarily about what
6 other utilities are doing. We have tried to scan
7 the entire country, because we thought that
8 somebody must be doing something that we're not
9 doing, and we just haven't found it. But we
10 continue to look.

11 Q So if you are doing all that you can be
12 doing, why should customers favor decoupling?

13 A I think that decoupling at the end of the
14 day is going to be in the best interest of our
15 customers. And I will speak to the energy
16 efficiency piece of that, because there is clearly
17 a loss revenue piece of that which, I think, is
18 important to consider.

19 And if we're going to continue to be
20 aggressive with programs, I think the Company needs
21 a little bit of help, if you will, to continue to
22 be aggressive as we are. And I think that's in the
23 best interest of customers.

24 Q So having been a finance director in a
25 public utility, not a private utility, I am

0600

1 certainly -- that idea of loss recovery, loss
2 margin is a difficult one.

3 If you were in search of additional
4 resources or support within Puget Sound Energy for
5 resources and company support for conservation,
6 wouldn't an incentive schedule, perhaps similar to
7 what was recommended by the Northwest Energy
8 Coalition, be something that would be very helpful
9 to you to mobilize resources throughout your
10 organization to cheer you on to do more
11 conservation?

12 A It would help, but I guess I would be
13 guarded in I don't see an incentive as synonymous
14 with the decoupling device. You have heard
15 Mr. Amen's testimony, and I think an incentive is
16 just that. It's trying to incentivise. The
17 decoupling is trying to accomplish a number of
18 other things.

19 We have not asked for an incentive on the
20 gas side. We have on the electric side. There's
21 been much discussion in this state and throughout
22 the region about decoupling, so we have basically
23 moved forward as part of all of that discussion,
24 and we have decided to put forth a decoupling
25 device for the gas side. So would that help for

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1 energy efficiency? You bet.

2 Q And I think what we have done in our
3 proposal is try to go beyond a decoupling mechanism
4 that solely eliminates the disincentive, but
5 structures within it an incentive for increased
6 conservation performance on behalf of the rate
7 payers, customers.

8 A Well, it's interesting that you mention
9 that. As we looked at incentives on the electric
10 side, we looked at what -- tried to look at what a
11 few other states were doing. And certainly we
12 thought about the idea of bringing not only a
13 decoupling, but also an incentive mechanism.
14 Wasn't quite sure if people would be prepared to
15 swallow all of that, because there are utilities
16 who have both, and that also have no penalty
17 mechanism in places we have. I think we're the
18 only utility in the country that have an actual
19 penalty in place.

20 Q Well, I would like to turn my questions
21 now to the proposed electric efficiency incentive
22 program, so moving from gas to electricity.

23 A Okay.

24 Q In your direct testimony, which is Exhibit
25 371, you referenced a 1991 incentive mechanism that

0602

1 had been approved by the Commission for Puget Sound
2 Energy. And pursuant to that, it's lines 10, page
3 6 of that testimony.

4 A Page 6?

5 Q Page 6, yes.

6 A Okay. I am there.

7 Q It's the middle paragraph, and pursuant to
8 that mechanism it sounds like PSE received 6.9
9 million as a result of that incentive?

10 A Yes.

11 Q Did that mechanism, do you know, include a
12 criteria for minimum measure life?

13 A You know, I'm not aware that it did.

14 Q I don't believe it did.

15 A I can't say for certain, but I'm not aware
16 that it did.

17 Q Did PSE need to meet specific
18 accomplishments in individual program areas or
19 measures to receive the incentive, or was it really
20 just an aggregate savings target?

21 A You know, unfortunately, Ms. Glaser, I'm
22 not familiar with all of the ins and outs of that
23 particular program, so I feel a little unqualified
24 to answer that specifically.

25 Q My understanding, and I was not there, but

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1 subject to check, PSE did rely heavily on the
2 distribution of low measure life shower heads and
3 low flow aerators, which had a very short economic
4 life to customers.

5 MS. DODGE: Objection. The witness has
6 said he's not familiar with the details, and this
7 sounds like Counsel's trying to get testimony in
8 the record.

