

0633

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

BEFORE THE WASHINGTON STATE

UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND	)	
TRANSPORTATION COMMISSION,	)	DOCKET NO. UE-060266
	)	
Complainant,	)	DOCKET NO. UG-060267
	)	
vs.	)	VOLUME VI
	)	Pages 633 to 804
PUGET SOUND ENERGY, INC.,	)	
	)	
Respondent.	)	
_____	)	

A hearing in the above matter was held on September 21, 2006, from 9:30 a.m to 4:05 p.m., at 1300 South Evergreen Park Drive Southwest, Room 206, Olympia, Washington, before Administrative Law Judge DENNIS MOSS and CHAIRMAN MARK H. SIDRAN and Commissioner PATRICK J. OSHIE and Commissioner PHILIP B. JONES.

The parties were present as follows:

THE COMMISSION, by ROBERT CEDARBAUM, Assistant Attorney General, 1400 South Evergreen Park Drive Southwest, Post Office Box 40128, Olympia, Washington 98504. Telephone (360) 664-1188, Fax (360) 586-5522, E-Mail bcedarba@wutc.wa.gov.

PUGET SOUND ENERGY, by KIRSTIN S. DODGE and SHEREE STROM CARSON, Attorneys at Law, Perkins Coie, LLP, 10885 Northeast Fourth Street, Suite 700, Bellevue, Washington 98004, Telephone (425) 635-1407, Fax (425) 635-2407, E-Mail KSDodge@perkinscoie.com, SCarson@perkinscoie.com.

Joan E. Kinn, CCR, RPR  
Court Reporter

0634

1 THE PUBLIC, by SIMON FFITCH, Assistant  
2 Attorney General, 800 Fifth Avenue, Suite 2000, Seattle,  
3 Washington 98104-3188, Telephone (206) 389-2055, Fax  
4 (206) 389-2079, E-Mail simonf@atg.wa.gov.

5 FEDERAL EXECUTIVE AGENCIES, by NORMAN J.  
6 FURUTA, Attorney at Law, NAVFAC, 333 Market Street, 10th  
7 Floor, San Francisco, California 94105-2195, Telephone  
8 (415) 977-8808, Fax (415) 977-8760, E-Mail  
9 norman.furuta@navy.mil.

10 THE ENERGY PROJECT, by RONALD L. ROSEMAN,  
11 Attorney at Law, 2011 - 14th Avenue East, Seattle,  
12 Washington 98112, Telephone (206) 324-8792, Fax (206)  
13 568-0138, E-Mail ronaldroseman@comcast.net.

14 SEATTLE STEAM COMPANY, by ELAINE L. SPENCER,  
15 Attorney at Law, Graham & Dunn, Pier 70, 2801 Alaskan  
16 Way, Suite 300, Seattle, Washington 98121, Telephone  
17 (206) 624-8300, E-Mail espencer@grahamdunn.com.

18 NORTHWEST ENERGY COALITION, by NANCY GLASER,  
19 Senior Policy Associate, 219 First Avenue South, Suite  
20 100, Seattle, Washington 98104, Telephone (206)  
21 621-0094, Fax (206) 621-0097, E-Mail nancy@nwenergy.org.

22

23

24

25

26

27

28

29

30

31

32

33

1 -----

2 INDEX OF EXAMINATION

3 -----

4 WITNESS: PAGE:

5 ARTHUR STANLEY GENT

6 Direct Examination by Ms. Spencer 642

7 Cross-Examination by Mr. ffitch 643

8 Examination by Commissioner Jones 652

9 MICHAEL L. BROSCH

10 Direct Examination by Mr. ffitch 653

11 Cross-Examination by Ms. Glaser 655

12 Examination by Chairman Sidran 673

13 Redirect Examination by Mr. ffitch 675

14 STEVEN D. WEISS

15 Direct Examination by Ms. Glaser 678

16 Cross-Examination by Mr. ffitch 679

17 Examination by Chairman Sidran 690

18 Examination by Commissioner Oshie 700

19 Examination by Commissioner Jones 709

20 Examination by Commissioner Oshie 713

21 Cross-Examination by Mr. ffitch 715

22 Redirect Examination by Ms. Glaser 715

23 JOELLE R. STEWARD

24 Direct Examination by Mr. Cedarbaum 717

25 Cross-Examination by Mr. ffitch 721

0636

1	Cross-Examination by Ms. Glaser	733
2	Cross-Examination by Mr. Furuta	748
3	Examination by Commissioner Oshie	754
4	Examination by Chairman Sidran	765
5	Examination by Commissioner Jones	768
6	Cross-Examination by Mr. ffitch	770
7	Redirect Examination by Mr. Cedarbaum	772
8	KARL R. KARZMAR	
9	Direct Examination by Ms. Dodge	776
10	Cross-Examination by Mr. ffitch	779
11	JOHN H. STORY	
12	Cross-Examination by Mr. Furuta	782
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

0637

1 -----

2 INDEX OF EXHIBITS

3 -----

4

5 EXHIBIT: MARKED: ADMITTED:

6 BENCH EXHIBITS

7 803 699

8 ARTHUR STANLEY GENT

9 497 643

10 498 643

11 701 645

12 702 645

13 703 645

14 704 645

15 705 645

16 706 645

17 MICHAEL L. BROSCH

18 506C 654

19 507 654

20 508 654

21 509 654

22 STEVEN D. WEISS

23 502 679

24 503 679

25 504 679

0638

1	JOELLE R. STEWARD	
2	561	720
3	562	720
4	563	720
5	564	720
6	565	720
7	566	720
8	567	720
9	568	720
10	569	720
11	570	720
12	571	720
13	572	720
14	573	720
15	574	721
16	KARL R. KARZMAR	
17	222	774
18	223	774
19	224	774
20	225	774
21	226	774
22	227	774
23	228	774
24	229	774
25	230	774

0639

1	231	774
2	232C	774
3	233	774
4	234	774
5	235	774
6	236	774
7	237	774
8	238	774
9	JOHN H. STORY	
10	421	780
11	422	780
12	423	780
13	424	780
14	425	780
15	426	780
16	427C	780
17	428C	780
18	429C	780
19	430	780
20	431	780
21	432	780
22	433C	780
23	434	780
24	435	780
25	436	780

0640

1	437	780
2	438	780
3	439	780
4	440	780
5	441	780
6	442C	780
7	443	780
8	444	780
9	445	780
10	746	(Vol. 3, pg. 88)
11	446	780
12	447	780
13	448	780
14	449	780
15	450	780
16	751	780
17	752	780

18 BENCH REQUESTS

19 9 699

20

21

22

23

24

25



0641

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

2 JUDGE MOSS: Good morning, everyone. I trust  
3 everyone is rested and ready to treat us to another  
4 efficient day in the hearing room. I will ask if there  
5 are any preliminary matters the parties wish to bring up  
6 before we call our witnesses, Mr. Gent being first  
7 today.

8 Apparently not.

9 I will just note for the record that several  
10 pieces of paper were distributed this morning. We  
11 received responses to Bench Requests 6 and 7 I believe,  
12 and in addition we received the records requisition  
13 response that was marked as Exhibit 152, which was the  
14 stock price information, and a couple of other things  
15 were distributed in the way of revised testimonies, two  
16 pages for Mr. Story and a couple of revised exhibits,  
17 Number 752 comes to mind for Mr. Story and so forth, so  
18 we will have all that.

19 Mr. ffitich.

20 MR. FFITCH: And I placed on the Bench there,  
21 good morning, Your Honor, I placed on the Bench there  
22 the revised illustrative exhibit for Ms. Steward that we  
23 had discussed yesterday evening, and that's Exhibit 574.

24 JUDGE MOSS: All right, and she will be up a  
25 little later today.

0642

1                   MR. FFITCH: We also have available, Your  
2 Honor, available to distribute later the public comment  
3 exhibit, Public Counsel Exhibit Number 1.

4                   JUDGE MOSS: We will do that at the end of  
5 the day.

6                   All right, with that then, can we have  
7 Mr. Gent.

8                   And am I pronouncing your name correctly?

9                   THE WITNESS: It's Gent, thank you.

10

11 Whereupon,

12

                  ARTHUR S. GENT,

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

14 herein and was examined and testified as follows:

15

16

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

17

BY MS. SPENCER:

18

Q.     Would you state your full name and spell it

19

for the court reporter.

20

A.     My full name is Arthur Stanley Gent, G-E-N-T.

21

Q.     What is your title?

22

A.     I am the President and Chief Executive

23

Officer of the Seattle Steam Company.

24

Q.     Do you have before you exhibits what have

25

been marked as Exhibits 497 and 498?

0643

1 A. I do.

2 Q. Were they prepared by you or under your  
3 direction and control?

4 A. They were.

5 Q. And are they true and correct to the best of  
6 your knowledge and belief?

7 A. They are.

8 MS. SPENCER: I would offer Exhibits 497 and  
9 498.

10 JUDGE MOSS: Hearing no objection, those will  
11 be admitted as marked.

12 MS. SPENCER: With that, members of the  
13 Commission, we would offer Mr. Gent for  
14 cross-examination.

15 JUDGE MOSS: All right, thank you.

16 And Public Counsel has indicated a few  
17 minutes of cross for Mr. Gent, go ahead, Mr. ffitch.

18 MR. FFITCH: Thank you, Your Honor.

19

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

21 BY MR. FFITCH:

22 Q. Good morning, Mr. Gent.

23 A. Good morning.

24 Q. I appreciate learning how to correctly  
25 pronounce your name, and I will confess that I have been

0644

1 mispronouncing it, so I will try to get that right for  
2 the rest of the day. I'm the attorney for the Public  
3 Counsel Office at the State Attorney General, and I'm  
4 just going to be asking you a few questions about the  
5 discovery responses that you provided to us. Those have  
6 been marked Exhibits 701 through 705.

7 JUDGE MOSS: And have you all agreed to  
8 admission of those by stipulation?

9 MS. SPENCER: Your Honor, I thought they were  
10 701 through 706.

11 MR. FFITCH: I believe that's correct.

12 JUDGE MOSS: That's correct.

13 MS. SPENCER: And we would object to 703,  
14 which is our response to Data Request Number 4. The  
15 response was to object to the request on the grounds  
16 that the request asked for the rates that Seattle Steam  
17 charges to its customers, and we objected on the ground  
18 that's both highly confidential and irrelevant to this  
19 proceeding. The data request itself contains no  
20 information because it was simply objected to.

21 JUDGE MOSS: Mr. ffitich.

22 MR. FFITCH: Your Honor, we would like to  
23 offer the response simply for what it states. We're not  
24 seeking to go into any of the confidential information  
25 that Ms. Spencer has referred to but simply to provide a

0645

1 copy of the response that we got from the Company  
2 containing the objection.

3 JUDGE MOSS: Well, on the one hand I don't  
4 see the value in that, but on the other hand I don't see  
5 the harm in it either, so on balance I will overrule the  
6 objection and allow its admission.

7 MR. FFITCH: Thank you, Your Honor.

8 BY MR. FFITCH:

9 Q. I would like to start, Mr. Gent, with your  
10 response to Public Counsel Data Request Number 2, which  
11 is Exhibit 701. Before we talk about that, you're  
12 relatively new at Seattle Steam; is that right?

13 A. Yes, I've been there for about two and a  
14 quarter years.

15 Q. And who was your immediate predecessor in  
16 your current position?

17 A. My predecessor was Mr. Jim Young.

18 Q. Do I correctly understand that in the winters  
19 of 2004-2005 and 2005-2006 you were partially curtailed  
20 for a total of five days?

21 A. I believe that's what my testimony says, yes.

22 Q. Okay. And during that time you burned all  
23 together 3,956 barrels of oil?

24 A. If I added those up, I believe that would be  
25 close.

0646

1 Q. Does that mean that Puget Sound Energy was  
2 able to offer you full service for the other  
3 approximately 550 days in those two winters identified  
4 in this response?

5 A. I'm not quite sure that I understand what  
6 full service means, I'm an interruptible customer. But  
7 if you mean that they provided me with all my gas needs  
8 for those days, the answer is yes.

9 Q. And you were not interrupted during any of  
10 those other days?

11 A. That's my belief.

12 Q. So you were cut off or interrupted about 1%  
13 of the time in round numbers?

14 A. I didn't do that mathematics.

15 Q. Please turn to Exhibit 702, it's the next  
16 response to Data Request Number 3. There you indicate  
17 that you store about 9,000 barrels of oil, which you  
18 indicate is 6 to 9 days of usage, correct?

19 A. Correct.

20 Q. And can I infer from that a calculation that  
21 you would burn 1,000 to 1,500 barrels of oil per day if  
22 you were fully cut off from gas?

23 A. There's two criteria that determine the time.  
24 Of course one is how much are you reduced in your  
25 ability to consume gas if you consumed all -- if you

0647

1 were not allowed to consume any gas, that would be one  
2 metric. The other one is how cold it is, and I can't  
3 answer that specifically. That's why you have a range  
4 of answers, is it moderately cold, extremely cold, or  
5 Alberta, Canada cold.

6 Q. Okay. During the five days that we just  
7 discussed when you were curtailed in 04-05 and 05-06,  
8 was only a portion of your gas supply curtailed?

9 A. No, I believe that was all of it.

10 Q. Could you please turn to Exhibit 703, it's  
11 the response to Public Counsel Number 4, and that's the  
12 response we were just discussing, and there the Company  
13 is declining to provide copies of rate schedules,  
14 correct?

15 A. Correct.

16 Q. So we don't have any idea of whether your own  
17 rate design at Seattle Steam or rate structure matches  
18 up in any way with the proposal that you're making in  
19 this case for Puget Sound Energy's rate design or rate  
20 structure, we don't have any way to know that, do we?

21 A. No.

22 Q. Can we take a look next, please, at skipping  
23 over to Exhibit 705, is it fair to say that this implies  
24 that there's really no contest between firm  
25 interruptible schedules, that you save a bundle on the

0648

1 interruptible tariff?

2 A. Could you ask me which question you're  
3 referring to, you said you're going to skip over one.

4 Q. I'm sorry, I'm looking at the response to  
5 Public Counsel Data Request Number 8, which is Exhibit  
6 705.

7 A. Thank you.

8 And could you please ask your question again.

9 Q. This response seems to imply that it's no  
10 contest between the firm and interruptible schedules,  
11 that you save a bundle on the interruptible tariff;  
12 isn't that true?

13 A. The interruptible tariff is lower than firm  
14 capacity. I think that's well published in the utility  
15 rates. I'm not quite sure what saving a bundle refers  
16 to.

17 Q. I would acknowledge it's a subjective term.  
18 Can you tell me how much Seattle Steam saves by having  
19 interruptible service?

20 A. No, I can't, because that would take quite a  
21 bit of mathematics, which hasn't been prepared for me  
22 right now. However, it's published rates on the  
23 existing Puget Sound Energy sites.

24 Q. You have stated in your testimony that  
25 interruptible customers are currently subsidizing



0649

1 several of the other customer classes, haven't you?

2 A. We have.

3 Q. Look at Exhibit 706, response to DR Number  
4 13, you indicate that you have not done any analysis of  
5 the cost of a stand-alone system to serve Seattle Steam,  
6 have you?

7 A. That is correct.

8 Q. So you really can't testify that Puget is  
9 charging you more to reserve service from them than it  
10 would cost to build a separate system, can you?

11 A. Could you ask me that again, please.

12 Q. You can't testify in this case that Puget  
13 Sound Energy is charging you more to provide service  
14 than it would cost to build, cost you to build a  
15 separate system?

16 A. I can not, but I would say that I'm judging  
17 -- I'm making my opinions based on the existing Puget  
18 Sound Energy rates and the return to the company as a  
19 result of that.

20 Q. I'm going to go on to another topic,  
21 Mr. Gent. Perhaps, well, it seems that based on your  
22 earlier testimony this is from a period of time before  
23 you joined the Company, Seattle Steam was a party in a  
24 1994 proceeding involving Washington Natural Gas, Docket  
25 UG-940814; were you aware of that?

0650

1 A. No.

2 Q. And have you had any cause to review the  
3 testimony of Mr. James Young, who was then the President  
4 and CEO, that he offered in that docket?

5 A. I don't believe so.

6 Q. Have you reviewed the Commission order in  
7 that docket?

8 A. I don't believe so.

9 Q. In your testimony in this case, you have  
10 presented some class parity ratios, correct?

11 A. That is correct.

12 Q. And those are based on a cost of service  
13 study prepared by the Company?

14 A. That is correct.

15 Q. To your knowledge, did that cost of service  
16 study use a design day criteria for classifying  
17 distribution main costs?

18 A. I'm sorry, I don't have that knowledge.

19 Q. Do you know whether Seattle Steam advocated a  
20 design day criteria for classifying distribution main  
21 costs in the 1994 proceeding?

22 A. I do not know that.

23 Q. Would you be surprised to learn that the  
24 Commission rejected the design day approach for  
25 calculating peak usage in that docket?

0651

1 MS. SPENCER: I'm going to object to this,  
2 the witness has just said that he has not reviewed the  
3 order, nor was he part of the testimony at that point.  
4 It seems to me he's just now arguing with the witness.  
5 He has established that the witness does not have  
6 knowledge concerning that proceeding.

7 JUDGE MOSS: Mr. ffitch.

8 MR. FFITCH: I can move on, Your Honor.

9 JUDGE MOSS: Thank you.

10 BY MR. FFITCH:

11 Q. Mr. Gent, is it Seattle Steam's position that  
12 the cost of distribution mains should be allocated based  
13 upon a peak responsibility method?

14 A. I'm not sure what you mean by peak  
15 responsibility, but if that means that the cost of the  
16 mains, allocation is based on those customers that are  
17 using it at that time, that is the peak time, I would  
18 say yes. I think the Company has made it clear to me  
19 and certainly in their documents that they don't  
20 construct distribution piping for interruptible  
21 customers.

22 Q. And you're not aware whether or not Seattle  
23 Steam advocated use of the peak responsibility method in  
24 that 1994 case that I have mentioned?

25 A. I think I have said that.

0652

1 MS. SPENCER: Your Honor, that was the  
2 question I objected to a minute ago.

3 JUDGE MOSS: All right, the witness has  
4 already answered, that's fine, go ahead.

5 MR. FFITCH: Well, Your Honor, this was a  
6 different question.

7 JUDGE MOSS: Let's don't belabor it, you had  
8 his answer, let's go on.

9 MR. FFITCH: Those are all the questions I  
10 have for you, Mr. Gent.

11 JUDGE MOSS: All right.

12 MR. FFITCH: Thank you, Your Honor.

13 JUDGE MOSS: All right, any questions from  
14 the Bench for this witness?

15 Commissioner Jones.

16

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

18 BY COMMISSIONER JONES:

19 Q. Just one. Mr. Gent, is it?

20 A. Yes, sir.

21 Q. Are you disputing the total revenue  
22 requirement that the Company has proposed? What's your  
23 position on the total revenue requirement of the  
24 company?

25 A. We have no position on the total revenue

0653

1 requirement, sir. We think that the Company has done  
2 excellent research and work in developing those numbers.  
3 We have confidence in the work they do, so we have no  
4 position to take on the total position.

5 JUDGE MOSS: All right, any redirect?

6 MS. SPENCER: No, Your Honor.

7 JUDGE MOSS: Okay, thank you, Mr. Gent, we  
8 appreciate you being here today and giving your  
9 testimony, you may step down.

10 THE WITNESS: Thank you, sir.

11 JUDGE MOSS: I believe our next witness is  
12 Mr. Brosch.

13

14 Whereupon,

15 MICHAEL L. BROSCH,  
16 having been first duly sworn, was called as a witness  
17 herein and was examined and testified as follows:

18

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

20 BY MR. FFITCH:

21 Q. Good morning, Mr. Brosch.

22 A. Good morning.

23 Q. Could you please state your full name and  
24 your title and spell your last name for the record,  
25 please.

0654

1           A.     Yes, my name is Michael L. Brosch, I am the  
2     President of Utilitech, Inc. My last name is spelled  
3     B-R-O-S-C-H.

4           Q.     Do you have before you documents that have  
5     been marked Exhibit Numbers 506C, 507, 508, and 509,  
6     representing your testimony and exhibits in this case?

7           A.     Yes, I do.

8           Q.     And that includes both your direct and your  
9     cross answering testimony?

10          A.     Yes.

11          Q.     And were these exhibits prepared by you or  
12     under your direction?

13          A.     They were, yes.

14          Q.     And are there any additions or corrections to  
15     the exhibits?

16          A.     No.

17          Q.     Are they true and correct to the best of your  
18     knowledge?

19          A.     They are.

20          Q.     And if I asked you these questions today,  
21     would your answers be the same?

22          A.     They would, yes.

23                   MR. FFITCH: Your Honor, I offer Exhibits  
24     506C, 507, 508, and 509.

25                   JUDGE MOSS: All right, hearing no objection,

0655

1 those will be admitted as marked.

2 MR. FFITCH: Mr. Brosch is available for  
3 cross-examination.

4 JUDGE MOSS: Thank you.

5 And, Ms. Glaser, I believe you have indicated  
6 approximately 25 minutes, your revised estimate, go  
7 ahead.

8 MS. GLASER: That's correct, thank you.

9

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

11 BY MS. GLASER:

12 Q. Good morning, Mr. Brosch.

13 A. Good morning.

14 Q. I represent the Northwest Energy Coalition  
15 here this morning. Our questions today are addressed to  
16 your testimony and rebuttal testimony but only on the  
17 subject of decoupling, not on the depreciation tracker,  
18 so I would like to clarify that. And although your  
19 testimony is marked with a C for confidential, we won't  
20 be referencing any of the confidential portions of that  
21 testimony.

22 A. All right.

23 JUDGE MOSS: And just for clarity's sake,  
24 Ms. Glaser, it's cross answering testimony, not rebuttal  
25 testimony.

0656

1 MS. GLASER: Thank you.

2 BY MS. GLASER:

3 Q. So in both your direct testimony and rebuttal  
4 testimony you outline a number of reasons that you  
5 oppose Puget Sound Energy's decoupling proposal. If you  
6 would turn in the rebuttal testimony to page 6, line 7,  
7 rebuttal is Number 509.

8 MR. FFITCH: Your Honor, just for the record,  
9 it is referred to as cross answering testimony.

10 MS. GLASER: I'm sorry, I apologize.

11 A. I'm there.

12 MR. FFITCH: What was that page number, I'm  
13 sorry, counsel?

14 MS. GLASER: It is page 6, line 7.

15 BY MS. GLASER:

16 Q. You use the words here and throughout I think  
17 one of the main reasons that you oppose decoupling is  
18 because of on line 7 a fundamental imbalance caused by  
19 excluding customer growth; is that correct?