9 JUDGE MOSS: If he doesn't know about the
10 details, it's not the type of thing we would ask
11 him to take subject to check, Ms. Glaser.

12 Q BY MS. GLASER: Isn't it reasonable for
13 parties to desire an average measure life
14 requirement? There's been a difference of opinion
15 between parties and the Company on an average
16 measure life requirement.

17 A I think it's not unreasonable depending on
18 what we're trying to achieve. And having been
19 around at another utility, back in the early '90s,
20 there were a lot of utilities putting in the
21 measures you referred to, low flow showers and the
22 like, because it was low hanging fruit.

23 And that was generally the policy, get the
24 cheapest stuff first in the interest of the rate
25 payers. Many companies have, including Puget, have

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1 moved toward getting longer term or measures that
2 have longer lives.

3 But do I think that with utilities like
4 Puget that's been pretty aggressive for several
5 years, we can inadvertently back ourselves into a
6 corner if that becomes a hardened criteria. I
7 think there needs to be some level of flexibility
8 with respect to measure lives.

9 Q Would you recommend some level of economic
10 life requirement?

11 A Yes, I would. And that would be something
12 that I would be happy to, you know, negotiate and
13 discuss and collaborate with the CRAG on.

14 Q I am going to turn my attention to a
15 different topic area, which is low income
16 weatherization.

17 In your rebuttal testimony page 28, lines
18 11 to 13 -- and rebuttal is Exhibit 379.

19 A (Complies.) Page 28?

20 Q Yes.

21 A Okay. I am there.

22 Q In lines 15 through 17 you state, "The
23 Company is willing to work with the State's
24 Community Trade and Economic Development and low
25 income agencies to identify appropriate

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1 weatherization funding levels based on more
2 thorough analysis of each agency's specific needs."

3 A Yes.

4 Q Would you describe how and when PSE will
5 commence a process to adjust its low income energy
6 efficiency funding level?

7 A I would suggest to you that that process
8 is already in place. We work closely with SEETED
9 (ph). They are the entity that we actually write
10 the check to, and then they distribute to the
11 agencies.

12 So we work directly with them, and we do
13 have some work that we do directly with local
14 agencies. The big question has to do with the
15 spending capability of each of the agencies. Some
16 spend their money much quicker than others.

17 What we have not been able to get to is
18 how we help those agencies that don't spend down
19 their money as much. And so we're basically trying
20 to help them even now, come up with tools, whether
21 they be electronic tools, tracking tools, other
22 devices that can help them with their spend down.
23 And also have the ability to move money around to
24 agencies that do have more need than others.

25 Q So there is no incremental activity Puget

0606

1 sees doing in response to this testimony?

2 A In terms of the issue of providing
3 additional dollars, I think the Company has always
4 taken the position that we want to do everything
5 possible to provide further help for these
6 agencies.

7 What we have not gotten always is the kind
8 of documentation that we need, or in the form that
9 we need it that would really justify it. And
10 that's what we're working on.

11 MS. GLASER: No further questions.

12 JUDGE MOSS: Mr. Furuta, do you still have
13 questions?

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

15 JUDGE MOSS: Some counsel is going to have
16 to yield to Mr. Furuta, please.

17

18 CROSS EXAMINATION

19

20 BY MR. FURUTA:

21 Q Good afternoon, Mr. Shirley. I'm Norm
22 Furuta for the Federal Executive Agencies.

23 A Good afternoon.

24 Q And my few questions concern your
25 testimony on the electric energy efficiency

0607

1 incentive mechanism. Is it correct that as a
2 result of the energy efficiency incentive mechanism
3 that power cost savings are the primary benefit?

4 A I'm not sure I understand the question.
5 Can you repeat it?

6 Q Sure. And in this I am referring to your
7 rebuttal testimony, Exhibit 379, I believe.
8 Perhaps we could turn to page 5.

9 A (Complies.)

10 Q And at line 15 I believe you testified
11 there that power cost savings are the primary
12 benefit of implementing energy efficiency programs.
13 Do you see that?

14 A Yes, I see that.

15 Q And would that statement also apply to the
16 program that the Company is proposing in this
17 proceeding?

18 A Yes.

19 Q Now, is it correct that the fuel --
20 current fuel mechanism or the PCA that is currently
21 in effect for the Company, includes a dead band so
22 that fuel or purchased power savings from the base
23 target do not flow back to customers?

24 A You know, unfortunately I can't speak to
25 the PCA mechanism. That's way outside the bounds

0608

1 of my testimony here today.

2 Q Do you know generally how the PCA
3 operates, though?

4 A I can't go there with you. Sorry.

5 MR. FURUTA: Let's see, so let me explore
6 one more question, if I may, Your Honor.

7 Q BY MR. FURUTA: So you would be unable to
8 testify whether the Company realizes a portion of
9 the energy savings from an energy efficiency
10 incentive mechanism, what corresponding impact
11 there might occur as a result of a PCA dead band to
12 the Company, whether it would also realize energy
13 savings through the PCA dead band as well?

14 A I think I am out of my depth there with
15 that question.

16 Q That's fine.

17 A I mean, I would be happy to chat with you
18 about the dead band we have for the incentive
19 mechanism, but I can't go there on the PCA.

20 Q So you really don't have any knowledge --

21 A No.

22 Q -- of any impact that might accrue through
23 the PCA?

24 A No, I don't.

25 MR. FURUTA: That's fair enough. Thank

0609

1 you, Mr. Shirley. I have no further questions.

2 JUDGE MOSS: Thank you. Any questions,
3 Mr. Roseman?

4 MR. ROSEMAN: I just have a couple of
5 questions. I thought I was included, but I wasn't,
6 so if you will bear with me.

7

8 CROSS EXAMINATION

9

10 BY MR. ROSEMAN:

11 Q Mr. Shirley, I want to ask you a couple of
12 questions about low income energy efficiency. And
13 I guess my first question is that since the
14 settlement in the 2001 rate case, can you tell me
15 how much funding has been added to the low income
16 energy efficiency program with Puget?

17 A I'm not sure I understand what you mean by
18 "added."

19 Q Has there been an increase in the amount
20 of funding for the low income energy efficiency
21 program since the settlement of the 2001 rate case?

22 A I don't believe there has, primarily
23 because that settlement kind of set the pace and
24 outlined what the funding would be for low income
25 customers for weatherization. For example, it

0610

1 specifies that there will be \$800,000 that comes
2 from what we call BPA C&RD funding, which is the
3 Bonneville Power Administration Conservation and
4 Renewable Discount.

5 There's a certain amount of money
6 specified that would come from shareholders.
7 There's a certain amount of money that would come
8 from tariff rider tracking programs, so because of
9 that, I don't think there's been any increase.

10 Q Since you raised those two other issues,
11 the money from Bonneville, do you know if that
12 money will continue to be available?

13 A We're looking at that now, based on the
14 new requirements that they have. We're not sure if
15 the dollars that we have been putting into low
16 income would be at risk. I don't suspect that they
17 are, but we have to check.

18 Q So if that's the case, there would be a
19 reduction of \$800,000 approximately?

20 A I wouldn't say that there would be a
21 reduction. It would be a question of how much it
22 would qualify under the new Bonneville regulations
23 for what they call Conservation and Renewable
24 Credit.

25 Q And you are examining that right now?

0611

1 A Yes.

2 Q And you mentioned, also, shareholder
3 contribution to this. Is there currently
4 shareholder money going to the low income energy
5 efficiency programs?

6 A Yes, there is.

7 Q And do you know how much that is?

8 A About 300,000 per year.

9 Q Is that at the same level as it was in
10 2001?

11 A Yes, as the other amounts are.

12 JUDGE MOSS: Mr. Roseman, are you
13 finished?

14 MR. ROSEMAN: I am.

15 JUDGE MOSS: Thank you. Are there any
16 questions from the bench for this witness?

17 Commissioner Oshie.

18

19 EXAMINATION

20

21 BY COMMISSIONER OSHIE:

22 Q Just a couple of questions, Mr. Shirley.
23 I want a clear understanding of what is being
24 proposed by the Company, and maybe what has not
25 been proposed. So let's start with your testimony,

0612

1 rebuttal testimony. And I believe that is 379 RT.