20 A. That's one of several reasons, yes. I'm  
21 concerned that the decoupling proposal would track the  
22 downward trend in usage on a per customer basis while  
23 ignoring the fact that revenues overall are not trending  
24 downward, because customer growth causes a favorable  
25 trend, a growing trend in margin revenues.



0657

1                   MS. DODGE: Your Honor, this is to object and  
2 move to strike that, I believe that question and answer  
3 are one of the areas where there's actually an overlap  
4 with the positions between Northwest Energy Coalition  
5 and Public Counsel in this case, and that is with  
6 respect to how to treat customer growth in any  
7 decoupling mechanism, or have I misunderstood?

8                   MR. FFITCH: I think, Your Honor, that the  
9 counsel for the Company has misunderstood the --  
10 conflated the two issues, and I believe that this  
11 inquiry is about a different issue. I can explain it  
12 further or perhaps --

13                   JUDGE MOSS: Ms. Glaser, perhaps you can --

14                   MS. GLASER: I think it will become clear as  
15 we kind of walk through the next line, we have  
16 significant differences on this issue with Public  
17 Counsel.

18                   JUDGE MOSS: Yeah, I thought so too, so let's  
19 go ahead.

20                   MS. GLASER: Thank you.

21 BY MS. GLASER:

22           Q.     Then if you would turn to page 10, I'm sorry,  
23 page 12 on your direct testimony, line 10.

24           A.     Yes, I'm there.

25           Q.     I'm sorry, page 12, line 10, you say:

0658

1           For example, adding customers and the  
2           related revenue growth can help pay for  
3           increases in operating expenses.

4           So can we conclude that it is your opinion  
5           that new customers pay for more than their cost of  
6           service?

7           A.     It's my testimony that new customers  
8           contribute margin revenues, revenues in excess of the  
9           variable costs incurred to serve those new customers.  
10          And that new margin revenue is available to the company  
11          to pay increases in operating expense or to offset  
12          declines in margin revenues arising from declining usage  
13          per customer, which can be caused by utility sponsored  
14          conservation, price elasticity, a number of impacts,  
15          replacement of inefficient appliances, construction of  
16          new more efficient homes, all of those causes of changes  
17          in usage that are set forth in my cross answering  
18          testimony.

19          Q.     So in summary you think new customers are  
20          good for the Company?

21          A.     In the sense that new customers create  
22          positive margin revenues and revenue growth, yes.

23          Q.     So then on the same page in your footnote you  
24          add a caution, and there you say that new customers  
25          increase sales volume that after subtracting out fuel

0659

1 costs help pay for the fixed costs of the company, but  
2 you also say that there are some additional non-fuel  
3 costs that are created by those new customers; is that  
4 correct?

5 A. There can be. New customers can bring  
6 customer specific issues in terms of incremental cost to  
7 the table. For example, a new customer added where  
8 there is already a company main adjacent to the property  
9 brings incrementally costs, facilities costs of the  
10 nature of a service line and a meter and a connection,  
11 meter reading kinds of costs. There the margin revenues  
12 I would expect would significantly exceed the carrying  
13 costs on the new capital investment. On the other  
14 extreme, there would be instances where a new  
15 development would lie beyond the Company's current  
16 system of mains where there would be a main line  
17 extension and perhaps upstream capacity reinforcement  
18 investment called for. And there is typically, and I  
19 think here, a rule or tariff that provides for an  
20 economic analysis of the new investment required to  
21 serve under those conditions, an analysis that may yield  
22 a need for the developer or customer to provide an  
23 advance or contribution to offset otherwise excessive  
24 costs.

25 Q. So given that, isn't it true that the issue

0660

1 of whether new customers hurt or help the Company is  
2 really an empirical question, not a theoretical  
3 question?

4 A. I think it's a customer specific question,  
5 but --

6 Q. Which is an empirical question?

7 A. Yes, on a customer-by-customer basis, and one  
8 would expect that regulatory review of that rule would  
9 provide some assurance that on balance new customers are  
10 not a burden to existing customers but in fact  
11 contribute to -- contribute margin revenues to help  
12 support the overhead costs of the business. I spoke  
13 earlier of facilities costs, the direct facilities  
14 investment required to connect and serve new customers.  
15 But there's no denying that there are joint and common  
16 costs of the overall business, the general facilities,  
17 the administrative and executive salaries, that are true  
18 overheads of the business that if spread over more  
19 customers and more units of sales would expect that -- I  
20 would expect to see that customer growth would be  
21 beneficial to the business.

22 Q. So have you introduced any evidence related  
23 to the non-fuel cost of serving new customers?

24 A. No, that's not part of my testimony. The  
25 footnote you pointed to was to acknowledge that there

0661

1 are costs beyond the fuel costs to serve.

2 Q. So from this lack of facts, should we not  
3 conclude that until we actually have those facts on the  
4 marginal non-fuel costs to serve new customers, it is  
5 not possible to conclude whether new customers are  
6 helpful or hurtful to the Company's finances?

7 A. The point of my testimony is not to suggest  
8 that there should be rate tracking for new customer  
9 additions. The point of my testimony is to suggest that  
10 it's problematic to select usage per customer where  
11 there is an obvious declining trend and provide  
12 piecemeal rate making and interim rate increases between  
13 test years for those changes while ignoring and  
14 presuming unimportant the continuing revenue growth  
15 arising from serving new customers and the margins  
16 earned from serving new customers. Remember my  
17 testimony is responding to a company proposal.

18 Q. All right. And would you turn now to the top  
19 or the bottom of page 38, top of page 39 of your direct  
20 testimony. Starting at the very last sentence on the  
21 bottom of page 38, you state:

22 I would encourage the Commission to not  
23 accept any unproven assumptions, and we  
24 have no evidence indicated of factual  
25 evidence here, regarding whether or not

0662

1 customers added to PSE's gas delivery  
2 system between rate cases are  
3 financially harmful or beneficial to the  
4 company.

5 Is that your testimony?

6 A. Yes, that's what it says.

7 Q. Thank you. So I would like to now focus on  
8 another broad statement that was in your cross answering  
9 testimony on page 6, line 2.

10 JUDGE MOSS: That's Exhibit 509 for the  
11 record.

12 MS. GLASER: Yes, thank you.

13 BY MS. GLASER:

14 Q. And I would note that in line 2 you state  
15 that all, and the emphasis is on all here:

16 All of the decoupling proposals before  
17 the Commission in this docket are  
18 imbalanced in favor of shareholders  
19 because they would ignore continuing  
20 growth in the number of customers  
21 served.

22 However, I believe your cross answering  
23 testimony is responding both to Commission Staff witness  
24 Steward and Northwest Energy Coalition witness  
25 Mr. Weiss. In Ms. Steward's testimony, which is Exhibit

0663

1 561, she has a proposal to deal with new customers and a  
2 new customer adjustment; is that not correct?

3 A. She offers a I believe I have characterized  
4 it as a refinement of the usage assumption to be  
5 employed for new customers that would assign a different  
6 and lower usage per customer value for new customers in  
7 the calculation, but --

8 Q. So she is not ignoring the new customers?

9 A. She's ignoring the issue of --

10 MR. CEDARBAUM: Your Honor, I will have to  
11 interject and raise an objection at this point, and it  
12 appears to me that this line of questioning is now going  
13 towards the Staff presentation on this issue.

14 Ms. Steward will be a witness later on this morning, if  
15 the Energy Coalition wished to respond to Ms. Steward's  
16 testimony, they had the opportunity through cross  
17 answering testimony to do so, they did not. This is  
18 really just another way of doing that in the hearing on  
19 this record, so I would object to this line of cross.

20 JUDGE MOSS: Well, I think Ms. Glaser is  
21 entitled to inquire into this witness's testimony,  
22 whatever it may concern. She is opposed to Public  
23 Counsel on this, she may very well be opposed to Staff  
24 too. If this witness has testified on that, she's  
25 entitled to inquire about it.

0664

1                   MS. GLASER: My only point would be that this  
2 witness states that all of the decoupling proposals  
3 really do not deal with a new customer adjustment, and,  
4 in fact, Ms. Steward --

5                   JUDGE MOSS: Ms. Glaser, I have overruled the  
6 objection, go ahead.

7 BY MS. GLASER:

8           Q.       So Ms. Steward did not ignore new customer  
9 adjustments?

10          A.       What Ms. Steward did I have addressed  
11 directly starting at the bottom of page 8 of the cross  
12 answering testimony and carrying over to the top of page  
13 9 where I explain that her proposal refines details  
14 about how the accounting for customer growth would  
15 occur, but it does nothing to correct the fundamental  
16 problem that I described in my direct testimony and in  
17 my cross answering testimony. And to explain what I  
18 mean by that is if one were interested in fixing or  
19 capping revenues and not exposing customers or the  
20 Company to variations in revenue --

21          Q.       So I believe you have already answered this  
22 question, particularly going back to where we ended the  
23 last line of testimony --

24                   JUDGE MOSS: Ms. Glaser, I'm going to ask you  
25 to not interrupt the witness when the witness clearly



0665

1 has not finished his answer.

2           A.     The possibility exists to fully decouple  
3 revenues, and what I responded to in my direct testimony  
4 and in my cross answering testimony is that no one is  
5 proposing to do that. The Company's proposal, the  
6 Staff's proposal, and the Coalition's proposals are to  
7 adopt an accounting within the decoupling mechanism that  
8 calculate incremental margin revenues associated with  
9 new customers added to the system and adds that revenue  
10 associated with new customers to the authorized revenue  
11 amount that's then compared to actual revenues. And in  
12 doing that, that mechanism, that calculation allows the  
13 Company to retain for its shareholders the incremental  
14 margin revenues associated with serving new customers.  
15 Now what the Staff has done that we were just talking  
16 about is change the term per customer assumption used  
17 to do that mathematical calculation. But the  
18 problematic calculation, the one that my testimony talks  
19 to, has not been removed, so that problem really has not  
20 been resolved, and new margin revenues from serving new  
21 customers are retained for shareholders under all three  
22 decoupling proposals in this docket.

23           Q.     So I will move now to focus on your direct  
24 testimony, page 16, direct testimony being Exhibit 506C,  
25 line 12.

0666

1 A. Yes, I'm there.

2 Q. And there you speak about regulatory  
3 incentives created by the existence of regulatory lag;  
4 is that not correct?

5 A. That's true.

6 Q. And isn't there a strong regulatory incentive  
7 to a company to generate revenues if there is not a  
8 decoupling mechanism in effect?

9 A. I think there is an incentive to increase  
10 profitable sales between test years. I would go that  
11 far.

12 Q. And does that mean that there is also a  
13 strong incentive for them to not aggressively invest in  
14 conservation?

15 A. I think of conservation -- well, let me  
16 answer it this way. I think that utilities have an  
17 interest in promoting the efficient use of their  
18 service. I think it's necessary to do that to be  
19 competitive, I think it's necessary to do that to  
20 satisfy the interests of the public and regulators in  
21 overseeing and regulating the Company's business.

22 Q. So I would now like to shift to talk about  
23 the weather adjustment component of the decoupling  
24 proposal that is separate from the non-weather  
25 adjustment, and that is as you answer the following

0667

1 questions, I would like you to think about this from the  
2 point of view of considering a stand-alone weather  
3 adjustment. And if you would turn to page 10 of your  
4 direct testimony, 506C.

5 A. Just so that I'm clear, I'm pausing over your  
6 explanation there, are you talking about weather  
7 adjustments in the context of a rate case test year or  
8 weather adjustments in the context of a tracking tariff  
9 like a weather normalization adjustment cost?

10 Q. Weather as part of the decoupling mechanism.

11 A. Okay.

12 Q. So on page 10 of your direct testimony, there  
13 are a number of bulleted items kind of, I think five  
14 down the page, and you introduce those as a number of  
15 principles that this Commission has endorsed regarding a  
16 power cost adjustment, but since you are referencing  
17 really decoupling here, I'm assuming you intend these  
18 principles to apply to decoupling as well; is that  
19 correct?

20 A. I'm looking for a reference.

21 Q. Yes, it's page 10, I'm sorry.

22 A. No, I see that one, the one I was looking for  
23 is on page 14.

24 Q. Yes, I will turn to that in a minute.

25 A. Okay. The point being made at page 10 is

0668

1 that there are some general criteria or characteristics  
2 that regulators in my experience consider when  
3 evaluating a tracking proposal, and I put these on page  
4 10 to recite what was said in this referenced order. On  
5 page 14 you will find my words and phrases, which I  
6 think there's some parallels to what the Commission has  
7 done in the past.

8 Q. If you would look still on page 10 for a  
9 moment, and we will turn to page 14, if you look at each  
10 of the principles in turn, would they not be consistent  
11 with the stand-alone weather adjustment, the first one  
12 being rated payers understand the connection between  
13 weather and rates?

14 A. I'm not sure I understand your question,  
15 could --

16 Q. If there were a weather adjustment as part of  
17 a decoupling mechanism, I'm looking to see if they meet  
18 the principles that you have said and this Commission  
19 has said, whether on page 10 here or page 14, are  
20 appropriate for between rate case adjustments, and it  
21 seems like the first of these is something that would be  
22 true of a weather related adjustment?

23 A. Well, certainly there is variability beyond  
24 the utility's control with respect to weather. Is that  
25 the point you are after?

0669

1 Q. Yes, and, in fact, there are -- the  
2 background here, it basically says that the Commission  
3 has reaffirmed certain principles that would guide an  
4 appropriately designed mechanism, and one is that rate  
5 payers do understand that connection, so it seems to me  
6 that that is a connection that rate payers would  
7 understand if it were embodied in a decoupling  
8 mechanism.

9 A. That's the part I'm troubled by. I think I  
10 would agree with the Commission's observation the rate  
11 payers understand the connection between weather and  
12 rates, they see that in their bills on a monthly basis.  
13 But when you say -- when you extend to a decoupling  
14 mechanism, decoupling is much broader than weather, at  
15 least as proposed by the Coalition witness and by the  
16 Company.

17 Q. Right, and I have asked you, it could be  
18 broken into pieces, and I am asking you to speak to the  
19 weather component. Let's move to the next one is that  
20 there would be a short run accounting mechanism, a short  
21 run adjustment, not -- is it consistent with that  
22 principle?

23 MR. FFITCH: Your Honor, I would like to ask  
24 counsel to clarify the question, she has asked if it  
25 would be consistent, and I think it's unclear what it

0670

1 is.

2 JUDGE MOSS: Do you understand the question?

3 Q. It is a stand-alone weather adjustment.

4 A. We're not talking about decoupling any  
5 further, we're talking about a weather adjustment  
6 clause; is that right?

7 Q. That is a partial component, that is one of  
8 the elements of the decoupling components on the table.

9 A. Let me explain. I view a weather  
10 normalization adjustment clause as being a different  
11 thing than a decoupling clause.

12 Q. All right. So let's speak to just a weather  
13 adjustment.

14 A. A weather adjustment clause certainly  
15 provides rate adjustment to account for margin recovery  
16 variations caused by weather departures from a defined  
17 normal.

18 Q. All right. And then if you would turn to  
19 page 14 of your direct testimony where I think you said  
20 that you have paraphrased some of these principles into  
21 you say the following attributes merit -- let's see,  
22 step back to page 13 on the bottom. I think your  
23 testimony reads:

24 Costs of revenue changes to be deferred  
25 or rate tracks should generally have all

0671

1 of the following attributes to merit  
2 such exceptional and preferential rate  
3 recovery treatment.

4 Would a weather adjustment meet these five  
5 attributes?

6 A. Possibly, it depends upon how the clause is  
7 structured. I would agree that more commissions have  
8 found acceptable a weather normalization adjustment  
9 clause than decoupling because of better alignment with  
10 that kind of a device to criteria like these than one  
11 would find with a decoupling mechanism.

12 Q. So is --

13 A. I pause and should probably explain that with  
14 weather normalization adjustment clauses, it can be  
15 problematic to find consensus on definitions of normal  
16 weather or consensus on how one should calculate the  
17 coefficients of usage to weather variation. So even  
18 weather normalization clauses -- weather normalization  
19 clauses can prove to be inconsistent with point 4 on my  
20 list.

21 Q. But they would be consistent with the other  
22 four points, and number 4 is an issue of how it is  
23 implemented?

24 A. They could be, weather normalization  
25 adjustments in isolation, yes.

0672

1 Q. Okay, then --

2 A. As distinguished from decoupling.

3 Q. So then on page 20, line 16, you note that  
4 decoupling would reduce PSE's operating risks and  
5 therefore should allow for a lower rate of return on  
6 equity; is that correct?

7 A. Yes, that's right.

8 Q. And does a lower rate of return on equity  
9 translate into a benefit to customers when it lowers  
10 rates?

11 A. I would hope so, if fully recognized through  
12 the rate making process.

13 Q. So given that, a stand-alone weather  
14 adjustment seems to meet most or all of the criteria you  
15 and the Commission have set out for adjustments between  
16 rate cases, and it would result in lower rates, so would  
17 you favor a stand-alone weather adjustment mechanism  
18 even if the Commission rejected other parts of  
19 decoupling?

20 A. First of all, I didn't know there was one  
21 being considered here, and subject to everything I said  
22 before about the administrative complexities, I think  
23 that there is merit, there is more merit in a weather  
24 normalization adjustment in isolation than there is in  
25 any of the decoupling proposals in this case.



0673

1 MS. GLASER: Thank you, no further questions.

2 JUDGE MOSS: Thank you.

3 Are there any questions from the Bench for  
4 this witness?

5 Chairman Sidran.

6

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

8 BY CHAIRMAN SIDRAN:

9 Q. Good morning.

10 A. Good morning.

11 Q. In your direct testimony and again on the  
12 Bench you made reference to the distinction between  
13 what's being proposed here and what you describe as a  
14 full decoupling mechanism. Could you just explain what  
15 you describe as a full decoupling mechanism?

16 A. Sure.

17 Q. And what its attributes would be, and if  
18 they're superior to what's before us, why?

19 A. I would be happy to, and first let me say  
20 that the reference to full decoupling was intended to  
21 debunk some of the impressions one might get from  
22 reading about the decoupling proposals you have before  
23 you. There is, for instance, a reference to removing  
24 the risks of weather, or excuse me, of revenue and  
25 margin variation after the test year. And the point of

0674

1 my testimony on that subject was to say that it's not  
2 just the negative dynamic that's depicted in the  
3 Company's presentation where margin revenues can be seen  
4 to be declining on a usage per customer basis but in  
5 total are relatively stable. And if you look at the  
6 full dynamic of what drives changes in revenues and  
7 margins, you need to consider new customers, and you  
8 need to consider the fact that margins earned by serving  
9 new customers are available to help offset margin  
10 declines that are broadly characterized as conservation  
11 on a per customer basis.

12           So when I talk about full decoupling, that's  
13 nothing that's before you in terms of a proposal but is  
14 instead a reference to a mechanism that would fix total  
15 margin revenue dollars so that the Company gets exactly  
16 the number of dollars authorized in the rate case. And  
17 if actual future margins grow because of revenues, that  
18 would be flowed back to customers. And if actual total  
19 future margins decline because of declining usage per  
20 customer, that would be part of the adjustment  
21 mechanism. It would be holistic and would track total  
22 future margin revenues against authorized margin dollars  
23 in the rate case.

24           CHAIRMAN SIDRAN: All right, thank you.

25           JUDGE MOSS: Okay, any follow on to

0675

1 Commissioner Sidran's question?

2 MS. GLASER: No.

3 JUDGE MOSS: Any redirect?

4 MR. FFITCH: Just one question.

5

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

7 BY MR. FFITCH:

8 Q. Mr. Brosch, you were asked about the notion  
9 of a weather normalization adjustment in the abstract as  
10 distinct from decoupling. Could you explain what the  
11 distinction is in terms of the purpose for which those  
12 two mechanisms would be ordinarily adopted by a  
13 regulatory commission?

14 A. Sure. A weather normalization adjustment  
15 would account for variations in sales volumes and the  
16 attendant margin revenues. Looking solely at how much  
17 variation is caused by weather, actual weather  
18 departures from normal, and there would be an accounting  
19 for and tracking of those changes so that the margin  
20 revenues are trued up in a way that causes the Company  
21 to earn and record margin revenues based upon normal  
22 weather conditions as time passes, with the difference  
23 between normal weather and actual weather and margins  
24 being deferred and translated into a rate adjustment so  
25 that customers pay more or less to make up for margins

0676

1 that were higher or lower than intended because of  
2 weather fluctuation.

3           That is a narrower scope adjustment device  
4 than decoupling. Decoupling would look beyond weather  
5 and would also adjust customer rates upwards primarily  
6 because of the continuing and persistent trend toward  
7 declining usage per customer after weather effects are  
8 normalized, and this is a trend as I discuss in my  
9 testimony that has been continuing for decades. There  
10 are structural reasons why usage per customer after  
11 weather normalization has been trending downward,  
12 reasons like appliance efficiency standards and tighter  
13 building codes in homes and buildings and customer  
14 sponsored conservation, customer funded conservation  
15 efforts to better insulate and improve structures, and  
16 in recent periods I think more of an elasticity response  
17 with customers dialing back thermostats to cope with  
18 higher commodity prices and larger utility bills. All  
19 of those things that influence usage per customer are  
20 swept together into these decoupling proposals that are  
21 before you. And a point of my testimony, and in  
22 particular the table in my cross answering testimony, is  
23 to take it apart so you can think about the pieces that  
24 are being proposed to be tracked into future rate  
25 increases.

0677

1 Q. And so is it fair to summarize a straight  
2 weather normalization adjustment as simply a revenue  
3 stability mechanism for the Company?

4 A. Yes, that's the primary goal behind adoption  
5 of those types of devices. They are symmetrical in the  
6 sense that weather tends to fluctuate around a normal so  
7 that over extended periods of time that fluctuation is  
8 stabilized and the utility experiences a more stable  
9 margin revenue stream and income stream from the gas  
10 business. And if carefully constructed, rate payers can  
11 see some mitigation of weather effects through that kind  
12 of a device, but it's much narrower than decoupling.

13 Q. It doesn't have any particular connection  
14 whatever to energy efficiency or conservation, it's a  
15 revenue stability measure, correct?

16 A. A weather normalization adjustment is, yes,  
17 sir.

18 Q. And fluctuations in weather are currently  
19 taken into account in rate making?

20 A. Yes, the test period is based upon a weather  
21 normalized sales volume.

22 MR. FFITCH: Those are all the questions I  
23 have, thank you.

24 JUDGE MOSS: Thank you.

25 All right, it appears that completes our

0678

1 examination, and we appreciate you being here and  
2 offering your testimony today.