2 And in it you describe the Company's
3 response to the criticisms of the proposed demand
4 response programs that you had testified to in your
5 initial testimony. So I would like to get a little
6 better understanding of why the Company has pulled
7 those programs from this case, and understand what
8 it's proposing, which is to bring it up in the
9 CRAG. And if it all works out, to fund it through
10 the tracker mechanism.

11 But if you can explain, perhaps, in some
12 more detail, the Company's decision to pull the
13 demand response programs from this case --

14 A I will. I must admit that area is a --
15 it's little bit tender for me, but I am going to do
16 my best.

17 Q Well, if you need to take it slow and
18 easy, that's fine. As a matter of fact, we do have
19 tissues just in case.

20 A Actually, I wasn't thinking that that is
21 what I would need.

22 Q Understood.

23 A One of the things that we value highly is
24 the working relationship that we have had with
25 stake holders, namely the CRAG. This issue about

0613

1 demand response programs has been a matter of
2 discussion for some time.

3 The Company proposed putting this -- doing
4 a number of pilots for a number of reasons, for our
5 own purposes, also working with Bonneville on
6 nonwire types of solutions, basically putting that
7 through a rider tracker type of system, working it
8 through CRAG, and developing some programs and
9 pilot programs.

10 It was made pretty clear by some of the
11 interests on the CRAG, some of whom are also
12 parties in this rate case, that they did not think
13 that was appropriate, that it should go to a rate
14 case proceeding, a general rate case proceeding.

15 I wasn't particularly pleased about that,
16 but we decided we would do that. So when we put
17 the proposal in, we heard that we shouldn't do that
18 by some of the same members on the CRAG, and that
19 it didn't belong.

20 And so in an effort to be collaborative,
21 we pulled it. That's why I am tender about this.

22 Q Mixed messages, so to speak. Let's get
23 back, then, to the incentive program. A little bit
24 on the mechanics of it, and it's my understanding
25 that the target for the incentive program will be

0614

1 set in some collaborative fashion with the CRAG.
2 And I just would like to know if there's a dispute
3 among the parties. Now that there's -- there was
4 always the interest to do the best for the rate
5 payer, and to do the best for the Company to engage
6 in these efforts to conserve energy.

7 But now there's some real skin in the
8 game, because the Company will either earn or not
9 earn an incentive if this mechanism is allowed to
10 go into effect. And of course the big issue there
11 is -- at least one of the big issues is what
12 targets would be used to determine whether the
13 Company will earn an incentive or not.

14 So I want to know if there's -- if the
15 parties are going to argue at the CRAG level about
16 the target level for this program, who is going to
17 make the decision as to the target in the event of
18 a dispute? Is it going to come back to the
19 Commission? Is it going to be made by you, as an
20 example? Or unilaterally after some collaborative
21 effort, we couldn't reach a conclusion, so here's
22 my decision. Or, again, is it going to come to us
23 and we will have to be the arbiter of that dispute?

24 A Well, we would certainly not like to leave
25 any such matter at your doorstep to resolve. What

0615

1 I will say to you, Commissioner Oshie, is that what
2 we're dealing with today is the exception. I would
3 say probably virtually almost everything that we
4 have done over the last three years or so with the
5 CRAG, or at least since the settlement stipulation,
6 we have been able to come to agreement on.

7 Frankly, having worked with the members of
8 the collaborative, I am fairly confident that we
9 would be able to come to an agreement on targets.
10 We have, you know, every year so far. So I don't
11 see any reason why we wouldn't. And, frankly, in
12 terms of skin in the game, having a penalty only
13 mechanism, which we started out with, from my point
14 of view, there was skin in the game to begin with.

15 And those who know me know I kind of
16 whined and complained about that from the first
17 time that I joined the utility until they told me
18 to be quiet about it. And if you are going to do
19 something, let's think about suggesting an
20 incentive. Let's balance this out. And many of
21 the parties have been -- I have been very happy,
22 that they have been very agreeable. So I think
23 there's, frankly, more agreement overall than there
24 is disagreement.