3 THE WITNESS: Thank you very much.

4 JUDGE MOSS: You can step down, please.

5 I believe our next witness is Mr. Weiss.

6 MR. FFITCH: Your Honor, may I request a five  
7 minute interlude before Mr. Weiss?

8 JUDGE MOSS: Would that be in the form of a  
9 recess?

10 MR. FFITCH: A recess would work, Your Honor.

11 JUDGE MOSS: Or do you want me to sing? All  
12 right, we'll take a, well, let's actually just go ahead  
13 and take a ten minute recess so we have time to  
14 accomplish something during the break.

15 (Recess taken.)

16

17 Whereupon,

18 STEVEN D. WEISS,  
19 having been first duly sworn, was called as a witness  
20 herein and was examined and testified as follows:

21

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

23 BY MS. GLASER:

24 Q. Mr. Weiss, would you please introduce  
25 yourself by stating your name and spelling your name.

0679

1           A.     Yes, my name is Steven Weiss, W-E-I-S-S, and  
2 I am Senior Policy Associate for the Northwest Energy  
3 Coalition.

4           Q.     And were Exhibits 502 through 504 including  
5 your direct and cross answering testimony prepared by  
6 you or under your supervision?

7           A.     Yes.

8           Q.     And are they accurate to the best of your  
9 knowledge?

10          A.     Yes.

11                  MS. GLASER: I would like to move them for  
12 introduction.

13                  JUDGE MOSS: All right, being no objection  
14 those will be admitted as marked.

15                  MS. GLASER: And I present Mr. Weiss for  
16 cross-examination.

17                  JUDGE MOSS: All right.

18                  And, Mr. ffitch, I believe you are the only  
19 one I think who has indicated cross-examination for this  
20 witness, please proceed.

21

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

23 BY MR. FFITCH:

24           Q.     Good morning, Mr. Weiss.

25           A.     Good morning.

0680

1 Q. Could you please first turn to your direct  
2 testimony, Exhibit 502, go to page 5.

3 A. Yes.

4 Q. And go to line 18, and there you state a  
5 decoupling mechanism is essential to establish a  
6 corporate culture that promotes aggressive cost  
7 effective conservation investments, correct?

8 A. Yes.

9 Q. And I take it that the Northwest Energy  
10 Coalition favors aggressive cost effective conservation  
11 by utilities, correct?

12 A. Yes.

13 Q. Is it your testimony that Puget Sound Energy  
14 has done a poor job so far with regard to cost effective  
15 conservation programs?

16 A. No, we think they have done a pretty good  
17 job. We also believe though that it's very hard for  
18 them to continue this aggressive conservation effort if  
19 they are continually faced with lost revenues for doing  
20 it, that management may not sustain that effort.

21 Q. Can I ask you to go to page 12 of the  
22 exhibit, please.

23 A. Yes.

24 Q. And there at the top of the page, I'm sorry,  
25 I meant to refer you to page 13, the next page, with a



0681

1 chart at the top of the page, and the chart reflects a  
2 declining average use per customer; is that correct?

3 A. Yes.

4 Q. And then in the text right underneath, you  
5 state your belief that the downward trend in usage is  
6 probably due to a combination of factors, higher bills,  
7 more efficient appliances, and utility and consumer  
8 financed conservation measures. Are there any other  
9 factors that to your knowledge contribute to this  
10 downward trend?

11 A. Yes, certainly elasticity prices are high,  
12 commodity prices are high, then people react to that on  
13 short term just by turning down the thermostats and so  
14 on. They also, of course it also tends to influence  
15 them to pay more for their own conservation investments  
16 or to sign -- or influence them to sign up with a Puget  
17 program. There's also building codes as housing  
18 turnover, I think I forgot to mention that, so building  
19 codes have tightened up too.

20 Q. Okay. And not all of these factors are under  
21 the control of the utility, are they?

22 A. Correct, although the utility can influence  
23 them. They -- now my experience is mostly in Oregon I  
24 must admit, but when we have -- I am a lobbyist as well,  
25 and when we have attempted to get increased appliance

0682

1 standards either back in Washington D.C. or in Oregon,  
2 we have faced opposition by utilities that are nervous  
3 about lost revenues, so there's a -- it's broader than  
4 just what they can do in the -- for their customers.

5 But I also admit that Puget has been probably absent  
6 from those, they have been -- and their testimony has  
7 said that they haven't done that, so we hope that that  
8 will continue or added to will continue.

9 Q. Now staying with page 13, line 4, you say  
10 that there are good reasons to believe that this trend  
11 will continue, and you're referring to the downward  
12 trend in average customer use?

13 A. Yes.

14 Q. And that -- and then you go on to say that  
15 under traditional rate making, the lost margin from this  
16 downward trend would be absorbed by shareholders. With  
17 this in mind, do you expect that decoupling will benefit  
18 Puget Sound Energy financially over the long term, given  
19 this downward trend, if it's approved by the Commission?

20 A. I think Puget's proposal would, but I think  
21 that proposal could be modified as we have proposed and  
22 Staff has proposed. Their proposal was pretty good too,  
23 we can accept that. So if modified, I think that could  
24 change.

25 There's two trends happening. One is

0683

1 existing customers' use is going down somewhat as an  
2 existing customer puts in a new water heater or  
3 something, gets a more efficient one, so there's some  
4 trend down with existing customers. But much of the  
5 trend down is from new customers, and we -- there's been  
6 various testimony talking about the reasons for that,  
7 new customers townhouses and condos and so on, so you  
8 can -- so there's two groups of customers that are  
9 causing lost revenues for the Company. In our proposals  
10 we have attempted to fix the new customer issue so that  
11 that does not happen.

12           The existing customers, our proposal and the  
13 Company's proposal would allow for somewhat of a  
14 windfall, they would recover for that group, and that's  
15 one of the reasons why we have tied our conservation  
16 targets to the recovery of those margins, because  
17 otherwise there would be somewhat of a windfall from the  
18 existing customer downward trend.

19       Q.     You use the word windfall, it is possible, is  
20 it not, that if you don't design a decoupling proposal  
21 correctly, you can create a windfall for a utility  
22 company?

23       A.     Yes.

24       Q.     And now you have also just spoken about the  
25 issue of calculating the average use per customer for

0684

1 new customers versus the existing customers?

2 A. Yes.

3 Q. Now that whole discussion is really simply a  
4 discussion about sort of what is the angle of decline.  
5 If you're looking at this chart, for example, on page  
6 13, and if you're talking about stabilizing utility  
7 revenues in the face of this decline, the discussion  
8 about existing versus new customers is simply a  
9 discussion about what is the correct angle of that  
10 decline when you're making the decoupling revenue  
11 calculation; is that correct?

12 A. That is correct, that's a very good  
13 explanation, yes. And, in fact, this line has two, sort  
14 of the summation of those two lines, there's probably a  
15 different angle for new customers and a different angle  
16 for existing customers, you put them together and you  
17 get this line.

18 Q. Start to get into vector theory going back to  
19 high school.

20 A. Right, I was a high school physics teacher I  
21 must admit.

22 Q. Now you have also mentioned here a number of  
23 different factors that are involved in the declining use  
24 per customer. It's true, is it not, that the Coalition  
25 proposal compensates the utility for declines that occur

0685

1 for any of these reasons, correct, not just utility  
2 sponsored?

3 A. Yes.

4 Q. Or financed?

5 A. Yes, that is true. It can also work the  
6 other way. There are situations where use goes up, and  
7 we haven't seen it for a number of years, but if prices  
8 dropped, usage could go up. In very good economic times  
9 people build bigger houses and so on, use more energy,  
10 so there is a possibility, it hasn't happened lately,  
11 but that the mechanism could provide a rebate to  
12 customers as well in certain circumstances. But you're  
13 right, in general it's been declining.

14 Q. And we have seen evidence in the case that  
15 it's been declining since 1980 at least?

16 A. Yes.

17 Q. Correct?

18 A. Yes.

19 Q. And is projected to continue to decline?

20 A. Yes.

21 Q. Could you please take a look at page 11 of  
22 your testimony, your direct testimony, same exhibit.

23 A. Yes, I have it.

24 Q. Starting at line 17, you say that decoupling  
25 is a necessary condition for a change in corporate

0686

1 culture, but it's not sufficient by itself, and  
2 paraphrasing, you need to also have incentives. And  
3 then at page 21, or excuse me, line 21, you say, pay for  
4 performance is a well respected and effective principle  
5 of compensation, right?

6 A. Yes.

7 Q. Now with respect to utility financed  
8 conservation investment, is it possible for utility  
9 achievement of conservation targets to be measured by  
10 the regulator, by this Commission, and then made subject  
11 to penalties and rewards?

12 A. Yes. It's hard to measure though when you  
13 get in, it takes a lot of effort to really know what was  
14 caused by the Company, what was caused by customers  
15 doing it themselves, there's joint issues, so it's not  
16 an easy thing to track, but if you can track it, yes.

17 Q. And that would be pay for performance,  
18 wouldn't it?

19 A. Yes.

20 Q. And, in fact, all the parties in this case  
21 are supporting a mechanism like that on the electric  
22 side, are they not?

23 A. Yes.

24 Q. Turn to your cross answering testimony,  
25 please, Exhibit 504.

0687

1 A. Yes.

2 Q. On page 6 and at line 3 you state, we suggest  
3 fixes that make the mechanism symmetric. You're  
4 referring to the Puget Sound Energy mechanism, right?

5 A. Yes.

6 Q. And you say, of course, without these fixes,  
7 our opinion on PSE's proposal would be just as negative  
8 as Mr. Brosch's. When you say our opinion, do you mean  
9 Northwest Energy Coalition?

10 A. Yes, and I guess I would like to clarify that  
11 that is we see decoupling as having two pieces in this  
12 case, there's a weather adjustment and there's the  
13 adjustment for all other changes in use, and Public  
14 Counsel and ourselves have different opinions on the  
15 weather adjustment, so I guess.

16 Q. You're just representing --

17 A. So we're representing -- so this just talks  
18 about the other, the non-weather adjustment.

19 Q. All right. Now could you list the fixes that  
20 you're referring to in this testimony?

21 A. We are proposing two alternatives. I have to  
22 find them here, but I know what they are, so I can  
23 explain them. The two alternatives are -- one  
24 alternative is that new customers, that angle you were  
25 talking about, that the new customers' margin be set not

0688

1 in this case but through a collaborative process within  
2 a very short period of time after the Commission  
3 approves decoupling that would develop what you should  
4 do for new customers. And we're suggesting, for  
5 instance, that it needs to take into account the line  
6 extension policy of the company, because new customers  
7 are using less, but they -- if they use a lot less or if  
8 they're way out, then the Company collects some money up  
9 front, so this is an influential thing, and also their  
10 level of usage. So that you would want to develop a  
11 margin recovery mechanism that reflected those two  
12 facts, the lower usage and the line extension policy,  
13 making the Company neutral to new customers compared to  
14 what they get now.

15           Without decoupling right now the Company  
16 loses money often on new customers, especially if they  
17 don't use very much electricity, and, well, that's not  
18 always the case, but without decoupling they wouldn't  
19 suffer that attrition. And I'm not recommending that we  
20 suddenly fix that problem for them, I'm recommending  
21 that new customers, that angle would reflect the  
22 existing attrition, and it would only adjust above and  
23 below that amount, so new customers would be neutral to  
24 the company. But it's not so easy, you can't just do it  
25 without a lot of facts in front of you, you have to look



0689

1 at the line extension policy, and you have to look at  
2 the trend in new usage.

3 And I will point out Ms. Steward has a  
4 proposal that we could support also, which does just  
5 pick a number, but I think it would work out okay, it's  
6 close enough.

7 MR. FFITCH: Your Honor, may I have just a  
8 second to look at my notes, see if I have any further  
9 questions.

10 A. Oh, excuse me, I forgot to talk about my  
11 second alternative. The second alternative is that new  
12 customers simply be left out, that we don't deal with  
13 the issue, it's so contentious that the decoupling only  
14 be applied to existing customers, and only in the next  
15 rate case will the new customers be incorporated into  
16 the existing customers and be caught up then. So we  
17 simply don't deal with new customers. This seems like a  
18 fairly simple alternative, and that alternative we can  
19 accept as well.

20 BY MR. FFITCH:

21 Q. Is that in your cross answering testimony?

22 A. Yes.

23 MR. FFITCH: All right, I don't have any  
24 further questions.

25 JUDGE MOSS: Thank you.

0690

1 MR. FFITCH: Thank you, Mr. Weiss.

2 JUDGE MOSS: Any questions from the Bench?

3 Chairman Sidran.

4

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

6 BY CHAIRMAN SIDRAN:

7 Q. Good morning, Mr. Weiss. I want to follow up  
8 on a question that Mr. ffitch asked you, and this was in  
9 response to this notion of using penalties and  
10 incentives in directing conservation goals to be  
11 accomplished, and I heard your response to be that one  
12 of the challenges with that approach is that it can be  
13 hard to attribute whatever savings are accomplished to  
14 the company's efforts.

15 A. Yes.

16 Q. Doesn't that same problem exist in trying to  
17 measure the results of decoupling in terms of  
18 conservation?

19 A. No. In fact, that's one of the reasons why  
20 many people oppose it. Because with decoupling you just  
21 recover all declines in load whether it's company  
22 supported or just happens through pricing rules or  
23 whatever, so that's one of the reasons why people say  
24 why don't we have a narrower thing that just works on  
25 the customer sponsored stuff.

0691

1 Q. And again following up on this issue, what is  
2 the advantage do you think of a decoupling approach on  
3 the gas side versus what's being suggested on the  
4 electric side of setting measurable goals and then  
5 incenting or penalizing the Company's performance?

6 A. For historical reasons, and one of the  
7 reasons is because gas and the price of natural gas has  
8 been so low in the past that there haven't really been  
9 very many cost effective conservation measures until the  
10 last five or six years with this huge run up of gas  
11 prices. So the issue wasn't -- a lot of gas utilities  
12 hardly did any conservation. And maybe they would have  
13 had an auditing program or they would deal with a rebate  
14 on more efficient appliance, but they really didn't have  
15 weatherization and all of this stuff, it wasn't cost  
16 effective. And so the mentality that I have experienced  
17 and the sort of people in the gas industry out of --  
18 this is really kind of new to them.

19 Now I know Puget is a joint utility, so  
20 obviously that experience does cross over somewhat, but  
21 for many, many gas utilities, without changing the  
22 corporate culture and the attitude toward conservation,  
23 they're faced with, if somebody doesn't use a therm, it  
24 goes to our bottom line, we lose money, why should we be  
25 doing that, it's like -- whereas the electric industry

0692

1 has dealt with this issue for since the Power Planning  
2 Council in 1980, we have experience, so we have argued  
3 these things and we have figured them out. And so we  
4 would still be in favor of decoupling for electric  
5 utilities as well, but we can agree with the, you know,  
6 have a settlement that doesn't do that, but we would  
7 favor decoupling for both.

8 Q. You bring me to my next question, which  
9 relates to your concern about corporate culture, which  
10 is in both your direct testimony and your rebuttal  
11 testimony, you have mentioned it here as well. And I  
12 understand from reading your testimony that you have  
13 extensive background in Oregon?

14 A. Yes.

15 Q. And are quite familiar with Northwest Natural  
16 Gas and --

17 A. Yes, in fact, I was going to offer to answer  
18 some of the questions that Phil Jones asked about the  
19 Northwest -- about Oregon decoupling.

20 Q. Well, you may get that chance.

21 My question is, I would like you to compare  
22 the corporate culture of Northwest to Puget.

23 A. Puget is a good utility, so I don't want to  
24 disparage them, but the CEO and the heads of Northwest  
25 Natural have spoken at numerous conferences nationally,

0693

1 in the region, advocating conservation for gas  
2 utilities. And as I said, gas utilities, this is kind  
3 of new for them, so Northwest Natural has taken a  
4 national leadership role in promoting conservation, and  
5 frankly they could not have done that unless they had a  
6 decoupling that allowed them to do that.

7 Q. Maybe I need to clarify my question. What I  
8 really was asking was to describe Northwest's corporate  
9 culture before decoupling was allowed by the Oregon  
10 Commission, and compare it to Puget's culture, which  
11 obviously at the moment does not have decoupling.

12 A. Right. Northwest Natural did something that  
13 -- I mean it's kind of a chicken and egg thing, a lot of  
14 companies that want to do decoupling are people say,  
15 well, why should we give it to you, you have never done  
16 any conservation. And so on the other hand, if they had  
17 been doing a lot of conservation, a lot of people say,  
18 why should we give it to you, you already do  
19 conservation.

20 And so Northwest Natural faced this too, and  
21 about two or three years before their -- they came up --  
22 they proposed the decoupling, their corporate culture  
23 was fairly typical. They would -- they had a few small  
24 programs only, they did only what was mandated by law,  
25 which is to provide audits, but no money for

0694

1 weatherization, just audit. They had a little bit of an  
2 incentive for efficient service replacements, and that's  
3 it. They decided about two years before that they've  
4 got to ramp up their programs, otherwise they're going  
5 to be hit with this criticism of we don't believe you,  
6 and so they started to become more aggressive in  
7 conservation.

8           Unfortunately for Washington, Oregon has the  
9 what's called the Energy Trust. It's very easy for a  
10 utility to run a conservation program, they just write a  
11 check to the Energy Trust, they don't have to have  
12 people and programs and do all that stuff. And so they  
13 voluntarily, and Cascade Natural Gas did this as well,  
14 said we'll just give money, we'll come up with an amount  
15 of money, and we'll give it to the Energy Trust, we'll  
16 agree to a study, and if it looks like you need more  
17 money, if you give us decoupling we'll give you more  
18 money. So their culture changed ahead of decoupling,  
19 but it was I believe a lot of it was anticipation of  
20 making the argument on why they deserved decoupling.  
21 But before that, they were a pretty much typical gas  
22 utility doing almost nothing.

23           Q.     Which leads me to, and I may need your help  
24 in crafting this, because I have a Bench Request that I  
25 would expect the Company to help respond to as well, and

0695

1 there may be other parties that can help. What I would  
2 like to do is take a look at Northwest Natural Gas  
3 conservation results, however that's measured, and I  
4 know there has been a recent study.

5 A. There's a recent study, yes.

6 Q. But I want to go back to -- and it's been  
7 suggested by our policy staff that we use 1995 as the  
8 base year, you may have another year to suggest to me, I  
9 want to find a base year, let's say 1995, and I want to  
10 look at what Northwest Natural Gas has accomplished by  
11 way of conservation between 1995 and let's say 2005 and  
12 compare it to Puget. So that we could, for example,  
13 look at the total and per customer amount that's been  
14 spent by each company each year, and we can look at the  
15 total and per customer gas conservation results achieved  
16 each year.

17 A. I think some of those -- the Christianson  
18 Report, which is the report you're referring to, I think  
19 it does go back and have those numbers, so it wouldn't  
20 be hard to get. The other thing it does is they  
21 interviewed front line people, mid level executives and  
22 so on, talk about how -- to ask them the question, has  
23 the corporate culture changed, and they have gotten --  
24 there's quite a few answering that question too, that  
25 attempted to answer that question. So I think looking

0696

1 at that report would be helpful. But you're right, this  
2 is a dilemma, Puget is a very good utility, they're  
3 doing a lot. Our fear is that they can not keep it up.  
4 The management may change, we have heard that I guess  
5 there's going to be a change in top management. To  
6 expect the utility to aggressively pursue --

7 Q. Excuse me, are there any members of top  
8 management here who find that to be surprising or  
9 perhaps dismaying?

10 A. Right, so --

11 Q. We won't name names.

12 A. Okay, so to assume that a utility can  
13 constantly support a program that loses it money is -- I  
14 think is not credible really. But I must admit that the  
15 Company is very good, and the day before decoupling and  
16 the day after decoupling they might not change that  
17 much.

18 Q. Well, I appreciate that, but I'm actually  
19 just trying to find a way to take a look at some data  
20 that would allow us to assess the impact looking at  
21 Northwest and comparing it to Puget over let's say the  
22 last ten years. So it's to me just one way of trying to  
23 measure, as you would put it, differences in corporate  
24 culture, perhaps differences in commission regulatory  
25 tools, and that sort of thing. So you believe that data



0697

1 is already available in the Christianson Report?

2 A. The Christianson Report, which I think is an  
3 exhibit. Did we submit that as an exhibit or maybe just  
4 a couple pages of it.

5 MS. GLASER: It's referenced.

6 A. It's referenced, so we can certainly get that  
7 to you.

8 CHAIRMAN SIDRAN: So what I would like to do  
9 then is to ask the Northwest Energy Coalition and  
10 perhaps the Company to provide the, and I would actually  
11 invite counsel for the Company if you wish to comment on  
12 this, because I'm not sure if there are other metrics  
13 that would be useful, and the Company can respond, and  
14 for that matter so can you perhaps later today or  
15 tomorrow if we can refine this, but I'm thinking about,  
16 as I mentioned, total and per customer amount spent each  
17 year 1995 through 2005 and then the total and per  
18 customer natural gas conservation achieved during those  
19 years.

20 MS. DODGE: Just a moment, please.

21 Two comments. It could be that the  
22 Christianson Report is already a cross exhibit for  
23 Mr. Amen, we can check, because we believe it was  
24 provided in response to a data request. But if nothing  
25 else, that would be an efficient way for us to find it

0698

1 and get it in the record, and we'll work on that.

2 We're a little concerned that to go '95  
3 through 2005 that gets premerger, now we're back into  
4 Washington Natural Gas records, and just because of  
5 archiving issues and Legacy systems and all of that,  
6 there may be a limit on how far back we can go, but we  
7 can go back as far as we can get good information.

8 CHAIRMAN SIDRAN: All right, that's fine, I'm  
9 just -- I don't know what the best base year is and what  
10 date availability there is, but if we can start with '95  
11 and perhaps do the best you can forward from there, and  
12 then we'll at least have something to compare it.

13 MR. FFITCH: Your Honor, may I be heard.  
14 With regard to this request, it occurs to me that it's  
15 possible that there are other analyses out there of this  
16 issue that may not involve these two particular  
17 companies. You know, this strikes me as useful  
18 information, but there might be some other studies out  
19 there that look at, you know, the region and results in  
20 the region of the different utilities or examination of  
21 the effectiveness of decoupling in some of the other  
22 states where it's been tried. So I guess our concern  
23 would be is this framed in such a way that you will only  
24 learn about these two companies, but there will be some  
25 other information that might be responsive to this that

0699

1 wouldn't, you know, wouldn't ordinarily come in because  
2 of the way that the Bench Request is framed, so.

3           CHAIRMAN SIDRAN: Well, I take the point, I  
4 don't -- I personally am not looking for a survey of the  
5 literature on decoupling. I know there have been a  
6 number of studies that have been done, I have glanced at  
7 some of them, I'm really just interested in comparing a  
8 company that this Commission is somewhat familiar with  
9 and a state that we're somewhat familiar with that has  
10 done a recent study evaluating the results. And again,  
11 I don't suggest that this is somehow a comprehensive  
12 review of the literature, I would just like to be able  
13 to look at these two companies and their record over the  
14 last ten years on this issue. And so I personally don't  
15 feel a necessity of asking the parties to perform a  
16 literature review, thank you.

17           JUDGE MOSS: All right, this will be Bench  
18 Request Number 9, and while it's directed to the  
19 Northwest Energy Coalition, the Company certainly has  
20 been directly invited to respond, and I would say as  
21 with all Bench Requests, if other parties have relevant  
22 information given the question asked that they may  
23 provide it as well. I am premarking it as Exhibit 803.

24           CHAIRMAN SIDRAN: That's all I have, thank  
25 you.

0700

1 JUDGE MOSS: Anything further?

2 Commissioner Oshie.

3 COMMISSIONER OSHIE: Thank you, Your Honor.

4

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

6 BY COMMISSIONER OSHIE:

7 Q. Mr. Weiss, I've got a question to ask you  
8 about your targets and a little bit about how you  
9 propose your mechanism to work, and then I will ask you  
10 a question as to, you know, your rebuttal, if you will,  
11 of the assertion in Mr. Brosch's testimony with regard  
12 to total gas sales. So let's -- that gives you a little  
13 preview of my questions, and let's start with your  
14 targets. And I'm on page 11 of your Exhibit 502, and I  
15 believe that Mr. ffitch has already questioned you on  
16 this, it is between lines 3 and 11 are your annual  
17 threshold achievement targets and your recommended  
18 recovery of approved margin. And there you have  
19 established through your testimony a stretch goal, I  
20 think that was the Company's stretch goal of 2.1 million  
21 therms, and you have recommended 100% recovery of  
22 approved margin based on your 150% of stretch, which is  
23 315 million therms. So my question to you is, how did  
24 you determine within this table, if you will, the goals  
25 for recovery and to, you know, before recovery would be

0701

1 allowed? Is that just a, you know, was it based on your  
2 assessment of what is the Company capable of doing, or  
3 is it based on historic?

4 A. It's based on, first of all, we start with  
5 the base target, so we're just agreeing with what the  
6 current target is. And we said, if you get -- if you do  
7 the base target, then essentially you don't have  
8 decoupling, fine, you just get what you get now. Except  
9 you would, of course, we are in favor of the weather  
10 piece, so the weather piece would continue. But as far  
11 as the non-weather piece, you wouldn't get anything. If  
12 you can reach your stretch target, which we think is a  
13 reasonable goal considering, so answering your question,  
14 considering what they have done in the past and  
15 considering what the least cost plan recommends, quite  
16 higher amount, we thought that was -- stretch target was  
17 doable, and they would get 50% of that margin.

18 Remember, as we said, there is a natural  
19 attrition in existing customers. Even if you deal with  
20 the new customers completely, sort of take them off the  
21 table for the moment, existing customers are -- their  
22 use is declining, so decoupling immediately gives the --  
23 changes that increment down into a flat, so you're  
24 giving them money. Well, if you're going to give them  
25 money, you would expect to get something back, and so

0702

1 what we have said is you should at least do your own  
2 stretch target. And then we sort of arbitrarily said,  
3 well, how about, you know, above that, give them a  
4 little more incentive. And so there's nothing, you  
5 know, magic about the numbers, we just sort of said,  
6 well, let's give them a little more as they go up up to  
7 100% which -- and we thought you shouldn't go beyond  
8 100%, it's already a better deal than they're getting  
9 without decoupling, so.

10 Q. Well, and so you're -- when you established  
11 the target for the purpose of your testimony, it wasn't  
12 based on say --

13 So, Mr. Weiss, when you set your target as  
14 reflected in your testimony here on page 11, it wasn't  
15 based on your analytical review of what the Company, the  
16 programs the Company now has in place and incremental  
17 improvements to those programs, it was more of shall I  
18 put it kind of a finger in the air judgment as to what  
19 the Company might be able to do and --

20 A. Except for the first two, except for the base  
21 and the stretch, which are from the Company, so that's  
22 where we started. But yes, finger in the air above  
23 that.

24 Q. How would you react -- were you -- first  
25 maybe I better establish a foundation for this. Were

0703

1 you in the hearing room yesterday during Mr. Shirley's  
2 testimony?

3 A. Yes, I was.

4 Q. And so how do you react to his testimony  
5 yesterday that the Company was doing everything it could  
6 do, and it can't -- it has a stretch target of 2.1  
7 million therms, but it's just that, a stretch target,  
8 and it doesn't believe it can go further than that?

9 A. Well, I respect Mr. Shirley quite a bit. On  
10 the other hand, we had in front of him fairly recently  
11 the least cost plan, which had much higher, on average 5  
12 point something, 5.2 million therms, and you had to  
13 respect that too. I mean somebody did some real work,  
14 and it was accepted, and the Commission accepted it, and  
15 so on. And so those two things, you know, are -- leave  
16 some questions in our mind.

17 The other reason is, I again go back to my  
18 Oregon experience, the Energy Trust, which has a fairly  
19 large budget, over the past year because of rising  
20 prices and rising concern about energy and so on has  
21 waiting lists for their programs. They are so  
22 oversubscribed that they actually cut their incentive  
23 levels. They said people are -- you know, you don't  
24 even have to give them as much money they're so  
25 oversubscribed.

0704

1                   So with that experience, I'm just -- I'm  
2 skeptical. So by setting this up, I think they can hit  
3 the 50%, that's better than they get now, that's 50%,  
4 that's quite a bit of money. But I think the Company  
5 should have a reward for doing better, because I think  
6 Cal has indicated he's going to get everything he can,  
7 so shouldn't we give them more if they can reach that  
8 stretch target.

9           Q.     Let me move on to the mechanics of your  
10 proposal. Down at line 25 on page 11, there you state  
11 the Commission would need to approve a stretch goal for  
12 2008-2009, and it's really the phrase in there, if you  
13 will, that the Commission would have to approve the  
14 target. And I want to go back now and compare that to  
15 Mr. Shirley's testimony that at least on the energy  
16 efficiency side the targets to meet the efficient -- the  
17 incentive, proposed incentive program on the gas side  
18 for energy efficiency would be set by the utility with  
19 the consensus I suppose of the CRAG. At least what's  
20 implied here in your testimony is that decision would  
21 come back to us either through a specific filing or  
22 through integrated resource plan to set the target goals  
23 for the Company. So perhaps you can explain your  
24 testimony here.

25           A.     We are very confident that the CRAG can come



0705

1 to an agreement, and so when Mr. Shirley gave that  
2 assurance that it wouldn't need to come back because  
3 everybody could agree, we are, you know, 95% in  
4 agreement with that. But it might not happen, and so we  
5 think that there needs to be -- probably the Commission  
6 would simply be approving what the group had come up  
7 with because they could agree. But if they couldn't  
8 agree, somebody's got to make the call. I don't know if  
9 the Commission really has the expertise to do it, but I  
10 don't know who else can make that call.

11 Q. And I would assume that if there were a  
12 dispute and we would have to decide, there would have to  
13 be at least a hearing such as this wherein --

14 A. Yes.

15 Q. -- the programs of the company would be  
16 vetted before the Commission for a decision as to what  
17 it could achieve in the particular test years?

18 A. Yes, and I would hope it wouldn't have to  
19 happen, but.

20 Q. I've got one more question for you on your  
21 mechanism, and I'm on page 20 of Exhibit 502 on line 26,  
22 and there you recommend that the Commission require and  
23 review a thorough independent evaluation of the  
24 decoupling pilot. And so I want to get, you know, some  
25 more details from you as to what you envision by an

0706

1 independent evaluation of the decoupling pilot. And,  
2 for example, independent of the Company, independent of  
3 Staff, someone a neutral third party from -- that's not  
4 present for example in the courtroom today, what's your  
5 -- dig a little deeper as to your statement.

6 A. I was -- I had in mind what the -- the  
7 Christianson report. What Northwest Natural did, they  
8 hired a third party consultant that's very respected  
9 that's looked at these programs, they asked it a number  
10 of questions to evaluate. And some were numerical, and  
11 some were not, like has the corporate culture changed,  
12 has the service quality standards changed. Because  
13 they're a little nervous, you know, if you get automatic  
14 recovery margin, is service going to fall. We had  
15 questions that did it really inspire more conservation,  
16 is it fair, is the mechanism simple to operate. The  
17 original proposal only had a 90 -- only decoupled 90% of  
18 the margin not the last 10%, so there was a question  
19 about should it be 100%. So we expect that a group, a  
20 collaborative group with the Company would come up with  
21 a set of evaluation questions and ask a third party to  
22 answer them. Included in that would be effect on rate  
23 of return, is risk truly going down, how does Wall  
24 Street see it, and so on, which would inform everyone  
25 when it came to a rate case to adjust the rate of

0707

1 return.

2 Q. And who pays for the third party review at  
3 least in -- let's maybe back up a bit, in Oregon who  
4 pays for the third party review?

5 A. In Oregon it is paid for by -- it's a  
6 recoverable cost, it's paid for by the rate payers. We  
7 have recommended here that it be paid by the Company,  
8 and we're not talking about millions of dollars, so I  
9 mean it's a small amount of money to argue about, and  
10 I'm not going to -- if it was paid for by the rate  
11 payers, it wouldn't be the end of the world. We think  
12 it should be paid for by the Company because, as I said,  
13 decoupling does provide some attrition relief that they  
14 would not get absent decoupling, so we thought it's in  
15 the Company's interest to do it. On the other hand, if  
16 they pay for it, then some people say, well, then they,  
17 you know, who pays the consultant affects the answer, so  
18 we would be fine with rate payers paying for it.

19 Q. My last question for you is I would like you  
20 -- I assume you were in the hearing room when Mr. Brosch  
21 testified?

22 A. Yes.

23 Q. And as I understood his, you know, one of the  
24 fundamental premises of his argument is that, you know,  
25 when you look at customer -- volume of gas sold per

0708

1 customer, that number is going down, you have testified  
2 to that yourself in cross-examination. But when you  
3 look at the total gas sales of the company over the last  
4 few years at least, his argument was that those sales  
5 have not varied much. And so at least as I understood  
6 his argument is when you look at the -- if you're  
7 looking at -- if you look at total gas sales, there's no  
8 need for a decoupling mechanism because the volumes have  
9 not changed much, and therefore, you know, the recovery  
10 from volume sales has not varied much at all. Your  
11 argument didn't seem to encompass that principle or --  
12 and I didn't really see a rebuttal of that premise in  
13 your testimony, and so what's your reaction to his  
14 belief that decoupling is not necessary?

15 A. We think decisions or I think decisions  
16 toward encouraging conservation and so on are based on  
17 the marginal change. That is if the Company or somebody  
18 does 1 therm of conservation, what that happens on the  
19 margin. And on the margin that loss goes straight to  
20 their bottom line, to their profits. It's true that  
21 maybe overall some of that might -- if they made more  
22 profit here, it could balance out losses here, that's  
23 always true and so on, net, you know, maybe there's  
24 productivity increases that could balance out the loss.  
25 But on margin is it -- the Company is thinking, if we

0709

1 save a therm or encourage somebody to save a therm, is  
2 that better than not saving a therm, and it's to the  
3 bottom line. So whether it offsets something or doesn't  
4 offset something, it's the marginal price signal to the  
5 company. And the marginal price signal to the company  
6 without decoupling is that it's a loser. So I did  
7 mention that, it's only a, you know, a short paragraph,  
8 but I said it's the marginal issue that the Company  
9 looks at.

10 COMMISSIONER OSHIE: Thank you very much.

11 JUDGE MOSS: Commissioner Jones.

12

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

14 BY COMMISSIONER JONES:

15 Q. Just following up on the Chairman's questions  
16 on corporate culture, is there anything in the record  
17 from the CEO of Northwest Natural Gas or anything in the  
18 proceeding that you have been involved in that would be  
19 useful for our deliberation on -- I think what the  
20 Chairman was trying to drive at is, you know, Northwest  
21 Natural versus as you describe in your testimony a  
22 pretty good utility with Puget Sound Energy and the  
23 incremental benefits to corporate culture.

24 A. Once this Bench Request, the Christianson  
25 Report, there is a thorough analysis of how the

0710

1 corporate culture changed, and it does cite examples of  
2 what the Company has done nationally and how they have  
3 spoken up and how they have encouraged their line people  
4 to, you know, encouraged conservation. However, the big  
5 measure, the big, big measure, and this is a quid pro  
6 quo, I mean we bargain, we're realists here, we said and  
7 the commission in Oregon said, all that's nice,  
8 corporate culture is nice, but what do we get. And they  
9 picked a dollar amount, and they said, when you get  
10 decoupling, we want you to spend more on conservation.  
11 Of course, it's easy, just write a bigger check to the  
12 utility, so part of the stipulation was simply to agree  
13 to spend more on conservation. So whether the corporate  
14 culture changed or not, it didn't matter, we did get  
15 more conservation, and that was part of the quid pro  
16 quo.

17 Q. Let me be a little more specific. Were you  
18 sitting in the room when we discussed the compensation  
19 of PSE executives, I think it was on the first day?

20 A. No, I wasn't.

21 Q. My question is more toward are you familiar  
22 with the performance based compensation of Northwest  
23 Natural Gas executives versus Puget Sound Energy  
24 executives?

25 A. No, I'm sorry, no.

0711

1 Q. And specifically on my understanding of the  
2 PSE compensation is it's based on financial performance,  
3 earnings per share primarily, which decoupling could  
4 result in a credit upgrade, so it could be reflected in  
5 that, and then there's a service quality index, an SQ  
6 type of index. So my question to you is, you know,  
7 after 2002 as the Chairman said there, what are the  
8 changes that were implemented by Northwest Natural in  
9 this specific area?

10 A. I'm not sure --

11 Q. If you know.

12 A. -- if it's in -- perhaps it's in the  
13 Christianson Report, but I don't remember. So, I'm  
14 sorry, I can't answer.

15 Q. On pages 6 and 7 of your testimony, your  
16 direct, you were asked a question where it says, provide  
17 some examples of how decoupling, and I assume we're  
18 talking about full, a holistic decoupling, is preferable  
19 to alternatives. And could you just restate your  
20 criticisms or your -- the challenges that these  
21 alternatives have in a narrowly focused incentive. I  
22 think you're referring to something that the previous  
23 witness talked about, a --

24 A. Just a straight conservation?

25 Q. Yeah, yeah.

0712

1           A.     Right.  There are two alternatives that I  
2 discuss.  One is a pay for performance, a straight  
3 incentive for how much conservation you do.  It does  
4 incent the Company to ramp up their programs, do more  
5 conservation.  But all their other activities might be  
6 the other way around.  They might be at the same time  
7 they're promoting conservation promoting gas barbecues  
8 or something, you know, it only changes one narrow  
9 piece.  And then unfortunately, again I don't -- I'm not  
10 familiar with PSE, so I don't want to cast aspersions on  
11 Mr. Shirley, but it has been our experience with other  
12 utilities that the best conservation under a performance  
13 based thing is one that costs a lot and produces very  
14 little conservation.  It really depends on how the  
15 incentives are set up.  So anyway, it's a little too  
16 narrow, it doesn't affect all the other parts of the  
17 corporate culture.

18                     The other mechanism is a straight fixed  
19 variable where you have very high fixed costs, and our  
20 problem with that is it reduces the marginal price that  
21 customers see from their volumetric use.  And it was --  
22 I think it was in Mr. Amen's testimony that he said,  
23 well, customers don't look at their marginal costs, you  
24 know, they look at their bill.  However, what they  
25 really look at is, you know, they turn down their



0713

1 thermostat and then they wait for their bill and say did  
2 it have any effect, was it worth it, you know, we all  
3 sit around with sweaters on, did it make any difference.  
4 And if the bill only goes down by a little bit, it's not  
5 going to be worth it. But where most of the costs are  
6 in a volumetric charge, that bill will go down quite a  
7 bit more. So that's our problem with the straight fixed  
8 variable, it reduces the marginal volumetric charge to  
9 the customer, gives them poor pricing.

10 Q. Finally, are you familiar with any studies  
11 that look at the administrative efficiency of an  
12 independent organization like the ETO, the Energy Trust  
13 of Oregon, versus a utility administered efficiency  
14 program as we have in this proceeding with this company?

15 A. I know that the Commission has a very strong  
16 oversight of the Energy Trust, but I don't know if --  
17 I'm not familiar with any comparison, you know, how --  
18 so no, I'm not familiar with that.

19 COMMISSIONER JONES: Okay, thank you.

20 JUDGE MOSS: Go ahead.

21

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

23 BY COMMISSIONER OSHIE:

24 Q. Mr. Weiss, a follow-up question and a  
25 question that I believe I asked Mr. Amen yesterday as

0714

1 well, which is, the impact of the decoupling proposal  
2 that you have proposed with -- on the low income  
3 customers, and my issue there, my concern is that as  
4 more and more customers conserve, those customers that  
5 either won't conserve or those who can't conserve or  
6 have no opportunity to conserve because of resources,  
7 then more of the burden of the fixed costs will fall  
8 upon them if their volumes do not change. So how did  
9 Oregon -- how do you respond to that, and then how has  
10 Oregon addressed the impact of decoupling on its low  
11 income community customers?

12 A. I would agree with Mr. Amen's conclusion, it  
13 does do what you say, there's no doubt about it, but  
14 there's a few things that mitigate. One is that one  
15 thing you do is you ramp up your low income programs,  
16 both assistance and weatherization, so even the  
17 customers who can't do much conservation. But everybody  
18 can put in an efficient light bulb I mean. But you've  
19 got to ramp up programs, so that is true. The second  
20 fact is that if the savings from this are reflected in a  
21 lower rate of return, it lowers everybody's bills. I  
22 think the numbers are going to show that the lowering in  
23 bills is almost comparable to, except for a very warm  
24 year where you have a big, big surcharge, the lowering  
25 of the bill through rate of return reduction pretty much

0715

1 balances out that effect. So you offer a lot of -- you  
2 offer everybody a program, you fund it very well, but  
3 there is some risk, yes, I agree.

4 COMMISSIONER OSHIE: All right, thank you.

5 JUDGE MOSS: Mr. ffitch, any follow on to  
6 that?

7

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

9 BY MR. FFITCH:

10 Q. I guess just a matter of curiosity, you were  
11 talking about the effect of who pays for the study, do  
12 you know who paid for the Christianson study?

13 A. I'm pretty sure it was rate payers, it was  
14 passed, you know, it was a recoverable expense.

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

17 JUDGE MOSS: Any redirect?

18

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

20 BY MS. GLASER:

21 Q. I just have one clarification, and it may be  
22 that I didn't hear correctly, but if you would turn  
23 again to page 11 of your direct testimony. And  
24 Mr. ffitch questioned you around the pay for performance  
25 discussion that it's a well recognized and an effective

0716

1 principle. And I thought what I heard was that pay for  
2 performance was perhaps just something comparable to the  
3 electric efficiency incentive program, and yet couldn't  
4 one interpret the schedule of increased recovery of  
5 margin as a pay for performance program? I mean I --

6 A. Yes, it would be, right.

7 Q. I just want to clarify.

8 A. So this proposal has a piece of pay for  
9 performance in it as well, yes.

10 MS. GLASER: Thank you for the clarification.

11 JUDGE MOSS: Thank you.

12 Mr. Weiss, that will complete our  
13 examination, we appreciate you being here and giving  
14 your testimony today, you may step down.

15 THE WITNESS: Thank you.

16 JUDGE MOSS: We're going to take the luncheon  
17 recess in about ten minutes or so because of other  
18 Commission business that has been scheduled for the noon  
19 hour, and so what I propose that we do is we can have  
20 Ms. Steward come to the stand, and we'll get her sworn  
21 and situated comfortably, and then we will take up her  
22 cross-examination after the noon hour. And I really see  
23 no reason for the Commissioners to stay for the  
24 ceremonial part of the presentation, so free to go.

25 Whenever you're ready, Mr. Cedarbaum.

0717

1 MR. CEDARBAUM: Thank you, Your Honor.

2

3 Whereupon,

4 JOELLE R. STEWARD,

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

6 herein and was examined and testified as follows:

7

8 DIRECT EXAMINATION

9 BY MR. CEDARBAUM:

10 Q. If you could please start by stating your  
11 full name.

12 A. Joelle Steward.

13 Q. And if you could spell your last name for the  
14 reporter.

15 A. S-T-E-W-A-R-D.

16 Q. And if you could just tell us what your  
17 position of employment is with the Commission.

18 A. Regulatory Analyst.

19 Q. Referring you to what's been marked for  
20 identification as Exhibit 561, is that your direct  
21 testimony in this proceeding?

22 A. Yes, it is.

23 Q. And was that prepared by you or under your  
24 supervision and direction?

25 A. Yes, it was.

0718

1 Q. Is it true and correct to the best of your  
2 knowledge and belief?

3 A. I do have one minor change.

4 Q. Why don't you go ahead and make that on the  
5 record, please.

6 A. It's on page 23, line 15.

7 MS. GLASER: Is that of your direct or cross  
8 answering?

9 THE WITNESS: My direct.

10 JUDGE MOSS: I'm ready, go ahead.

11 A. It's in the middle of the sentence, or it's  
12 in the middle of that line, it says, which does not  
13 discourage the Company, I would strike does not, it  
14 should actually read, which discourages the Company to  
15 control program costs.

16 BY MR. CEDARBAUM:

17 Q. With that correction then, is your direct  
18 testimony true and correct to the best of your knowledge  
19 and belief?

20 A. Yes, it is.

21 Q. In the course of your direct testimony you  
22 refer to a number of exhibits, are the exhibits that  
23 have been marked for identification Exhibits 562 through  
24 568 the referenced exhibits in your direct?

25 A. Yes, they are.

0719

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

3 A. Yes.

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

6 A. Yes.

7 Q. Finally referring you to Exhibit 569 for  
8 identification, is this your cross answering testimony  
9 in this case?