25 And since we have been able to negotiate

0616

1 targets up to now, I see no reason why we wouldn't
2 do it in the future.

3 Q And if you can't? Let's go right back to
4 it, do you think it's going to get to us,
5 Mr. Shirley, for some decision?

6 A No. No, I do not.

7 Q Let's talk a little more about the
8 mechanics. You had mentioned Bonneville's
9 conservation renewable credit or dollars that the
10 company receives from BPA. BPA has been a funder
11 in this region of conservation and development for
12 many, many years.

13 How are those dollars going to be taken
14 into account in the determination of the
15 achievement of your target goals, or the efficiency
16 that has been achieved overall by the Company in
17 any target, period?

18 A They would be included as they are right
19 now, in our current targets. The reason that we
20 include them in is because those dollars are
21 utilized to achieve energy savings. So essentially
22 when we spend down the tariff dollars that are
23 assigned for residential lighting, we go right
24 immediately into the conservation renewable credit
25 dollars. And those are savings that we get in our

0617

1 service territory. And they count toward the
2 penalty, and they count toward the incentive. We
3 count them completely.

4 Q How would the Company, then, as well --
5 same line of reasoning, I guess, or same line of
6 monies that aren't necessarily utilities' dollars
7 going into these programs, how do you account for
8 decisions made by rate payers to invest in energy
9 efficiency without being incented by the Company?
10 I guess, that's not tracked, necessarily, then? Is
11 that the answer? Is that my understanding?

12 A You know, there's some people who are
13 looking at that, and people around who think about
14 that. Typically you don't find information,
15 Commissioner Oshie, on that. And I don't have an
16 answer for you.

17 And we have been trying to figure out how
18 we would do that. I would suppose if I had figured
19 it out, I would be wealthy and not be here today.
20 But right now we don't have a way of, I would say
21 in confidence, of knowing what that is.

22 COMMISSIONER OSHIE: I don't believe I
23 have any other questions.

24 JUDGE MOSS: Commissioner Jones.

25

0618

1

EXAMINATION

2

3

BY COMMISSIONER JONES:

4

Q Mr. Shirley, congratulations on being the

5

last witness.

6

A Thank you.

7

Q Commissioner Oshie asked one of my

8

questions, but I would like to ask it in a

9

different way: whether or not it's developed in a

10

CRAG process or another process, are you opposed in

11

principle to the concept that including a target to

12

a decoupling mechanism is a bad idea?

13

A No.

14

Q Let me talk about --

15

A Depending on -- I'm sorry. Depending on

16

what the target is.

17

Q Right. Understood. I am talking about in

18

principle, not the level of the target.

19

A Okay.

20

Q On the gas energy efficiency side I just

21

have a couple of questions based on the discussion

22

before. I am struck by the discrepancy between the

23

RFPs on the electric and gas side in response to

24

the 2005 least cost plan.

25

In response to a Public Counsel Data

0619

1 Request, I think 13 proposals were submitted on the
2 electric side, six proposals were submitted on the
3 gas side, correct?

4 A Sounds about right.

5 Q And basically I am a little confused by
6 your response on the electric side, which is
7 where -- but I think you responded to Public
8 Counsel by saying that five or six projects are in
9 negotiation now, while on the gas side it's zero.

10 And what price of natural gas or price
11 forecast are you using, or at least did you use, to
12 evaluate those proposals? Do you recall?

13 A I don't recall. I mean, whatever we used,
14 we used whatever the Company standard was at that
15 time for that process. And I would say that I am
16 not sure that it's completely accurate that it was
17 zero, because we do have a contractor that
18 submitted a proposal for a single-family gas
19 weatherization program, which we are implementing
20 now.

21 We also have a multi-family pilot gas
22 weatherization project that we are pursuing. That
23 was one of the ones that came out of the RFP
24 process, I believe, if I recall correctly.

25 Q In response to a question before you

0620

1 mentioned that certain projects are proceeding
2 outside of the IRP mechanism for gas electric
3 efficiency; is that correct?

4 A Yes.

5 Q Isn't it true that one of the proposals
6 you rejected was for the use of tankless water,
7 because it was not cost effective?