10 A. Yes.

11 Q. And was this also prepared by you or under  
12 your supervision and direction?

13 A. Yes.

14 Q. Is it true and correct to the best of your  
15 knowledge and belief?

16 A. Yes.

17 MR. CEDARBAUM: Your Honor, at this time I  
18 would offer Exhibits 561 through 569, and I would  
19 stipulate to the admission of 570 through 574.

20 JUDGE MOSS: Ms. Dodge.

21 MS. DODGE: PSE stipulates to 570 through  
22 573, I just need to check on 574 at lunch.

23 JUDGE MOSS: All right, that will be fine.

24 MR. CEDARBAUM: Just for the record, Your  
25 Honor, 574 as I understand it is a cross exhibit from

0720

1 Public Counsel for illustrative purposes only.

2 JUDGE MOSS: That is correct, and that has  
3 been circulated so you will have an opportunity, I  
4 believe it's been circulated, I have it.

5 MR. FFITCH: Yes, it has.

6 JUDGE MOSS: So we will finalize that  
7 particular one after lunch, but for now we will admit  
8 561 through 569 as marked, 570 through 573 as marked,  
9 and we will have any further discussion, if needed, on  
10 574 after lunch.

11 Is there any other business we need to  
12 conduct before taking our luncheon recess?

13 Apparently not, we will go ahead and take our  
14 break now then, and we'll still come back at 1:30, so  
15 have a nice leisurely lunch.

16 (Luncheon recess taken at 11:40 a.m.)

17

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

19 (1:30 p.m.)

20 JUDGE MOSS: Welcome back from lunch,  
21 everyone. We have Ms. Steward on the stand, and I  
22 believe she has been tendered for cross-examination. I  
23 will ask first, however, if we have resolved any  
24 questions over Exhibit 574?

25 MR. FFITCH: Your Honor, my understanding is



0721

1 that we have resolved the questions. Counsel for the  
2 Company has informed me that they have no issues with  
3 574.

4 JUDGE MOSS: All right, then that exhibit  
5 will be admitted as marked.

6 And, Mr. ffitch, I believe you are first up  
7 for cross-examination, so you may proceed.

8 MR. FFITCH: Thank you.

9

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

11 BY MR. FFITCH:

12 Q. Good afternoon, Ms. Steward.

13 A. Good afternoon.

14 Q. Do you have your direct testimony, Exhibit  
15 561, with you?

16 A. I do.

17 Q. And if you could look at page 2 of the  
18 testimony.

19 A. Yes.

20 Q. Beginning at line 11 you recommend the  
21 Commission adopt a partial decoupling mechanism that  
22 will recover variations in sales that are non-weather  
23 related. When you say variations in sales, what you  
24 mean is usage per customer, correct?

25 A. I mean variations in sales. I mean if usage

0722

1 per customer for current customers changes, that's  
2 what's captured in this mechanism. So for new  
3 customers, it's capturing not changes in usage per  
4 customer, it's capturing just the actual revenue from  
5 their actual sales.

6 Q. But isn't this calculated on an average use  
7 per customer basis?

8 A. The only place where average use per customer  
9 came into play was in the new customer adjustment that  
10 the Company made. For current customers in the test  
11 year, it collects the revenue requirement authorized for  
12 the customers in the test year, so you could turn that  
13 into usage per customer.

14 Q. But isn't your mechanism and the Company's  
15 mechanism both aimed at tracking changes in usage on a  
16 per customer basis?

17 A. In my mechanism there's no calculation for  
18 that. And in the Company's mechanism the only place  
19 where there is a calculation for usage per customer was  
20 in their new customer adjustment, which is not what they  
21 called it, but their customer growth adjustment I think  
22 is what he called it.

23 Q. Can you please now turn to page 16 of this  
24 testimony, and starting at line 6 there you essentially  
25 are discussing, are you not, a methodology for factoring

0723

1 in the different levels of usage of new customers versus  
2 existing customers?

3 A. Yes.

4 Q. And then in your Exhibit 565, which is your  
5 Exhibit 5 to this testimony, could we turn to that,  
6 please.

7 A. Yes.

8 Q. And in that simulation scenario that, oh,  
9 excuse me, let me find it myself here, your proposed  
10 decoupling revenue adjustment under this simulation  
11 scenario shown at the bottom, and that would create  
12 additional revenues for Puget after this rate case of  
13 \$7.7 Million in 2007, another \$8.1 Million in 2008,  
14 another \$8.3 Million in 2009, correct?

15 A. Correct. Although I will note this was just  
16 a simulation with an assumption of a 5% decrease in new  
17 customer usage. My recommendation is that we use their  
18 actual usage, but since I don't know what the actual  
19 usage would be for new customers, I had to make an  
20 assumption.

21 Q. Okay. So it could be a bit more or a bit  
22 less than these numbers?

23 A. Correct. I think this was conservative, this  
24 5%.

25 Q. All right. So the revenue amounts proposed

0724

1 by PSE would be modestly higher, the decoupling revenue  
2 adjustments would be modestly higher than your figures  
3 or your simulation figures shown on Exhibit 565; is that  
4 correct?

5 A. Right, the -- for -- I used the same  
6 simulation that the Company did for the three years,  
7 projected three years, which in their mechanism of  
8 course that weather was warmer than normal, and so their  
9 -- the numbers to compare it to are actually on my  
10 Exhibit 563, the residential with weather on page 1 are  
11 the numbers from their simulation. That's in Mr. Amen's  
12 testimony.

13 Q. And how much are those for 2007, what's that  
14 amount?

15 A. For 2007 it was \$15.8 Million.

16 Q. Okay, that's Exhibit 563, page 1?

17 A. The top line.

18 Q. Top line.

19 Now back on your Exhibit 565, the top line  
20 there indicates that that's a new customer adjustment as  
21 proposed by PSE of \$8.2 Million, so -- that's correct?

22 A. Yes.

23 Q. So I guess my earlier question was that your  
24 new customer adjustment is sort of modestly different  
25 than theirs, but they're quite close, right?

0725

1 A. Yes, as --

2 Q. Go ahead.

3 A. No, yes.

4 Q. All right.

5 A. I mean not no, yes, but no, I don't have  
6 anything further to add, just yes.

7 Q. But your basic point is that the best thing  
8 to compare is your -- for 2007 would be your simulated  
9 figure of \$7.7 Million, which includes your new customer  
10 adjustment, versus Puget's simulation on Exhibit 563  
11 where they would estimate that the adjustment resulting  
12 from their decoupling proposal would be \$15.7 Million?

13 A. Correct, because their proposal includes  
14 weather.

15 Q. Right.

16 MS. DODGE: I'm just going to object for the  
17 record as to the characterization of what Exhibit JRS-3,  
18 563, is showing with respect to what PSE's calculation  
19 was based on.

20 JUDGE MOSS: Noted.

21 BY MR. FFITCH:

22 Q. Ms. Steward, do you believe that it's  
23 important that any decoupling mechanism provide relief  
24 to the company that's proportionate to its conservation  
25 efforts and the results of the conservation efforts?

0726

1           A.     Through their decoupling mechanism?  
2 Proportional, it's not going to be proportional to their  
3 conservation programmatic changes, because it's  
4 capturing more than just their program changes, so at  
5 the very least, yes.

6           Q.     Do you think decoupling revenues should not  
7 be vastly greater than the lost margins from utility  
8 sponsored energy efficiency measures?

9           A.     No, because that's not what my proposal does,  
10 it includes more than just the utility sponsored lost  
11 margins.

12          Q.     Okay. Can you turn to Exhibit 571, please,  
13 that's a cross exhibit.

14          A.     Yes.

15          Q.     And you have calculated what the Company's  
16 lost margins from utility sponsored conservation are,  
17 have you not?

18          A.     Yes.

19          Q.     And if we turn to page 3 of the exhibit, we  
20 can see what those are in the box on the left-hand side?

21          A.     Correct.

22          Q.     It says lost margin at the bottom of the box,  
23 the 2000 cumulative figure, bottom right-hand corner of  
24 the box, is \$1.0 Million, correct?

25          A.     Correct.

0727

1 Q. So that works out to about \$1/2 Million per  
2 year?

3 A. For the first year, and then, yeah, yes, it  
4 will compound yearly. And this was based on current  
5 rates, and so at proposed rates would be slightly  
6 higher.

7 Q. And it's also based on the Company's 4.2  
8 million therm stretch target, is it not?

9 A. Yes, it is.

10 Q. So if the Company does not achieve that  
11 stretch target, then this number would be lower?

12 A. Yes.

13 Q. Can I get you to look back, please, at your  
14 exhibit, your direct testimony, Exhibit 561, page 9,  
15 line 3, you indicate -- do you have that?

16 A. Yes.

17 Q. You indicate a disagreement with Puget  
18 regarding whether weather impacts upon sales volume  
19 should be tracked through the decoupling device,  
20 correct?

21 A. Correct.

22 Q. And Staff's recommendation --

23 MS. DODGE: Objection -- well, actually, I  
24 will let you finish, go ahead.

25 Q. And Staff has a disagreement with the

0728

1 Company, your proposal does not include weather,  
2 correct?

3 A. Correct.

4 MS. DODGE: Object to this line of  
5 questioning, it's friendly cross because Public Counsel  
6 and Staff are aligned on this aspect of the proposed  
7 decoupling mechanism.

8 JUDGE MOSS: Mr. ffitch.

9 MR. FFITCH: Your Honor, I'm going in a  
10 different direction where we're going to raise an issue  
11 with Staff's proposal.

12 JUDGE MOSS: All right then, go ahead.

13 BY MR. FFITCH:

14 Q. Even if you in your decoupling mechanism  
15 exclude weather, Ms. Steward, you still have to attempt  
16 to calculate the change in usage resulting from  
17 variations from normal weather however normal weather is  
18 calculated, do you not?

19 A. Correct.

20 Q. And could you please look at Exhibit 570,  
21 that's Public Counsel Data Request Number 2, and there  
22 -- do you recognize that?

23 A. Yes.

24 Q. And there you were asked how you were going  
25 to perform that calculation, and you essentially say



0729

1 that you will be using the same weather normalization  
2 methodology that's used -- that's adopted in this case  
3 generally, correct?

4 A. Correct.

5 Q. But isn't it the case that Staff and Puget  
6 Sound Energy do not agree on the correct weather  
7 normalization methodology?

8 A. No, I don't think that is correct. I think,  
9 and of course Dr. Mariam is our witness on weather  
10 normalization, but I think I can characterize it as  
11 saying Dr. Mariam doesn't disagree with the methodology  
12 so much as he wants additional data, and he wants to go  
13 into a little bit more detail in calculating the  
14 methodology or the weather normalization.

15 Q. It's true though, isn't it, that he has  
16 identified deficiencies, a number of deficiencies in the  
17 Company weatherization?

18 MR. CEDARBAUM: Your Honor, I would object at  
19 this time, I think, you know, asking questions about the  
20 data request was fine, but now we're going into the  
21 specifics of Dr. Mariam's testimony, and he was on the  
22 stand a couple days ago, this is beyond the scope.

23 JUDGE MOSS: Well, there does seem to be some  
24 reliance in terms of the weather normalization and  
25 decoupling mechanism proposed by Staff, so I see a

0730

1 connection there, so let's see where he goes.

2 BY MR. FFITCH:

3 Q. That was simply my last question on this  
4 point, Ms. Steward, was hasn't Dr. Mariam identified a  
5 number of deficiencies in the Puget weather  
6 normalization methodology?

7 A. I believe he has identified deficiencies that  
8 he's looking to have corrected for future proceedings,  
9 but for this proceeding I believe we have accepted their  
10 weather normalization adjustment and the revenue  
11 requirement and the billing determinants, that's my  
12 understanding.

13 Q. That is limited to this case only, correct?

14 A. For this case only, but we would also apply  
15 that for ongoing -- for the ongoing decoupling  
16 mechanism.

17 Q. Hasn't Dr. Mariam proposed a collaborative to  
18 work out all of these problems with weather  
19 normalization go on for aperiod, an indefinite period  
20 of time?

21 A. I don't know exactly.

22 Q. All right.

23 A. I know there's been a collaborative going on  
24 for some period of time, and he's not satisfied that  
25 those issues have been resolved.

0731

1 Q. Could you turn to your cross answering  
2 testimony, please, that's Exhibit 569, your Table 2,  
3 page 5. Are you there?

4 A. Yes.

5 Q. In general this table illustrates the  
6 differences in the electric conservation incentives  
7 presented by three of the four parties offering  
8 proposals in this case, correct?

9 A. Correct.

10 Q. And can you describe specifically what  
11 aspects of the proposals this table measures?

12 A. This measures what the incentive would be as  
13 a percent of the target. So, for instance, for the  
14 Staff proposal, we provide an incentive at 100% of the  
15 target level, and it's the target level based on each  
16 party's proposal for 2007. So it shows that for Staff  
17 the incentive would be \$1.7 Million at the target, and  
18 at 100% of the target for Public Counsel for instance  
19 it's 2.8 or thereabouts.

20 Q. So the graph is comparing incentive payments  
21 that relate to three different target amounts proposed  
22 by the parties?

23 A. Correct.

24 Q. Now can I get you, please, to look at Exhibit  
25 574, and that is an illustrative exhibit prepared by

0732

1 Public Counsel, is it not?

2 A. Yes.

3 Q. And have you had a chance to review that  
4 before taking the witness stand today?

5 A. Yes.

6 Q. Now Exhibit 574 presents the comparison in  
7 terms of the average megawatt savings amount and the  
8 related incentive amounts as proposed by each of the  
9 four parties based on 2007 targets recommended by each  
10 party; is that an accurate description?

11 A. Correct.

12 Q. And if we turn to page 2 of the exhibit, this  
13 displays essentially the same type of information for  
14 the penalty components of the mechanism, correct?

15 A. Correct.

16 Q. And are you comfortable that this  
17 illustrative exhibit presents this data accurately?

18 A. Yes, although I looked most closely at  
19 Staff's, but I understand the Company has looked at it  
20 as well and is comfortable with it.

21 Q. Okay. And so this presents an alternative  
22 graphic means of comparing the proposals in addition to  
23 your own chart?

24 A. It is an alternative, yes.

25 MR. FFITCH: Thank you, Ms. Steward, no

0733

1 further questions.

2 JUDGE MOSS: Thank you, Mr. ffitch.

3 MR. FFITCH: I'm sorry, Your Honor, I just  
4 wanted to make sure that the cross exhibits were in.

5 JUDGE MOSS: We took care of that earlier.

6 MR. FFITCH: Thank you.

7 JUDGE MOSS: Ms. Glaser, you had indicated  
8 some cross.

9 MS. GLASER: Yes, thank you.

10

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

12 BY MS. GLASER:

13 Q. Good afternoon, Ms. Steward.

14 A. Good afternoon.

15 Q. As Mr. ffitch asked, I guess I would like to  
16 confirm that your decoupling mechanism opposes including  
17 weather related variations of margin in the decoupling  
18 mechanism; is that correct?

19 A. Yes.

20 Q. So if you would turn to page 11 of your  
21 direct testimony, please, there's a footnote on that  
22 page which references the direct testimony of I think  
23 Staff witness Hill, and in that, if I read it correctly,  
24 you say that to the extent there is a decoupling  
25 mechanism that would include weather that rates should

0734

1 be subject to the same compensation for customers,  
2 meaning a reduced return on equity, that Staff witness  
3 Hill proposes for the decoupling mechanism; is that  
4 correct?

5 A. Yes.

6 Q. And then if we could by reference turn to  
7 Mr. Hill's testimony, which is Exhibit 531C.

8 A. I don't have his testimony with me.

9 Q. Okay, I have that page here, page 60, I just  
10 have one page to reference.

11 JUDGE MOSS: Mr. Cedarbaum, what's your  
12 preference?

13 MR. CEDARBAUM: Well, I think the witness  
14 needs to at least have it in front of her.

15 JUDGE MOSS: I mean do you want her to have  
16 the whole testimony or just the page? You can furnish  
17 her with the testimony or we can have the page.

18 The witness is being furnished with a copy of  
19 what was the exhibit number, Ms. Glaser?

20 MS. GLASER: 531C, and we're not referring to  
21 anything confidential, on page 60. I do have copies of  
22 that one page if people would like that.

23 JUDGE MOSS: I think we all have it.

24 BY MS. GLASER:

25 Q. And on page 60 in lines 7 through 9, Mr. Hill

0735

1 seems to find that investors would be indifferent  
2 between a traditional regulatory regime and a decoupling  
3 regime that produced a revenue margin that was \$14  
4 Million annually; is that correct, lines 7 through 9?

5 A. On page 60?

6 Q. On page 60.

7 MR. CEDARBAUM: Your Honor, I would object to  
8 this line of cross. First of all, the footnote that  
9 Ms. Glaser referenced on page 11 of Ms. Steward's direct  
10 testimony refers to her discussion of a straight fixed  
11 variable rate design, not decoupling. And now she's  
12 being asked questions about Mr. Hill's cost of capital  
13 testimony with respect to decoupling. It's beyond the  
14 scope of her testimony and irrelevant to her -- to the  
15 specific footnote that's mentioned and that's been  
16 discussed.

17 JUDGE MOSS: As I understood the witness's  
18 response to the foundation question, there is a  
19 relationship, but perhaps I misunderstood.

20 Is this footnote in the text of your  
21 testimony that we're referring to here, does this have  
22 anything to do with decoupling, or is it just limited to  
23 the straight variable?

24 THE WITNESS: It's limited to the straight  
25 fixed variable.

0736

1                   JUDGE MOSS: Well, then the objection seems  
2 to be well taken. And moreover, Ms. Glaser, the  
3 testimony that you describe for Mr. Hill does not appear  
4 at page 60 of his direct.

5                   MS. GLASER: Well, two things, one, I don't  
6 know about the pagination, unfortunately I took this  
7 from the copy off the Internet so -- I guess I would say  
8 what is in the footnote references directly the  
9 decoupling compensation that Mr. Hill recommended.

10                  JUDGE MOSS: That's not what I understood our  
11 witness to say.

12                  Ms. Steward, we rely on you here.

13                  THE WITNESS: It references -- I have the  
14 footnote to reference the straight fixed variable rate  
15 design I talk about saying that it would have the same  
16 effect that Mr. Hill testifies to for decoupling.

17                  MS. GLASER: And the relationship here I  
18 would like to present is that that amount, which is \$14  
19 Million in Mr. Hill's testimony, is something that then  
20 I would look to discuss in Ms. Steward's testimony.

21                  JUDGE MOSS: Well, I think you're just going  
22 to have to move on with your questions. I don't think  
23 this is going to be resolved in a satisfactory way,  
24 particularly since we don't have a correct reference for  
25 Mr. Hill.



0737

1 BY MS. GLASER:

2 Q. Okay, well, could we return or turn then to  
3 Bench Exhibit 563, which is your simulations attached to  
4 your direct testimony.

5 JUDGE MOSS: Again to be clear, Ms. Glaser,  
6 we do especially refer to Bench exhibits as those  
7 requested by the Bench.

8 MS. GLASER: I'm sorry.

9 JUDGE MOSS: So this is Exhibit 563.

10 BY MS. GLASER:

11 Q. I think what I was attempting to get at here  
12 is this exhibit shows for the three different customer  
13 classes what the effect of decoupling would be if  
14 weather were included, with and without weather, based  
15 on the actual weather experience of the last three  
16 years; is that not right, that's what's in this  
17 simulation?

18 A. Yes.

19 Q. And all three of those years were warmer than  
20 normal, so in some sense if we weren't in a series of  
21 years where things were warmer than normal, the true ups  
22 pursuant to a decoupling mechanism would be less than  
23 this; is that correct?

24 A. Yes.

25 Q. Now if you would look at 2007 for an example,

0738

1 what this shows, and the numbers aren't explicitly on  
2 the table, is that for residential customers the weather  
3 adjustment added about \$7.6 Million to the mechanism,  
4 and that would be the difference in the residential box  
5 at the top between the with weather adjustment and the  
6 without weather adjustment, and that would amount to the  
7 difference between \$15.8 Million and \$8.2 Million, which  
8 would be \$7.6 Million, correct?

9 A. Correct.

10 Q. And there were similar differences in the  
11 other two rate classes, \$2.7 Million difference for  
12 Schedule 31 and a \$.7 Million difference for Schedule 36  
13 for a total of an \$11 Million adjustment; is that  
14 correct, the difference for all three customer classes?

15 A. For 2008?

16 Q. For 2007.

17 A. Oh, yes, yes.

18 Q. Yes. And then I believe also, I mean I don't  
19 want you to have to do all the math actually, in your  
20 cross answering testimony you did the similar math  
21 calculation and it's summarized in your testimony, but  
22 the amount that the weather component or the weather  
23 adjustment of decoupling would bring in 2008 in total  
24 would be \$16.8 Million in 2008 and \$10.9 Million for  
25 2009. We can reference that in your cross answering

0739

1 testimony, are you comfortable that those are accurate  
2 numbers?

3 A. Yes.

4 Q. Okay. And so then the average of those three  
5 things would be an average of about \$12.9 Million over  
6 the three year period?

7 A. I will accept that.

8 Q. So with the weather adjustment in the  
9 decoupling mechanism, customers would be asked to true  
10 up an additional \$12.9 Million dollars pursuant to  
11 decoupling; is that correct?

12 A. That was your average?

13 Q. Yes.

14 A. Then on average --

15 Q. On average, yes, I'm sorry on average.

16 A. (Nodding head.)

17 Q. And I guess I would put subject to check  
18 there is a reference in the direct testimony of Steven  
19 Hill that the traditional regulatory regime and  
20 decoupling regime produced a margin revenue that was \$14  
21 Million less annually, so the rate of return adjustment  
22 would be in his mind \$14 Million per year if weather is  
23 included in the decoupling mechanism.

24 A. What are you asking me?

25 Q. I'm just -- I'm trying to put into the record

0740

1 right now the subject to check since I don't have the  
2 correct page number.

3 JUDGE MOSS: Ms. Glaser, this is the  
4 opportunity for you to ask this witness questions. It's  
5 not the opportunity for you to put testimony in the  
6 record.

7 MS. GLASER: All right.

8 JUDGE MOSS: So if you want to make a  
9 reference to something in Mr. Hill's testimony, you may  
10 do so, and we can look at it, but it's not your  
11 opportunity to testify.

12 MS. GLASER: I'm not, Your Honor, intending  
13 to do that. I'm just saying I do not obviously have the  
14 right page here, so I don't know how to give you the  
15 right page number.

16 JUDGE MOSS: You may ask your question as a  
17 hypothetical then.

18 MS. GLASER: Okay.

19 BY MS. GLASER:

20 Q. So if with a weather adjustment included in a  
21 decoupling mechanism customers in what are tending to be  
22 very warm years, warmer than normal years, would pay a  
23 true up of an additional \$12.9 Million on average, you  
24 could compare that to a cost of capital adjustment which  
25 would reduce the amount that would need to be collected

0741

1 from rate payers of \$14 Million a year, which is a net  
2 benefit to rate payers.

3 MS. DODGE: Your Honor, I would like to  
4 object at this point, because it seems that we're going  
5 down the road of testimony on reductions to cost of  
6 equity based on acceptance of a decoupling proposal, and  
7 it seems to, as I recall, Northwest Energy Coalition  
8 would be aligned with Staff on that issue.

9 JUDGE MOSS: How about that, Ms. Glaser?

10 MS. GLASER: That I would be -- on what issue  
11 would I align with Staff, I'm sorry?

12 MS. DODGE: Reduction of the cost of equity  
13 associated with the decoupling mechanism. I believe  
14 this is friendly cross at this point.

15 MS. GLASER: No, I believe it's not. Well,  
16 we did not propose a reduction in the cost of equity  
17 capital at this point in time.

18 JUDGE MOSS: Are you opposed to Staff's  
19 proposal?

20 MS. GLASER: Yes, I think Staff's proposal  
21 would actually recommend a reduction of cost in capital,  
22 and if that were the case, customers would be  
23 financially better off given the proposal before us.

24 JUDGE MOSS: But my question is whether you  
25 would be opposed to that outcome?

0742

1 MS. GLASER: We would not recommend it or  
2 would not be opposed to that I suppose.

3 JUDGE MOSS: Well, the purpose of your  
4 cross-examination is to develop points that perhaps  
5 support your position and undermine Staff's, so to the  
6 extent that this line of cross-examination is not  
7 intended for that purpose, you should move on.

8 MS. GLASER: Well, the intent of the  
9 cross-examination is to show that a weather adjustment  
10 is in fact in customers' interest, and Staff does not  
11 recommend a weather adjustment in decoupling despite the  
12 fact that Staff testimony shows that it is in the  
13 economic interest of customers.

14 JUDGE MOSS: All right, well, that certainly  
15 sounds consistent with what Staff's position is then, so  
16 I'm going to ask you to move on.

17 MS. GLASER: Okay.

18 BY MS. GLASER:

19 Q. You present then in your cross answering  
20 testimony a way that a weather adjustment I think could  
21 be a win-win for the Company and for rate payers.  
22 That's on page 12 in cross answering testimony.

23 MR. CEDARBAUM: Your Honor, I guess I would  
24 ask for a specific line reference. I just don't know if  
25 that's an appropriate characterization of the testimony.

0743

1 Q. Okay, I have lines 4 through 10, and in lines  
2 8 through 10 it says both of these methods eliminate the  
3 need for multimillion dollar deferrals that stabilize  
4 both the Company's earnings and customer bills.

5 JUDGE MOSS: Is there a question?

6 Q. So, in fact, I believe that you find that a  
7 weather adjustment could be a win-win situation if the  
8 deferral problem could be fixed; is that true?

9 A. I do say there could be a win-win situation,  
10 yes.

11 Q. And are you familiar that the Northwest  
12 Natural's mechanism in Oregon uses an adjustment very  
13 similar to the one that you suggested in this cross  
14 answering testimony?

15 A. No, I'm not very familiar. I know they have  
16 a WARM mechanism, but I'm not very familiar with the  
17 details on it.

18 Q. So if Puget were willing to adopt a mechanism  
19 that didn't create a deferral such as the mechanism you  
20 proposed and its billing system could implement it,  
21 would you change your position to include a weather  
22 adjustment?

23 MR. CEDARBAUM: Your Honor, I will object  
24 unless that's stated as a hypothetical, which it's  
25 unclear to me if it is or not.

0744

1                   JUDGE MOSS:  Oh, I think it's clear that it's  
2  a hypothetical.

3           A.     I guess you said that we proposed, and we  
4  don't actually propose this weather normalized billing  
5  that I refer to.

6           Q.     That you suggest, you do outline --

7           A.     I show an alternative.

8           Q.     That you say would work?

9           A.     That we say is a possibility of a way to do  
10  it without dealing with the deferral and the timing  
11  difference between when that deferral is recorded and  
12  when it's recovered.  But I think there are other  
13  problems with that kind of mechanism around notifying  
14  customers of the rate change, because that will create  
15  problems with, well, I think there could be other issues  
16  that we would have to deal with on that, so I can't  
17  simply say we would accept that, it would need to be  
18  explored further.

19          Q.     But you would be willing to explore that as  
20  an option if that were possible?

21          A.     Yes, Staff would.

22          Q.     Now I would like to turn to pages, let's see,  
23  15 and 16 as it relates to new customers.

24                   MR. CEDARBAUM:  Are you still on the cross  
25  answering testimony?



0745

1 Q. No, I'm sorry, I'm in the direct testimony  
2 here, pages -- so here you propose to reflect the fact  
3 that new customers use significantly less than existing  
4 customers.

5 JUDGE MOSS: Where are we, Ms. Glaser?

6 MS. GLASER: On pages 15 to 16 of the direct  
7 testimony.

8 JUDGE MOSS: Line numbers?

9 This is Exhibit 561 for the record.

10 MS. GLASER: It's in the response to, how do  
11 you recommend the new customer adjustment be calculated  
12 at the bottom, lines 20 through the end of the page on  
13 page 15 and the top of page 16.

14 JUDGE MOSS: All right.

15 BY MS. GLASER:

16 Q. And in your opinion, if your modification  
17 were adopted, would it in your mind make the mechanism  
18 fairly neutral, meaning that the adjustments to customer  
19 revenues would be -- is likely to be positive as  
20 negative compared to what would happen without  
21 decoupling?

22 A. Can you repeat that?

23 Q. Yes. If we were to make the adjustment for  
24 new customers that you propose, do you believe that the  
25 revenues generated would be fairly neutral in the sense

0746

1 that approximately the same amount of money would be  
2 generated with the decoupling mechanism as without the  
3 decoupling mechanism for new customers?

4 A. Since I use actual volumes for new customers,  
5 it would be exactly the same with or without decoupling.

6 Q. Thank you.

7 And then on your direct testimony, page 5,  
8 lines 20, 21, you state that a primary goal of  
9 decoupling is to remove the utility's disincentive?

10 A. Hold on, what, page 5?

11 Q. Your direct testimony, page 5.

12 A. Line what?

13 Q. 20 to 21.

14 A. Okay, what was the question?

15 Q. And you state one of the primary goals for a  
16 decoupling mechanism is to remove the utility's  
17 disincentive to promote energy conservation?

18 A. I say that.

19 Q. Energy -- in lines, yes, on lines 20 to 21?

20 A. No, yes, I was agreeing.

21 Q. Oh, I'm sorry, I was hearing that as a  
22 question back.

23 And then if you reference back to some of the  
24 PacifiCorp Commission order and the listing of items  
25 that the Commission was interested in in terms of

0747

1 conservation, those were included on page 27 of  
2 Mr. Weiss's direct testimony. Do you have a copy of  
3 that there?

4 A. I do, I also have a copy of that section of  
5 the order.

6 Q. Okay. But there were two of the items that  
7 the Commission expressed interest in, and we have talked  
8 about these in other portions of the hearings, and one  
9 is that there would be identification of incremental  
10 conservation measures expected to be implemented and  
11 development of a target for energy conservation to be  
12 achieved through this mechanism relative to the base  
13 line conservation programs currently in rates in the  
14 Company's integrated resource plan. My question to you  
15 was once the disincentive to promote energy efficiency  
16 has been removed through decoupling, how would you  
17 suggest we ensure that the utility pursues energy  
18 efficiency?

19 A. I propose that we have the same mechanisms in  
20 place that we have now. I'm satisfied with the process  
21 we have for setting the target and the resource planning  
22 that they're doing and the penalty mechanism we have in  
23 place to hold their feet to the fire, and I'm satisfied  
24 with how they actively consult with their advisory group  
25 right now. So for this utility, I'm not looking for

0748

1 incremental conservation, because I think customers have  
2 already been getting that benefit. And I am approaching  
3 these on a utility-by-utility basis in the decoupling  
4 mechanisms, so for this utility this is my position.  
5 For PacifiCorp I was advocating that they should promote  
6 or they should offer up some sort of incremental  
7 conservation or discuss what sort of incremental  
8 conservation they could achieve, because I think there's  
9 room there for them to give. But for this utility I'm  
10 not recommending that.

11 Q. But do you believe there's incremental  
12 conservation that may be able to be achieved?

13 A. Certainly, I could never say no.

14 MS. GLASER: I have no further questions.

15 JUDGE MOSS: Thank you.

16 Mr. Furuta, do you still have some questions  
17 for Ms. Steward?

18 MR. FURUTA: Yes, I do, Your Honor.

19 JUDGE MOSS: Please proceed.

20

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

22 BY MR. FURUTA:

23 Q. Good afternoon, Ms. Steward.

24 A. Good afternoon.

25 Q. My questions relate to your cross answering

0749

1 testimony, Exhibit 569, and as I understand it under the  
2 Staff's proposed electric conservation incentive  
3 mechanism the Company would receive an incentive if it  
4 achieves 100% of the target; is that correct?

5 A. That is correct.

6 Q. And at page 3 of Exhibit 569 around line 8, I  
7 believe you state that the target should be honest,  
8 aggressive, and achievable; is that right?

9 A. Yes.

10 Q. Is it correct that the Company has  
11 considerable influence over setting the targets because  
12 it controls most of the information used in setting the  
13 target?

14 A. Yes, I believe I say that somewhere.

15 Q. Okay.

16 A. And that's the current case.

17 Q. Now if the Company has considerable influence  
18 over setting the targets, how can rate payers be  
19 protected from overcompensating the Company?

20 A. If they have considerable influence over  
21 setting the target?

22 Q. In other words, how does one keep that  
23 influence in check so that rate payers aren't  
24 overcompensating?

25 A. That goes to the advisory group work at

0750

1 setting the target and Staff work, it's scrutinizing  
2 what is in that target and how honest and reasonable and  
3 achievable and aggressive it is. And I think with this  
4 incentive mechanism, you would see us becoming more  
5 active in trying to scrutinize what exactly is in that  
6 target. And with my mechanism, what I'm trying to do is  
7 minimize some of that controversy that could arise from  
8 having it designed such that you create some perverse  
9 incentives for setting the target too low in order to  
10 achieve a higher incentive.

11 Q. And, in fact, on page 3 of your testimony  
12 here at lines 18 and 19, I believe you state that for  
13 the incentives that start above the target, there may be  
14 a temptation for the Company to seek a target lower than  
15 it could actually achieve in order to receive an  
16 incentive; is that correct?

17 A. Yes.

18 Q. Should that same concern exist regardless of  
19 where the incentives start?

20 A. That same concern will exist regardless of  
21 where the incentives start. I'm trying to minimize some  
22 of that perverse incentive, but there will be I think  
23 added scrutiny for setting the target.

24 Q. Under Staff's proposal, what safeguards would  
25 be put into place so that the Company does not seek a

0751

1 target that is lower than it could actually achieve in  
2 order to receive the incentives?

3 A. What safeguards, in addition to how I have  
4 designed the mechanism to try to minimize those perverse  
5 incentives, it would be -- I'm trying to give you  
6 something concrete, but, you know, really it's going to  
7 be the scrutiny of the advisory group that, you know,  
8 because we're all very engaged in this right now, and I  
9 think we will be in the future, particularly when you're  
10 dangling incentives in front of the Commission and  
11 nobody wants, you know, to waste rate payer dollars.  
12 And so what exactly we'll do is, you know, break each  
13 program apart and look at what they have achieved in the  
14 past and what their planning says is possible to achieve  
15 in the future and just go through detail by detail.

16 Q. But even with those safeguards that you have  
17 just mentioned, isn't it correct that the Company will  
18 still have significant control on establishing the  
19 target?

20 A. I'm not sure about the word significant. I  
21 mean the Company wants to reach consensus, and which  
22 Mr. Shirley said yesterday, he sort of committed that,  
23 you know, we would reach consensus. So I mean there is  
24 certainly the fact that I think the Company has  
25 information, has more information than I have readily at

0752

1 hand. And so it will be, you know, my job and the  
2 stakeholders to try and get that out of him to the  
3 greatest extent possible. And it's not, you know, a  
4 characterization of Mr. Shirley that, you know, I find  
5 him to be lacking integrity, you know, I'm not trying to  
6 imply that at all.

7 Q. Because of the control that the Company can  
8 exercise in establishing the target and to eliminate any  
9 potential for gaming, why not have incentives start at a  
10 level in excess of the target such as 110%?

11 A. I think that creates the same problem.

12 Q. Okay.

13 A. In fact, it magnifies it a bit.

14 Q. Turning to page 8 of your cross answering  
15 testimony starting at line 10, you indicate there that  
16 the Company does not earn a return on its sufficiency  
17 investments as it does on its supply investment. Isn't  
18 it correct though that the Company does recover the  
19 costs associated with its energy efficient program?

20 A. It recovers its costs, yes, but it does not  
21 earn a return on those costs.

22 Q. Okay. For the purpose of my next question, I  
23 would ask that you assume that the energy efficiency  
24 targets and the costs to achieve those targets can be  
25 properly established. Is it your opinion that if the



0753

1 Commission were to treat energy efficient program costs  
2 as a regulatory asset and amortize those costs over some  
3 period of time and allow a return on the unamortized  
4 portion that the need for an incentive would then  
5 diminish?

6 A. I think it would be fair to say it would  
7 diminish. I wouldn't say that it would all together  
8 eliminate the need necessarily, but it would diminish  
9 it, yes.

10 Q. Okay. And does a utility's return on common  
11 equity reflect all the risks associated with an  
12 uncertainty of providing utility services?

13 MR. CEDARBAUM: Your Honor, I will object, I  
14 think this is beyond the scope of, at least stated that  
15 broadly is beyond the scope of this witness's expertise.

16 JUDGE MOSS: Can you narrow that down a  
17 little bit, Mr. Furuta, tie it more to her testimony.

18 MR. FURUTA: That's all right, I will  
19 withdraw the question.

20 And with that, I have no further questions of  
21 this witness.

22 JUDGE MOSS: Thank you.

23 Any questions for this witness from the  
24 Bench?

25 Commissioner Oshie.

0754

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

2    BY COMMISSIONER OSHIE:

3            Q.    Ms. Steward, I've got a few questions that I  
4    want -- maybe an easy way to open this is for you to  
5    describe the areas of disagreement, if you will, between  
6    your proposed electric incentive mechanism and the  
7    Company's proposed incentive mechanism as it's been  
8    modified a bit in the rebuttal testimony, so where is  
9    the dispute?

10          A.    The dispute is similar to my dispute with the  
11    mechanisms of Public Counsel and NWECC, and we're all  
12    very close, but we do have these minor disputes. One is  
13    where to set the target for 2007, the first year of the  
14    mechanism. Two is the level of incentive or in the I  
15    consider it the ramp rate or the slope of the incentive  
16    and how steep it goes. Another one is I apply my  
17    incentive on the incremental savings, not all the  
18    savings for achieving the base line or exceeding the  
19    base line.

20          Q.    Do you want to explain that a bit?

21          A.    Yes. My mechanism, I have to look at it, it  
22    helps me, once I provide the incentive at 100%, which is  
23    actually a different, another difference, you know,  
24    there's deadband, we all have 10% deadband, but their  
25    deadband is from 95% to 105% and mine is from 90% to

0755

1 100%. But I provide an incentive at 100% of the target,  
2 and thereafter for each increment above achieving the  
3 target there's a different incentive payment applied to  
4 that in addition to the incentive they receive at 100%  
5 of the target. And so the farther they go above the  
6 target, those savings that have exceeded the target have  
7 a higher incentive payment.

8 Q. And that would be -- and so the highest  
9 incentive payments under your proposal would not be then  
10 based on the total of the achieved savings, it would be  
11 based on the difference between the base line, if you  
12 will, or your 100% and whatever is achieved over that.  
13 So let's say, for example, they achieved 125% over the  
14 base line, then they receive the highest payment on the  
15 25% over the base line?

16 A. Correct.

17 Q. And the targets, I want to get back to, and  
18 excuse me, let's -- those are there's three areas then,  
19 are there more areas where there's -- and, you know,  
20 these are really, you know, let's hit the high points.

21 A. Right.

22 Q. Where there's still a dispute between the  
23 parties as to this mechanism for electric incentive.

24 A. I was thinking those were four, the target  
25 for 2007, how I apply incremental, the actual savings

0756

1 incentives, and then the penalties we differ as well  
2 slightly.

3 Q. I took it from your response, I don't know if  
4 it was to Mr. Furuta or perhaps it was to Ms. Glaser,  
5 that Staff is not confident that the numbers that are in  
6 the least cost plan, whether, for conservation, whether  
7 on the electric side or the natural gas side are  
8 achievable, and as a result you're, at least from your  
9 testimony, you're willing to accept a number, at least  
10 on the electric side perhaps, I'm personally more  
11 confident on the gas side as to my understanding, that  
12 the achievable results from your perspective are closer  
13 to the Company's than they would be for let's say  
14 Mr. Weiss or others who have testified on this issue?

15 A. Yes, I think taking numbers directly out of  
16 the resource plan is problematic. I think the resource  
17 plan is a great guide and a great tool we have, but to  
18 mechanically apply a number out of there is difficult,  
19 because the plan is built assumption upon assumption  
20 upon assumption, and particularly on the gas side, on  
21 the way they model certain features, particularly for  
22 capacity additions, tended to overstate what the  
23 conservation was when they modeled it under more  
24 realistic conditions. They modeled capacity additions  
25 so as not to reflect a future negotiation or to

0757

1    compromise a future negotiation position for those  
2    capacity additions, so they modeled it more flatly.  And  
3    so once they did it more realistically, which they  
4    didn't want to publish but they did provide it to us,  
5    there was about 20% difference I believe in what was  
6    achievable or what the model took and what they didn't  
7    take.

8           Q.     20% difference which way?

9           A.     Less.

10          Q.     In response to another question, I believe  
11    this was from Mr. Furuta, it was with regard to setting  
12    the target and whether or not the parties could come to  
13    some agreement through the CRAG for targets either  
14    through the gas decoupling mechanism or the electric  
15    side efficiency incentive.  You know, I mean your answer  
16    if I, you know, can paraphrase it, it was, well, just  
17    trust us, we'll get there, and, you know, there's a we  
18    -- you didn't at least from your answer indicate to me  
19    that you thought there would be a dispute that the  
20    Commission would have to resolve at some level, and I  
21    want to explore that with you just to at least  
22    understand why you believe that there may not be a time  
23    now that, you know, to use the term I used with  
24    Mr. Shirley, you know, everybody, you know, has skin in  
25    the game, that there wouldn't be a dispute over targets

0758

1 that would get to the Commission either through the IRP  
2 or through some other filing where we would have to make  
3 -- we would have to decide the target levels here at the  
4 Commission level?

5 A. Yeah, I don't think I would be quite as  
6 optimistic as Mr. Shirley on that, but -- because I know  
7 how I intend to scrutinize these things, and I think the  
8 possibility could arise that we could dispute this. But  
9 so far we have a pretty good track record with the CRAG  
10 of reaching consensus. I mean right now these -- the  
11 targets have all -- they all go through you actually. I  
12 mean they file them, and they've just been taken through  
13 the no action agenda because we have reached consensus.  
14 And I think the parties are -- I think there's a good  
15 commitment to try to reach consensus by the members of  
16 the CRAG, nobody wants to take the time, you know, or  
17 pick battles in front of the Commission because we all  
18 know we may lose, but I think the possibility does  
19 exist.

20 Q. One question I also asked Mr. Shirley was  
21 whether at least from their proposal and the BPA  
22 conservation dollars would be included, the benefits  
23 from those dollars would be included in the final  
24 analysis of the program benefits for purposes of setting  
25 some level of incentive. And I don't know if you're

0759

1 from, you know, Staff's perspective Staff would include  
2 those dollars or whether they would be extracted from  
3 the electric incentive program?

4 A. For the mechanisms that are now all on the  
5 table that don't relate back to expenditures, like the  
6 Company's original proposal was an incentive that was  
7 calculated based on their expenditures, with that off  
8 the table, the savings that they achieve from the  
9 Bonneville program, CNRD, I would include those to the  
10 extent that they can claim them. And because I see it  
11 as going for the whole package of what is cost effective  
12 in their service area, to the extent that they can get  
13 other funding from another source that reduces the costs  
14 to our rate payers, I think that's great, so I would go  
15 ahead and include those savings in these mechanisms.

16 Q. And the reason why is then as I understand it  
17 because it provides the utility some incentive to  
18 continue to pursue those dollars from Bonneville?

19 A. I don't know if that in particular provides  
20 them the incentive, because I think we would be setting  
21 the target to go after what they can achieve anyway, and  
22 so we -- if they didn't get the CNRD money, I think we  
23 would set their budget through their rider to recover  
24 the costs required to achieve that cost effective  
25 conservation.

0760

1 Q. And the rider moneys come from the rate  
2 payers?

3 A. Yes.

4 Q. And the incentives, if approved, would come  
5 from the rate payers?

6 A. Yes.

7 Q. And I guess if this money comes from maybe a  
8 different source of rate payers or different set of rate  
9 payers, it doesn't -- I mean it seems as if just for the  
10 sake of argument that this money is not -- it's not rate  
11 payer money, it's not utility money, it comes from  
12 Bonneville, so for the sake of argument why should the  
13 rate payers pay the utility an additional incentive to  
14 achieve a result that they're being paid to do, if you  
15 will, from Bonneville?

16 A. Because these rate payers are the ones  
17 getting the benefit.

18 Q. Well, they get the benefit either way, don't  
19 they? I mean it's a passthrough of the dollars from  
20 Bonneville to the utility to do good work.

21 A. Yes.

22 Q. So if the utility does good work, does what  
23 it's supposed to do under the program, why should it get  
24 more money from the rate payers for doing that?

25 A. You have me stumped. You know, if they



0761

1 weren't, you know, and I don't want to just repeat  
2 myself because I don't know that I would get anywhere  
3 with it, but again I look at it that they're going after  
4 a target of what's cost effective in their service area,  
5 and if it were setting the budget to capture that and  
6 that they can go out and get that CNRD money benefits  
7 our rate payers by reducing the costs even though  
8 they're getting the value of those savings, I'm okay  
9 with it.