8 A That's correct.

9 Q And then you stated on the record that you
10 are pursuing tankless water heaters in another
11 fashion?

12 A Yes.

13 Q So I'd like to give you the chance to
14 elaborate on that. Why not in the IRP, and why in
15 another format?

16 A Basically my way of explaining that is at
17 this point it's not cost effective. There's no way
18 for it to get into the achievable potential. But
19 what that means is we're not giving up on it.
20 We're trying to find out if there's a way to make
21 it cost effective.

22 It's a very high-priced measure. These
23 things cost \$2,000 to \$4,000, and it just doesn't
24 make the numbers at this point. But there are some
25 who have suggested in California and other places,

0621

1 that there might be lower cost units that might be
2 coming out.

3 So this is just one example of where
4 something is not cost effective now, but we're not
5 giving up on it. We're going to push the envelope
6 and keep watch over it.

7 Q My last question is on the IRP process in
8 general. In your rebuttal, and I think in response
9 to Counsel Glaser, you talked about the caution
10 that should be exercised going forward.

11 And perhaps -- is it fair to characterize
12 your rebuttal testimony as saying that the
13 assumption and methodologies used to calculate the
14 potential in 2005 IRP were overly ambitious on the
15 gas electric efficiency side?

16 A Think it would be safe to say that, yes.

17 Q What is that due to? Is that due to poor
18 planning, or a miscalculation of the resources
19 available? Is it due to the lack of infrastructure
20 of energy service contractors here in the Pacific
21 Northwest to carry out achievable projects? Could
22 you maybe list a few reasons, and then how you are
23 approaching the 2007 plan.

24 A One of the reasons is the very last item
25 you mentioned, and that is we have a trade ally

0622

1 network that, I would say, is not nearly as
2 practiced in terms of energy efficiency on the gas
3 side as it is on the electric. On the electric
4 side we have been doing, like a lot of utilities,
5 electric energy efficiency for nearly 30 years. We
6 have about half that time doing gas. So the
7 infrastructure is not nearly as well established.

8 But I will give you another example of
9 another item, and that is single-family gas
10 weatherization. I would say close to two-thirds of
11 the residential potential was identified as that
12 one single item. Well, when we got into the
13 marketplace, we found that the cost for insulation
14 was much higher than what was assumed in the least
15 cost plan. So much so that it almost was not cost
16 effective, and that was a big worry to us since
17 that was the single largest item for the
18 residential sector for single family.

19 So when we got out there to find out how
20 much it really costs and people were charging, and
21 what we found was the vagaries of the
22 marketplace is the prices had increased over the
23 last year in terms of what people charge to install
24 and for the actual product that went into homes.

25 So vagaries of the marketplace are another

0623

1 major reason why there can be differences when a
2 least cost plan is a snapshot in time, trying to
3 project 20 years forward.

4 JUDGE MOSS: Thank you.

5 Chairman Sidran.

6

7 EXAMINATION

8

9 BY CHAIRMAN SIDRAN:

10 Q Mr. Shirley, on the electric side the
11 Company proposed a mechanism with measurable goals,
12 incentives, and penalties. On the gas side the
13 Company proposed none of the above as part of its
14 decoupling proposal. Why the difference?

15 A The Company has made a decision that
16 we would pursue decoupling to start out with on the
17 gas side, and not an incentive. And I don't have
18 anything more scientific to offer than that
19 at this point. With respect to gas, what I will
20 tell you is that there are penalties in place on
21 the gas side. So it's not completely true that
22 there are no penalties. Those are in place if we
23 don't achieve certain targets.

24 Q Well, maybe I'm trying to understand the
25 Company's reasoning for having an electric side

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1 proposal that differs in important respects that
2 have been the subject of testimony and
3 cross-examination from the gas side.

4 So can you just explain to me why goals
5 and incentives are a reasonable proposal on the
6 electric side, but not on the gas side?

7 A Well, for one thing I think it's going to
8 be probably a lot easier to start with one first,
9 and see how we can make this work. One of the
10 things that was very clear from parties as we
11 talked about this was that there needed to be a
12 sunset period where we actually kind of not only
13 monitor this over time, but look at it.