10 Q. Let's turn to your Exhibit 551T, which is  
11 your initial testimony, and I'm on page 8.

12 MR. CEDARBAUM: I'm sorry, did you say  
13 Exhibit 551?

14 COMMISSIONER OSHIE: No, didn't I say 551,  
15 oh, excuse me, 561, excuse me, thank you, counselor.

16 BY COMMISSIONER OSHIE:

17 Q. And I'm looking at your question as it's  
18 proposed on line 8, and your first paragraph is your  
19 response, and at the end of that sentence you say, such  
20 as customer conservation and efficiency improvements,  
21 those are non-weather related effects that -- only the  
22 non-weather related effects that cause changes in usage  
23 and conservation, energy and efficiency improvements are  
24 examples, but so my question is there, what else were  
25 you thinking of such as are there any other non-weather

0762

1 related effects that change usage that you were  
2 considering in drafting that?

3 A. Well, I guess there could be economic  
4 conditions that could reduce usage. Some of the other  
5 things that I know Mr. Weiss mentioned today I still  
6 think fall into these categories. Elasticity is, you  
7 know, a negative elasticity is a customer conservation.  
8 Building codes are the efficiency improvements. So I  
9 can -- my answer would be the economic changes could be  
10 captured.

11 Q. Do you see that as maybe one of the benefits  
12 of your proposal or Staff's proposal, that it seems to  
13 be cleaner in that it only accounts for the conservation  
14 efficiency improvements as opposed to those other  
15 extraneous effects such as price and price elasticity  
16 and to use as the example building codes?

17 A. Well, mine would include those as well. The  
18 only thing it doesn't include is weather.

19 Q. Okay.

20 A. But for all other changes to consumption,  
21 elasticity is included, but that's also customers  
22 conserving.

23 Q. And then your position is the same as perhaps  
24 Mr. Shirley also stated, which is that it's just too  
25 hard to ferret out, you know, the efficiency from

0763

1 changes in usage based on behavioral changes and/or, you  
2 know, changes in the laws?

3 A. Yeah, that's a point of controversy,  
4 particularly within the CRAG, of how to measure changes  
5 in particular related to their information programs or  
6 anything behavioral. And so far we have chosen not to  
7 allow them to count savings for those measures because  
8 it's just too difficult to quantify, and it's just an  
9 extra area of controversy. I mean building code  
10 changes, the Company actually gets some savings claims  
11 from that, because through their savings that are  
12 attributed from the Northwest Energy Efficiency  
13 Alliance, because the Northwest Energy Efficiency  
14 Alliance funds some building code programs, and they  
15 claim savings from those.

16 Q. And how would that be affected by your  
17 proposed adjustment for new customer additions, or would  
18 it?

19 A. How would what be affected by it, the --

20 Q. The effect of a new customer and the Company  
21 taking credit, if you will, for that customer savings or  
22 not savings?

23 A. Well, they wouldn't for a new customer.  
24 Well, my new customer adjustment just uses actual  
25 volumes from those customers, so they wouldn't be taking

0764

1 credit for, through the mechanism in particular, for --  
2 they wouldn't get recovery over and above those actual  
3 for new customers in my mechanism.

4 Q. Two last questions, Ms. Steward, and they  
5 have to do with Mr. Weiss's recommendation is at the end  
6 of your three year pilot program, and I don't recall  
7 from your testimony whether you're recommending that an  
8 independent evaluation be done of your proposed  
9 decoupling mechanism or whether that's something you  
10 would support?

11 A. Yeah, I didn't actually specify independent  
12 evaluation. I think I did list some areas that we want  
13 to track, and I think we need to have some sort of  
14 evaluation and assessment done at the end or an ongoing,  
15 so I would support that. And, you know, to the extent  
16 independent is appropriate, then, you know, I would  
17 support that too.

18 Q. And can you explain why you believe it's  
19 necessary to engage in a program like this on a pilot  
20 basis?

21 A. Because we're stepping into new territory a  
22 bit, and we want to make sure the mechanism is running  
23 cleanly and as expected. You know, I think there may be  
24 other little details that crop up that we have not  
25 accounted for, and so we want to try it out and flesh

0765

1 out any problems we think we may have before we would  
2 throw it out there again. But we would recommend in the  
3 future that it also be limited for fixed periods even  
4 beyond this pilot period.

5 Q. And why a three year program?

6 A. Three years just seemed like a good number,  
7 you know, we would have two full years of implementation  
8 and then a year to work on an evaluation.

9 COMMISSIONER OSHIE: Thank you.

10 JUDGE MOSS: Chairman Sidran.

11

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

13 BY CHAIRMAN SIDRAN:

14 Q. Good afternoon.

15 A. Good afternoon.

16 Q. I would like to ask you a question that I  
17 have asked other witnesses on this topic, but first I  
18 just want to make sure that I understood some testimony  
19 of yours here today. Did I understand you to say that  
20 you were in effect satisfied with Puget's conservation  
21 efforts and therefore did not look towards a particular  
22 incremental increase in conservation; did I hear that?

23 A. Yes.

24 Q. Okay. So I would like your take on the  
25 advantages and disadvantages of this decoupling

0766

1 mechanism compared to what's being proposed on the  
2 electric side.

3 A. Okay.

4 Q. All right, so I have asked other witnesses  
5 this, I would like your impressions of advantages and  
6 disadvantages between obtaining conservation through a  
7 target with rewards and penalties versus obtaining  
8 conservation through a decoupling mechanism, which  
9 obviously also has its I suppose you could say rewards  
10 and penalties. So I'm interested in your assessment of  
11 the advantages and disadvantages.

12 A. I think we're trying to solve different goals  
13 through each. With the decoupling mechanism on the gas  
14 side, we're trying to deal with this declining usage  
15 that the Company is facing that is not really allowing  
16 them to earn their authorized rate of return due to the  
17 pricing we have, which heavily emphasizes volumetric  
18 pricing, and which, you know, on the flip side then has  
19 this disincentive to encourage conservation. The goal  
20 of the incentives on the electric side for me is to  
21 balance the penalty mechanism we have in place. And so  
22 I'm not sure I'm fully answering your question, because  
23 I see the purposes as so different for each.

24 And we don't have -- the Company did not  
25 propose a decoupling mechanism on the electric side

0767

1 because I don't think they're facing those same issues  
2 that they are on the gas side. And Mr. Shirley I think  
3 was correct yesterday when he said he didn't think that  
4 parties would take well to a decoupling and incentive  
5 mechanism on the gas side. I think recovery of their  
6 lost margins for their programs is pretty good. And so  
7 we're really trying to solve two different things with  
8 the two mechanisms.

9 Q. All right, maybe just one follow up. If you  
10 can't identify any particular incremental conservation  
11 goal, why is the decoupling mechanism going to advance  
12 the conservation objective? I mean I understand the  
13 Company's problem that you have identified on the  
14 recovering its margin, but I don't quite understand the  
15 decoupling mechanism as a conservation tool in the  
16 context that you described.

17 A. Yeah, that was a dilemma actually when we  
18 started working on this for this utility, because I  
19 think they already have stepped up and made that  
20 commitment. I think customers have already benefited  
21 from that. But I didn't feel comfortable saying, well,  
22 since they've already done that, then we shouldn't do a  
23 decoupling mechanism, because they have been the ones  
24 incurring the lost margins from their programs, so it --  
25 I can't say that there will be incremental benefits, but

0768

1 it certainly, I think the same as with the incentives on  
2 the electric side, it will hopefully not hold them back  
3 since they have nothing to lose from the lost margins by  
4 within each program period of capturing all the cost  
5 effective conservation they can on the gas side.

6 CHAIRMAN SIDRAN: All right, thank you.

7 JUDGE MOSS: Any follow-up questions to those  
8 from the Bench?

9 COMMISSIONER JONES: Judge Moss.

10 JUDGE MOSS: Oh, I'm sorry, Commissioner  
11 Jones.

12

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

14 BY COMMISSIONER JONES:

15 Q. A couple of questions, it should be quick,  
16 about your differences with Mr. Weiss's testimony on  
17 pages I think 9 and 10 of your rebuttal or your cross  
18 answering. You basically set forth two disagreements  
19 with Mr. Weiss's testimony, one on the weather effects  
20 and the impact on customers' bill volatility and then  
21 this issue the Chairman just raised of tying recovery of  
22 margin efficiency to achieving some sort of target.  
23 Could you go through your thinking on the first one, the  
24 first disagreement, I don't understand fully each  
25 party's position on customers' bill volatility and your



0769

1 contention that including the weather adjustment in a  
2 decoupling mechanism would increase volatility,  
3 recognizing that there's a 3% cap in his proposal.

4 A. Right.

5 Q. So could you walk through that and why you  
6 oppose, why you assert that it's bad for customer bill  
7 volatility?

8 A. The heart of the matter for Staff is that  
9 weather is just so unpredictable, we don't really know  
10 what we're getting into with that weather mechanism.  
11 Even with a cap of 3%, you know, if we have warm year  
12 after warm year or if we have a warm year after -- a  
13 cold year after a warm year so they're collecting a  
14 surcharge in a cold year where a customer usage is  
15 already higher, then that's just going to have a larger  
16 impact, a bigger bill impact in that cold year, and so  
17 it's -- it's that we don't know what's going to happen  
18 that will -- it will, you know, bills could fluctuate  
19 significantly even with a cap, the customers will still  
20 be at risk for recovery of that in later years.

21 Q. So your concern with the 3% cap in place is  
22 more that the deferral balance might accumulate?

23 A. Yes.

24 Q. Year over year, and you're concerned about  
25 the effect on a customer bill, customer bill volatility

0770

1 over time?

2 A. Yes, particularly if you're collecting that  
3 in a cold year.

4 Q. The second question, are you opposed to  
5 setting a target in principle, or are you more opposed  
6 to Mr. Weiss's setting of the percentage incentive at  
7 150%, I think it's 150% is it not, of the agreed upon  
8 target for gas efficiency?

9 A. For 100%?

10 Q. Yeah.

11 A. No, I'm not opposed to setting a savings  
12 target. In fact, I think we have to continue to do  
13 that. But I am opposed to having more of an arbitrary  
14 target that the deferral would be tied to.

15 COMMISSIONER JONES: That's all, thank you.

16 JUDGE MOSS: Okay, now I will ask again if  
17 there's any follow up to the Commission's questions?

18 MR. FFITCH: Yes, Your Honor.

19 JUDGE MOSS: Mr. ffitich.

20 MR. FFITCH: Thank you.

21

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

23 BY MR. FFITCH:

24 Q. Ms. Steward, you were asked for the reasons  
25 why you supported a three year pilot, and you gave a

0771

1 couple of reasons why you supported a three year limited  
2 time duration for the program, isn't it the case that  
3 you also have recommended that because of your concern  
4 that the decoupling proposal violates the matching  
5 principle of rate making?

6 A. I don't think I said it violates the matching  
7 principle, but the matching principle is a concern we  
8 have, and so we want to keep the mechanism confined to a  
9 short-term way to deal with it rather than having it  
10 become a long-term mechanism.

11 Q. Can I get you to turn, please, to page 17 of  
12 your direct testimony, 561, at line 20.

13 A. Yes.

14 Q. Page 17, line 20, and there you essentially  
15 say, do you not, that you risk violating the cost based  
16 principle of regulation by creating a potential mismatch  
17 between current costs and rates?

18 A. Right, I say we risk violating.

19 Q. So that's an additional reason why you have  
20 supported the three year pilot, right?

21 A. Yes.

22 Q. Commissioner Sidran asked you or in colloquy  
23 with Commissioner Sidran you spoke about a decline of  
24 usage, you're referring to the decline of usage on a per  
25 customer basis, right?

0772

1 A. Yes.

2 Q. Not total sales volumes for the --

3 A. No.

4 MR. FFITCH: Those are all my questions,  
5 thank you.

6 JUDGE MOSS: Is there any redirect?

7 MR. CEDARBAUM: I believe I just have a  
8 couple of areas, Your Honor.

9

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

11 BY MR. CEDARBAUM:

12 Q. Ms. Steward, if you could turn to Exhibit  
13 570, you were questioned by Mr. ffitch about that, and  
14 this relates to the weather normalization methodology  
15 that would be utilized in your decoupling proposal, and  
16 you indicated that the weather normalization adjustment  
17 methodology would be the methodology that you would  
18 adopt for decoupling purposes; is that right?

19 A. Yes.

20 Q. Let's assume that during the course of your  
21 pilot for your pilot the Company has another rate case,  
22 and the Commission approves an adjustment that has a  
23 different -- weather normalization adjustment that has a  
24 different weather normalization methodology; would you  
25 use that new methodology or the one that comes out of

0773

1 this rate case for that decoupling mechanism?

2 A. Yes, if there is a rate case in the interim  
3 period, we would reset the base line all together, and  
4 we would use for ongoing purposes the most recently  
5 adopted weather normalization methodology.

6 Q. And then the second and final area with  
7 respect to the pilot program issue that you were  
8 questioned about by Commissioner Oshie and I think  
9 others, let's say under the hypothetical that the  
10 Commission approves decoupling but without a pilot term  
11 to it, it's just a permanent mechanism until it's  
12 changed, and during its effectiveness problems arise  
13 that people identify, but those problems don't motivate  
14 the Company to propose any changes to the decoupling  
15 mechanism; do you have that in mind?

16 A. No, I guess I didn't follow you all the way  
17 on that.

18 Q. I guess I'm asking in a situation where the  
19 Company with a decoupling mechanism that is not a pilot,  
20 just a permanent proposal that's in place, unless the  
21 Company proposes changes to that, is the onus on either  
22 the Commission or other parties to implement some sort  
23 of a proceeding to modify the mechanism?

24 A. Oh, yes.

25 Q. Would that be an administrative burden for

0774

1 Staff and others?

2 A. That would be, yes, that would be an  
3 administrative burden.

4 MR. CEDARBAUM: Thank you, those are all my  
5 questions.

6 JUDGE MOSS: Thank you, Mr. Cedarbaum.

7 Ms. Steward, with that I believe we have  
8 completed your examination today, and we appreciate you  
9 being here and giving your testimony, you may step down.

10 Mr. Cedarbaum, can we indeed get Mr. Karzmar  
11 up and off the stand in ten minutes?

12 MR. CEDARBAUM: I don't have any questions  
13 for Mr. Karzmar, and I don't think we have any cross  
14 exhibits either.

15 JUDGE MOSS: Very well, then I suppose we  
16 ought to be able to get Mr. Karzmar's materials in by  
17 stipulation.

18 MS. DODGE: Your Honor, I believe it's Public  
19 Counsel that has the cross exhibits for Mr. Karzmar.

20 JUDGE MOSS: All right, well, if we can get  
21 those in as well as Mr. Karzmar's testimony and  
22 exhibits, then we can save some time.

23 MS. DODGE: We just had a redirect question  
24 on the cross exhibits.

25 JUDGE MOSS: All right, then I suppose we'll

0775

1 have to have Mr. Karzmar on the stand. Why don't you go  
2 ahead and call him and let's see if we can get that done  
3 quickly, and then we'll take our afternoon recess.

4 MR. FFITCH: Your Honor, I'm not sure if this  
5 is an objection or not, but it's certainly an  
6 unconventional request from the Company to put a witness  
7 on the stand to conduct redirect when there's been no  
8 cross-examination.

9 JUDGE MOSS: Well, but you are submitting  
10 exhibits that we're stipulating in for your benefit, so  
11 I think if she has a question she wants her witness to  
12 respond to with regard to those exhibits, they are in  
13 that sense cross-examination, so, even though you have  
14 no questions about them, so I think it's a fair process,  
15 and I will allow it.

16 MR. FFITCH: Thank you, Your Honor.

17 MS. DODGE: Oh, yes, I'm sorry, we also have  
18 one correction to Mr. Karzmar's testimony.

19 JUDGE MOSS: That will be a useful thing to  
20 do too.

21

22 Whereupon,

23

KARL R. KARZMAR,

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

25 herein and was examined and testified as follows:

0776

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

2   BY MS. DODGE:

3           Q.     Mr. Karzmar, please state your name and title  
4   and spell your name for the court reporter.

5           A.     My name is Karl Karzmar, I'm the Director of  
6   Regulatory Relations of Puget Sound Energy, and my name  
7   is spelled K-A-R-Z-M-A-R.

8           Q.     And as your exhibits will be coming in by  
9   stipulation, would you please just identify any  
10   corrections that you have.

11          A.     Yes, on Exhibit 232C at page 12, line 14, in  
12   order to comport with the revised testimony of  
13   Mr. Russell, at the end of that sentence and as a part  
14   of that sentence the language should be inserted, comma,  
15   as well as their assets and number of employees.

16                   JUDGE MOSS:  And, Mr. Karzmar, while I got  
17   your correction, I didn't catch the line that that  
18   appends to.

19                   THE WITNESS:  That's line 14 at the end of  
20   the sentence that ends there.

21                   JUDGE MOSS:  Thank you.

22   BY MS. DODGE:

23           Q.     Mr. Karzmar, do you have in front of you  
24   Exhibits 235, 236, 237, and 238?

25           A.     Yes, I do.



0777

1 Q. And these are the Company's responses to  
2 certain data requests posed by Public Counsel in this  
3 case?

4 A. Yes, they are.

5 Q. And these concern the Company's line  
6 extension tariffs?

7 A. Yes, these concern both the Company's  
8 electric and gas line extension tariffs.

9 Q. Do you have any observations about these  
10 particular data requests?

11 MR. FFITCH: I'm going to object, Your Honor,  
12 again now that the witness is on the stand for purposes  
13 of the record interpose another objection on the grounds  
14 that this redirect examination goes beyond the scope of  
15 Public Counsel's cross-examination, which since it did  
16 not occur and since the Company can not be aware of the  
17 purposes to which we intend to put these exhibits,  
18 they're simply speculating about what the witness should  
19 or should not address, and in effect this is just new  
20 and further direct testimony from the witness, so just  
21 for the record I want to make that objection.

22 JUDGE MOSS: All right, it's noted.

23 Go ahead.

24 BY MS. DODGE:

25 Q. Please go ahead, Mr. Karzmar.

0778

1           A.     Well, there are a couple of observations that  
2 I think would be important to make, and one of them has  
3 to do with the fact that both for the electric and gas  
4 line extension policies these analyses are based on life  
5 of asset test. And so, for example, for these gas  
6 financial investment analysis, they show in particular  
7 what the rate of return is, and it should be important  
8 to know that when looking at that, the achieved rate of  
9 return is over the life of the asset. That means simply  
10 that if just the Company's authorized rate of return is  
11 achieved, that during the early years the return  
12 achieved will be less than authorized, in the later  
13 years it will be more than authorized so that it's  
14 always less than the authorized rate of return if that's  
15 the case or if the Company collects the contribution in  
16 aid of construction, in which case there's a burden on  
17 the Company until there's a general rate case, and then  
18 it falls to the rate payer. And then any subsequent  
19 burden and benefit also falls to the rate payer. The  
20 Company's ability here is limited to earning its  
21 authorized rate of return over the life of the project.

22                     One other observation I think is important is  
23 that these were specifically requested by Public  
24 Counsel, don't necessarily represent typical line  
25 extension analysis, and in fact one of them because of

0779

1 the specifics falls completely outside the Company's  
2 parameters allowed for under its tariff.

3 MS. DODGE: That's all.

4 JUDGE MOSS: Do you have any questions,  
5 Mr. ffitch?

6 MR. FFITCH: Just one.

7

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

9 BY MR. FFITCH:

10 Q. Is there any reason, Mr. Karzmar, why those  
11 comments or qualifications that you just made were not  
12 included in the responses to the data requests that you  
13 provided to Public Counsel?

14 A. In part. I think we pointed out that they  
15 were not typical, but since we filed these I realized  
16 that it's probably very important to note that these  
17 could be easily misinterpreted, I just didn't want that  
18 to happen.

19 MR. FFITCH: No further questions, thank you,  
20 Your Honor.

21 JUDGE MOSS: Thank you, and we have the  
22 witness on the stand, are there any questions from the  
23 Bench?

24 There being no questions from the Bench,  
25 Mr. Karzmar, that would seem to complete your testimony

0780

1 here today, we appreciate it, and you may step down.

2 MR. FFITCH: Your Honor, can I just clarify  
3 whether the cross exhibits for Public Counsel may now be  
4 admitted?

5 JUDGE MOSS: Oh, they were admitted, we  
6 admitted everything by stipulation.

7 All right, I think then we will go ahead and  
8 take our afternoon recess before we have Mr. Story, who  
9 will be our last witness today, so we'll be back at  
10 3:15, please.

11 (Recess taken.)

12 (Witness John H. Story was sworn.)

13 JUDGE MOSS: Thank you, please be seated.

14 Any time you're ready, counsel.

15 MS. DODGE: I believe that we're stipulating  
16 in the direct and other exhibits.

17 JUDGE MOSS: We are going to stipulate in all  
18 the testimony and exhibits, both direct and cross and  
19 rebuttal, if there is any.

20 MS. DODGE: And these were Exhibits Numbers  
21 421 through 445 as well as 746 and then 446 through 450  
22 as well as 751 and 752.

23 JUDGE MOSS: And thank you for identifying  
24 those for the record.

25 MS. DODGE: The Company makes Mr. Story

0781

1 available for cross-examination.

2 JUDGE MOSS: Okay, I see I had one question  
3 on the exhibits, it's actually noted on the exhibit list  
4 there at 438, is 438 different from 428?

5 MS. DODGE: Do you mean 429?

6 JUDGE MOSS: Possibly. Yes, I suppose I do.  
7 It's possible they relate to different periods, but I  
8 just don't know.

9 MS. DODGE: I believe 438 is the updated  
10 Exhibit A-1 to the PCA mechanism with the power cost  
11 rate to reflect the supplemental direct testimony, which  
12 is post power cost updates that happened during the  
13 course of the proceeding.

14 JUDGE MOSS: Okay, all right, that would  
15 explain. It gets a little confusing because I know that  
16 exhibit does change from time to time, so this is the  
17 current one, JHS-18?

18 MS. DODGE: I believe there's another, the  
19 442C would have been the updates consistent with the  
20 rebuttal filing.

21 JUDGE MOSS: All right, I will work with you  
22 later to get precise descriptions that I will include.  
23 All right, okay, very good, thank you for that  
24 clarification, and with that, our witness is available  
25 for cross-examination, and let's see, Mr. Cedarbaum, you

0782

1 had indicated a few minutes.