14 So I think it makes sense to start with
15 one side of this, and especially where we have a
16 lot more experience.

17 CHAIRMAN SIDRAN: Thank you. That's all.

18 JUDGE MOSS: Is there any need for
19 follow-on questions, considering the Commissioners'
20 questions?

21 Mr. ffitch.

22 MR. FFITCH: Thank you, Your Honor.

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1 FURTHER CROSS EXAMINATION

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3 BY MR. FFITCH:

4 Q Just a couple of questions. Mr. Shirley,
5 you were asked by Commissioner Jones what the
6 overly ambitious, were his words, projections on
7 the gas side -- what that was due to. And you
8 talked about the trade ally network, and how that
9 infrastructure was not as well developed.

10 Is it fair to say that in general the
11 energy efficiency market on the gas side, whether
12 trade ally networks or other aspects of the market,
13 is just not as mature or well developed on the gas
14 side as it is on the electric side in Washington
15 State?

16 A I would say overall yes, but I don't think
17 it's limited to Washington State.

18 Q So it is that a regional problem, in your
19 view, or a national problem?

20 A From what we're able to see, national.

21 Q Now, I want to get into that sensitive
22 area regarding the demand response programs that
23 have been removed from the Company's proposal at
24 this time.

25 Am I correct that the original proposal of

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1 the Company was to fund the programs in the amount
2 of, I believe, \$3 million per year by placing that
3 amount in rate base; is that correct?

4 A Not in rate base, but we would do it
5 through the rider.

6 Q Is it your understanding that at least
7 some of the parties were concerned about the
8 proposal, because it sought to put costs of the
9 pilot program in rate base?

10 A No, that's not what I understood. What I
11 understood was that some parties viewed the demand
12 response as a form of economic efficiency, and not
13 essentially legacy energy efficiency where it's
14 efficient equipment being installed where you
15 reduce energy use through that method.

16 Q And isn't it true that at least some stake
17 holders were concerned that the pilot programs that
18 were being proposed were not fully developed, and
19 funding was going to begin more or less immediately
20 while the pilots themselves were only outlined in
21 general concept, and were going to have to await
22 further consultations and development a year or two
23 out before they actually went into effect? Isn't
24 that your understanding of some of the objections?

25 A I heard some to that effect, yes. I

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1 didn't think they were true, but I did hear that.

2 MR. FFITCH: Thank you, Mr. Shirley.

3 Those are the only questions I have.

4 JUDGE MOSS: Ms. Glaser, do you have
5 something?

6 MS. GLASER: One clarification.

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8 FURTHER CROSS EXAMINATION

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10 BY MS. GLASER:

11 Q Do you understand the Bonneville Power
12 Administration does count its conservation
13 achievements, when it uses CR&D money? So in some
14 ways there may be some issues of double counting on
15 both Bonneville and Puget account conservations
16 savings from that funding source?

17 A I understand that that can be an issue for
18 certain utilities in terms of how they use their
19 CR&D dollars. I don't think it's an issue for us.
20 I believe we have gotten all of that pretty much
21 squared away.

22 There's some utilities who use their
23 dollars, for example, to contribute to an
24 organization, like NEEA, and Bonneville also
25 participates and they both may count the savings

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1 from NEEA. I have heard of those types of things
2 happening, but I don't think we're at any risk. We
3 have worked these issues through with Bonneville
4 pretty thoroughly.

5 MS. GLASER: Thank you.

6 JUDGE MOSS: Any redirect?

7 MS. DODGE: No, Your Honor.

8 JUDGE MOSS: Mr. Shirley, we thank you for
9 being here today and giving us your testimony. You
10 may step down.

11 Is there any other business we need to
12 conduct with the Commissioners present this
13 afternoon? Then the Commissioners are free to
14 retire to their offices to conduct other important
15 business of the Commission.

16 And I understand there is a motion to be
17 brought forward?

18 MS. DODGE: Yes, Your Honor. This is
19 purely a technical motion. It relates to the
20 Commission's Order No. 1 in this proceeding, which
21 was the complaint and order suspending the
22 Company's general rate case filing. A standard
23 part of that order was the paragraph 14, which
24 provides that PSE must not, during the suspension
25 period, change or alter the tariffs affected by the

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1 revisions filed in this docket unless authorized to
2 do so by the Commission. And that order was
3 entered last February or March, so February 22nd,
4 2006.

5 So the Company subsequently has made its
6 annual PGA filing, Docket UG 061394, and I believe
7 there's related docket UG 061395. And that is the
8 normal PGA filing, which would change those tariffs
9 as set forth in that filing.

10 The difficulty is that because the Company
11 also proposed in this rate case to pass through
12 some costs associated with a new credit facility
13 through the PGA mechanism, technically those PGA
14 sheets are suspended. And the Company requested in
15 the PGA filing Commission authorization to not have
16 that stand in the way of the PGA filing. And we're
17 making a motion in this docket that the Commission
18 authorize the PGA filing to go forward on its
19 merits without that technical barrier.

20 And, similarly, the Company filed just
21 recently its annual -- or maybe twice a year -- in
22 any case, it's a regular low income tariff filing,
23 and those are dockets UE 061390 and UG 061391.

24 And, again, the Company requested there
25 that the Commission grant authorization to proceed

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1 forward on the merits of those filings without the
2 technical barrier of the expense order on this
3 proceeding, and we're making that motion now in
4 this docket.

5 JUDGE MOSS: Anyone else need to be heard
6 on this? Motion is granted.

7 Anything else?

8 MR. FFITCH: Your Honor, I have two
9 matters.

10 JUDGE MOSS: Go ahead.

11 MR. FFITCH: The first is that, as you may
12 recall, we have offered a demonstrative -- excuse
13 me, an illustrative exhibit in connection with
14 Ms. Steward's appearance which consists of a
15 two-page chart. We have had input from the Company
16 today indicating that they had spotted a correction
17 that they thought needed to be made.

18 So what we would propose to do is revise
19 that. And I apologize. Those will be a second
20 revision, but we're prepared to review that chart
21 so when Ms. Steward gets on the stand tomorrow
22 everybody will be comfortable with the factual
23 basis for the chart, so we can have that ready to
24 distribute in the morning.

25 JUDGE MOSS: And I will say in general I

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1 think we appreciate the parties working together to
2 make sure we don't have to deal with a dispute over
3 this. So I appreciate your courtesy in raising it,
4 but I also think it's a good thing to do.

5 MR. FFITCH: Thank you, Your Honor. If I
6 didn't say, that's Exhibit 574.

7 JUDGE MOSS: You will be furnishing that
8 in the morning?

9 MR. FFITCH: Yes. The other matter is a
10 matter that I have been unclear about how to
11 proceed on. We have a letter that the Commission
12 sent over its secretary's signature quite a few
13 years ago having to do with rate design issues.

14 And I had originally thought this could be
15 authenticated through Commission Staff, but that
16 hasn't really been -- well, the Staff thought that
17 wasn't the best approach to go. So I have a copy
18 of the letter, and I am going to request official
19 notice of it.

20 I can provide copies to all the parties
21 and the bench to look at and see if there's any
22 problems with that.

23 JUDGE MOSS: Distribute that, and let's
24 see if there's any problems with that. It is an
25 official record of the Commission, and I believe

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1 there's something in the way of official notice
2 that can be taken of such records.

3 MR. FFITCH: That's my thought, Your
4 Honor. There was nobody on Staff who was mentioned
5 in the letter who felt that they could testify to
6 it, so I thought the request for notice was the
7 other avenue.

8 JUDGE MOSS: Again, talk with the parties
9 and ascertain if there's any problem and -- who
10 will that be for?

11 MR. FFITCH: It would just be for the
12 record, and we referred to it on brief. We could
13 pass it out, and we can talk about it in the
14 morning.

15 JUDGE MOSS: Let's do that when we go off
16 the record. Anything else?

17 All right. Hearing nothing further then,
18 we will stand in recess until 9:30 tomorrow
19 morning.

20 ENDING TIME: 4:30 p.m.

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