2 MR. CEDARBAUM: We have no questions, Your  
3 Honor.

4 JUDGE MOSS: Mr. ffitch, you have indicated  
5 some.

6 MR. FFITCH: No questions, Your Honor.

7 JUDGE MOSS: And Mr. Furuta.

8 MR. FURUTA: Thank you, Your Honor.

9

10 Whereupon,

11 JOHN H. STORY,  
12 having been first duly sworn, was called as a witness  
13 herein and was examined and testified as follows:

14

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

16 BY MR. FURUTA:

17 Q. Good afternoon, Mr. Story.

18 A. Good afternoon.

19 Q. If I could turn to your rebuttal exhibit, and  
20 I believe this is marked 445.

21 A. Yes.

22 Q. Do you have that?

23 A. Yes.

24 Q. I believe there you show an adjustment to the  
25 revenue deficiency for Puget's electric and gas utility

0783

1 service that would take the place of the Company's  
2 proposed depreciation tracker; is that correct?

3 A. That's correct.

4 Q. Okay. And is this where you're presenting  
5 the Company's version of the known and measurable  
6 adjustment to recognize non-revenue producing,  
7 non-expense reducing net transmission and distribution  
8 plant additions that were suggested by our witness,  
9 Mr. Smith?

10 A. It's a calculation that does the known and  
11 measurable adjustment, it's not the same as Mr. Smith's  
12 adjustment.

13 Q. Okay, it's the Company's version or --

14 A. That's correct.

15 Q. Okay. And am I correct that for Puget's  
16 electric rates you would increase them by an additional  
17 \$8.773 Million under this particular alternative?

18 A. That's correct.

19 Q. Okay. And for gas rates you would increase  
20 them by \$3.546 Million?

21 A. That's correct.

22 Q. Okay. And under this particular proposal,  
23 the \$8.773 Million and the \$3.546 Million for electric  
24 and gas respectively are annual additions to the revenue  
25 requirement; is that correct?

0784

1 A. It's a one time addition, yes.

2 Q. And how long are rates proposed by the  
3 Company in this proceeding expected to be in effect?

4 A. That's always difficult to judge. It depends  
5 on what the rate order is out of this proceeding. It  
6 depends on resource acquisitions, whether we do those  
7 through a PCORC or general rate case. It depends on gas  
8 infrastructure replacement and new materials. We have  
9 had a general rate case on average every two years since  
10 2001.

11 Q. And, in fact, turning to your Exhibit 440,  
12 and actually it would be page, I believe it's page 20.16  
13 of that exhibit, do you have that?

14 A. Yes, I do.

15 Q. I notice on line, for example, on line 24,  
16 annual normalization, you take line 22 and divide that  
17 by two years.

18 A. That's correct.

19 Q. Is that correct?

20 A. That's correct.

21 Q. And is that kind of an assumption by the  
22 Company that rates would be in effect for two years, or  
23 is --

24 A. No, if you recall in our last general rate  
25 case, we switched methods on the way rate case expenses



0785

1 are determined, and at that time the thought was that  
2 rate cases would be about three years apart. This is  
3 based, as I said in my direct testimony, on actual  
4 history, which has been two years, so it's just a  
5 normalization adjustment based on that two year average.

6 Q. Oh, okay, thanks for that clarification.

7 And is it true that Puget has recorded on its  
8 books additional accumulated depreciation during the  
9 period after the September 30, 2005, test year?

10 A. Sure.

11 Q. And, for example, in October of 2005, Puget  
12 recorded depreciation expense and accumulated  
13 depreciation on its electric T&D plant that was in  
14 service on September 30 of that year, didn't it?

15 A. I'm sorry, could you repeat the first part of  
16 the question.

17 Q. I was taking for the month of October or in  
18 the month of October 2005, the Company would have  
19 recorded depreciation expense and accumulated  
20 depreciation on electric T&D plant that was in service  
21 on September 30, 2005?

22 A. Yes, each month the Company takes  
23 depreciation expense.

24 Q. Okay. And similarly that would be the case  
25 for plant for gas T&D as well?

0786

1 A. Yes, along with the additions.

2 Q. Okay. Now in the Company's proposed  
3 depreciation tracker, the Company is requesting a return  
4 of but not return on post test year T&D investment; is  
5 that correct?

6 A. That's correct, and it's not all T&D. We  
7 have removed some of the distribution plant on the gas  
8 side such as water heaters that are on a fixed rate.  
9 And on the electric side we removed the transmission  
10 that was associated with Schedule 40 or distribution  
11 associated with Schedule 40 and transmission associated  
12 with major projects.

13 Q. And I believe during my cross of Ms. Harris  
14 she deferred a question to you, let me try that with  
15 you. Part of the post test year T&D investment that  
16 Puget wants to retain recovery of is related to customer  
17 growth; would that be correct?

18 A. On the depreciation tracker, that's correct,  
19 we don't make a distinction.

20 Q. Okay. Now in the alternative proposal of the  
21 company shown on Exhibit 445, your exhibit, I'm correct  
22 that Puget is requesting both a return of and a return  
23 on post test year T&D investment; is that correct?

24 A. Yes, and this is different T&D, this is T&D  
25 that does not have revenues associated with it.

0787

1 Q. Okay. And looking for a moment on Exhibit  
2 445, out of the \$8.773 Million that you were discussing  
3 for electric, it appears that \$7.687 Million on line 18  
4 of that is the return on post test year T&D investment;  
5 is that correct?

6 A. That's correct.

7 Q. Okay. And similarly for the gas amount of  
8 \$3.546 Million, \$3.043 Million of that is for a return  
9 on post test year T&D investment; is that correct?

10 A. That's correct.

11 Q. Okay. Now it's also true that the additional  
12 electric revenue deficiency that the Company is seeking  
13 on Exhibit 445 here of \$8.773 Million is even higher  
14 than the \$7.879 Million that Puget had requested under  
15 the depreciation tracker of your testimony, in your  
16 direct testimony; is that correct?

17 A. When you compare to depreciation expense  
18 only, yes. And the reason for that is that the  
19 depreciation tracker goes out into the year 2007, so it  
20 would be associated with plant that was added all the  
21 way through 2007. This only goes through June 2006.

22 Q. Okay. Would you agree that plant additions  
23 are an addition to rate base, whereas accumulated  
24 depreciation is a subtraction from rate base?

25 A. Yes.

0788

1 Q. Okay. And I take it you're the witness best  
2 prepared to discuss with me Exhibit 752, which is the  
3 Company's response to FEA Data Request 03-001.

4 A. I can discuss that with you, yes.

5 Q. Okay. And the exhibit that we're using now  
6 was actually distributed to parties this morning; is  
7 that correct?

8 A. It's a corrected version of the one that went  
9 out last Friday, yes.

10 Q. Okay. Could you describe what the  
11 differences are in this version from the one that was  
12 distributed on Friday?

13 A. Yes, the one that was distributed on Friday  
14 because of the quick turn around that was required to do  
15 this, hadn't been checked by the rate department. And  
16 as we were checking this over the weekend, we found that  
17 there was a couple of formula errors in the electric  
18 portion it was. And what they were is our system  
19 doesn't do this type of calculation. What FEA had asked  
20 for was accumulated depreciation based on the plant that  
21 was available as of September 30th. Obviously we book  
22 depreciation every month, and we do additions every  
23 month. So what we had to do was set up a spreadsheet  
24 that would duplicate what the system was doing with just  
25 retirements and transfers. And when that was done, a

0789

1 couple of formulas on the electric side were mismatched  
2 for the time period.

3           And when we were correcting that, it was  
4 found that the gas side had a similar error but a little  
5 more serious error in the 2006. In 2005 we were using a  
6 half depreciation rate, because in the September through  
7 December time period you would only be removing half of  
8 the depreciation on a retirement for any item that was  
9 removed from plant during that time period. When they  
10 were doing the gas calculation they carried that formula  
11 over into 2006 and were only using half of the  
12 depreciation rate, so that was corrected also at the  
13 same time.

14       Q.     Okay. So consequently much of the data is  
15 actually changed from this version of the response?

16       A.     The electric didn't change very much. The  
17 electric changed I believe a few hundred thousand  
18 dollars, but the gas changed about \$5 Million.

19       Q.     Okay. Do you know what the Company's  
20 accumulated depreciation on T&D plant during the period  
21 from October 1st of 2005 through June 30th of 2006 would  
22 be?

23       A.     I believe that's shown on the data request.

24           MR. FURUTA: And just so that it's clear for  
25 the record, Your Honor, I would hope that the Commission

0790

1 would bear with me, I would like to be able to make sure  
2 that the record is clear, and unfortunately since the  
3 Exhibit 752 has such fine print and some of the data  
4 entries are actually in shaded areas which are almost  
5 impossible to read, I would like to at least establish  
6 for the record certain data that I would like to have  
7 the witness confirm at this time.

8 JUDGE MOSS: Is there quite a lot of it?

9 MR. FURUTA: There are actually about I  
10 believe three numbers for electric and the same number  
11 for gas.

12 JUDGE MOSS: Okay, that's a reasonable  
13 number.

14 MR. FURUTA: Okay.

15 JUDGE MOSS: Go ahead.

16 MR. FURUTA: Thank you.

17 BY MR. FURUTA:

18 Q. And I would like to turn to I believe it's  
19 marked -- it's part of Attachment A of this exhibit, and  
20 on the bottom of my copy it shows page 5 of 6.

21 A. Yes, I have it.

22 Q. Okay. And if I look at the third column, I  
23 believe it's entitled accumulated depreciation September  
24 30, 2005, at the very bottom of that column under total  
25 T&D plant I see the number \$1,171,630,258.45.

0791

1 A. That's correct.

2 Q. Okay. Now if I look at on the same line  
3 under the column I believe it's about five columns to  
4 the right headed October '05 accumulated depreciation.

5 A. Yes.

6 Q. There I see the amount \$1,176,332,731 and  
7 some change; do you see that?

8 A. Yes.

9 Q. Am I --

10 A. Yes, that's correct.

11 Q. Am I correct that to come up with the  
12 increase in accumulated depreciation for the month of  
13 October, I would subtract the September number from the  
14 October number?

15 A. That's correct.

16 Q. Okay. And I believe this is an appropriate  
17 subject to check, you don't have to do the calculation  
18 now, but subject to check would that be \$4,702,473?

19 A. That looks right.

20 Q. Okay.

21 A. That's correct.

22 Q. And to speed things up, I won't similarly for  
23 the month of November, which I believe is about seven  
24 columns to the right of October headed November '05  
25 accumulated depreciation, I see the number

0792

1 \$1,181,453,596?

2 A. That's correct.

3 Q. Okay. So if I were to take that number and  
4 subtract the October figure, I would come up with  
5 \$5,120,864?

6 A. That looks right.

7 Q. And that would be the accumulated  
8 depreciation increase for the month of November 2005?

9 A. That looks correct.

10 Q. Okay. And then, I'm sorry, I have one more  
11 figure for electric I forgot to note, it would be on the  
12 following page, page 6 of 8, under the third column  
13 headed December '05 accumulated depreciation, the number  
14 in the last line as I read it is \$1,184,683,389?

15 A. That's correct.

16 Q. Is that correct?

17 A. Mm-hm.

18 Q. And subtracting from that number the November  
19 amount gives me \$3,229,793 subject to check?

20 A. That looks correct.

21 Q. Okay. Why don't we wrap up for gas so we can  
22 get this exercise out of the way. Actually, before we  
23 do that, the other number I need to get into the record  
24 is on page 8 of 8 of that same attachment, and that is  
25 the very last number, last column is entitled June 2006



0793

1 accumulated depreciation, under total T&D plant the  
2 number I see there is \$1,211,091,716; is that correct?

3 A. That's correct.

4 Q. Okay. Now turning to gas, which is  
5 Attachment B of the same exhibit, unfortunately I don't  
6 believe these pages are numbered but I'm looking at the  
7 first page after the divider or the tab, I believe it's  
8 the fourth page from the end of the exhibit. For  
9 September 2005, which is the third column of that page,  
10 under total distribution and transmission, and again  
11 here we're speaking of gas, this is a shaded number and  
12 I may need your help, I take it it's \$570,076,654, does  
13 that appear correct for -- and that would be for  
14 September 30 of 2005?

15 A. That appears right.

16 Q. Okay. And then about seven columns to the  
17 right of that for October 2005, the number appears to be  
18 \$573,419,400?

19 A. That's correct.

20 Q. And five columns to the right of that for  
21 November I have \$577,295,427?

22 A. Yes.

23 Q. For December is on the following page, third  
24 column, I show \$580,661,505; is that correct?

25 A. I believe so, the 6 is pretty hard to read,

0794

1 but I would imagine it is.

2 Q. Okay. But as a double check, one could  
3 probably total the numbers under the total transmission  
4 plant line and the total distribution plant line, and  
5 that should come out to the same number?

6 A. Right.

7 Q. Is that correct?

8 A. Right.

9 Q. And similarly, I won't go through the  
10 exercise here, but in order to come up with the monthly  
11 increases, I could just simply subtract the previous  
12 month from the following month?

13 A. Yes.

14 Q. Okay. And I forgot one more gas number, and  
15 I believe that's the very last page of the exhibit under  
16 the column June 2006 accumulated depreciation, the last  
17 column, under total distribution and transmission I show  
18 \$612,232,617, does that appear correct?

19 A. That's correct.

20 Q. Okay. Now taking the numbers I read into the  
21 record, if I were to subtract the number for September  
22 30, 2005, speaking on the electric T&D side now,  
23 subtracting that number from the June 30, 2006, I show  
24 and ask you to accept subject to check a difference of  
25 \$39,461,459, which I believe represents the increase in

0795

1 electric T&D for those nine months?

2 A. Total T&D, that's correct.

3 Q. Total T&D, yes.

4 And for gas if I perform the similar  
5 calculation from the Attachment B numbers, subject to  
6 check would that be \$42,155,963?

7 A. Subject to check, yes.

8 Q. Okay. And if I were to take a sum of those  
9 two numbers, the electric and gas, would that be  
10 \$81,617,422?

11 A. Yes.

12 Q. Okay. Now it appears when I was  
13 cross-examining Ms. McLain earlier this week she had  
14 deferred some questions regarding the distribution, the  
15 depreciation tracker to you, and I would ask at this  
16 time if you could refer to her Exhibit 246.

17 A. I don't have that.

18 JUDGE MOSS: All right, the witness has been  
19 furnished a copy.

20 Q. And I believe Exhibit 246 is the one page  
21 table entitled PSE non-revenue producing T&D investment  
22 study for the period October 1, 2005, to June 30, 2006.

23 A. That's correct.

24 Q. Okay. And it appears there that she has for  
25 net T&D additions on the bottom line the amount

0796

1 \$127,453,655; do you see that?

2 A. Yes.

3 Q. Okay. Now that's a figure different from  
4 what you show in your Exhibit 445; is that not correct?

5 A. Yes, 445 is done on an average monthly  
6 average, this is in the period. This is the total  
7 additions during the time period.

8 Q. Okay.

9 A. And what we did is take these same numbers  
10 and calculate an average investment going into plant.

11 Q. Okay. Perhaps for the benefit of the record  
12 could we determine what your number is based on your  
13 Exhibit 445?

14 A. My number, which number, there's a lot of  
15 them?

16 Q. Yes, I'm looking for total T&D additions for  
17 the period October 2005 through June 2006. Now I took a  
18 stab at it, and I added lines 4, 8, 24, and 29.

19 A. Again, those are average monthly averages,  
20 you would have to go back into the pages behind the  
21 first page, and you can see each month's activity, and  
22 adding those up would come to \$145 Million. Like if you  
23 go back to page 8.

24 Q. Okay, and that was \$145 Million?

25 A. That's what she has here.

0797

1 Q. Oh, I see.

2 A. So you have on page 8, you have \$78 Million,  
3 7 of electric distribution and \$7 Million of  
4 transmission if you look under the June column, and I'm  
5 doing this -- I haven't added these up to make sure,  
6 well, if you have added these up to make sure, they  
7 total 145, I'm not sure I'm picking the right pages.

8 Q. Okay.

9 A. But these are where you will find the  
10 additions laid out in a monthly format, and then we took  
11 the average monthly averages of these, and that should  
12 tie into the \$145 Million.

13 Q. Okay. Now bearing in mind that \$145 Million  
14 figure, is it true that over half of that amount, over  
15 half of the amount which is -- let me start over.

16 The \$145 Million is the total increase in T&D  
17 plant for that period, the net amount is the \$127  
18 Million figure; is that correct?

19 A. The \$145 Million is not the total T&D for  
20 that time period, it's the total T&D associated with the  
21 non-revenue producing transmission and distribution, and  
22 the \$127 Million is the \$145 Million minus the  
23 retirements shown in the second column.

24 Q. Okay. But of the \$127.4 Million, almost two  
25 thirds of that amount -- strike that.

0798

1                   Comparing that \$127.4 Million to the total  
2 change in accumulated depreciation T&D plant, which we  
3 discussed earlier of \$81.6 Million, that that \$81.6  
4 Million is over half of the amount shown on Ms. McLain's  
5 table; is that correct?

6           A.       That's because you're taking accumulated  
7 depreciation on all transmission and distribution. If  
8 it included all transmission and distribution for this  
9 time period, it would have been \$261 Million, and that's  
10 in my testimony, my rebuttal testimony.

11       Q.       Okay.

12       A.       Tells you the end of period versus AMA of all  
13 those different amounts. So the \$145 Million is just a  
14 subset of the total T&D, and you took total T&D  
15 accumulated depreciation.

16       Q.       All right. And what was the number again  
17 that you gave?

18       A.       It's approximately \$261 Million.

19       Q.       Okay.

20       A.       I believe it's, I don't know, it's in my  
21 rebuttal testimony on page -- actually, I think I have  
22 the wrong testimony, four sets of testimony here, it may  
23 have been my surrebuttal testimony.

24                   On page 4 of Exhibit 746 on line 7 there's  
25 \$158.7 Million of transmission distribution plant

0799

1 electric and \$103.7 Million in total for gas plant.

2 MR. FURUTA: Thank you very much, Mr. Story.

3 And thank you, Commissioners and Judge, for  
4 your indulgence on those numbers, appreciate that.

5 JUDGE MOSS: All right, do we have any  
6 questions for Mr. Story from the Bench?

7 All right, Mr. Story, that -- oh, I should  
8 ask if there's any redirect.

9 MS. DODGE: No.

10 JUDGE MOSS: All right, Mr. Story, that would  
11 complete your examination, we appreciate you being here  
12 today to give your testimony, you may step down.

13 THE WITNESS: Thank you.

14 JUDGE MOSS: That also brings us to the  
15 conclusion of our witnesses for the day. Let me ask if  
16 there is any point that the parties wish to raise while  
17 the Commissioners remain on the Bench, I have some  
18 housekeeping with you.

19 MR. CEDARBAUM: Your Honor, I have just one  
20 clarifying point. I wasn't sure, the Company this  
21 morning passed out some responses to Bench Requests, and  
22 I wasn't sure if those were automatically admitted or  
23 not, but we would ask, if they haven't been, we would  
24 ask the Commission to hold that in abeyance until we  
25 have had a chance to review the responses and determine

0800

1 if they have been responsive or not.

2 JUDGE MOSS: I consider that housekeeping.

3 Anything else? I was going to raise that as a matter of  
4 fact.

5 All right, well, then with that, I think the  
6 Commissioners can return to their offices if they wish,  
7 and we will take care of our housekeeping, and then we  
8 will end the day.

9 A couple of things, and Mr. Cedarbaum did  
10 anticipate one of those, and that is the treatment of  
11 the Bench Requests. We do anticipate making those  
12 exhibits of record. I will certainly give the parties  
13 an opportunity to review those responses so we can see  
14 if there's any question or comment or even objection,  
15 and we'll take that up on Monday. We will take care of  
16 that by the close of the hearing, it's my plan to do so  
17 anyway, so I hope we can get all of those responses, we  
18 have most of them, perhaps some will have to be  
19 exchanged tomorrow, but that will give counsel an  
20 opportunity to review them.

21 And while we're on the exhibit list, I think  
22 all of this is probably for PSE, there are -- let me  
23 just identify a number of exhibits where I have  
24 questions about the descriptions, and I will ask you to  
25 look at those and see if we need to be a bit more



0801

1 precise, or perhaps we even have some overlap that we  
2 want to eliminate, I'm not sure. Exhibit 184, just in  
3 my quick review as I was assembling this list appeared  
4 to be perhaps the same as DWH-3, JH-4 and 5, there  
5 probably are some differences that are not reflected in  
6 the titles of those exhibits, so if you would take a  
7 look at those and see if there is some further  
8 description that would distinguish them, or if they're  
9 the same let me know. The same thing with Exhibit 195.  
10 And I mentioned one earlier that on the PCA's I think we  
11 probably identified the problem there, but if you could  
12 look at those exhibits that have the same title, that is  
13 to say Exhibit A-1 to the PCA, if you could give me some  
14 further descriptors as appropriate to each one, then  
15 that would help us distinguish them in our exhibit list.

16 MR. FFITCH: Your Honor.

17 JUDGE MOSS: Yes.

18 MR. FFITCH: I also have an exhibit  
19 description item if I can mention that now. The Exhibit  
20 513 for Ms. Klumpp, that's her Exhibit 4 to her direct,  
21 was revised on August 23rd and submitted back on that  
22 date to the Commission and served on the parties, but I  
23 thought perhaps just for clarity the description should  
24 include a parenthetical revised August 23rd, 2006, and I  
25 hope that that's, you know, in the Commissioners'

0802

1 exhibit books.

2 JUDGE MOSS: All right.

3 MR. FFITCH: I can --

4 JUDGE MOSS: I will make that change.

5 MR. FFITCH: Thank you.

6 JUDGE MOSS: And that will give us the  
7 ability to check. And unfortunately I didn't flag it in  
8 here, perhaps somebody has picked up on the fact, there  
9 is an exhibit in here somewhere that has no description  
10 because I was unable to find a description for it, so if  
11 you are aware of that, here it is, 162 for Mr. Garratt,  
12 I simply have no description for it, so if you would  
13 provide me with one, Ms. Dodge, it doesn't have to be  
14 right now. I think that was the only one of that  
15 nature.

16 MS. DODGE: Your Honor, in the nature of  
17 housekeeping.

18 JUDGE MOSS: Yes.

19 MS. DODGE: I note that in the printout that  
20 I have shows the Russell series 521 through 527 of his  
21 Exhibits having been admitted, but PSE's Cross Exhibit  
22 Number 528, just wanted to make sure that's admitted.

23 JUDGE MOSS: Thank you, yes, those were done  
24 by stipulation and simply an oversight, so I will mark  
25 it as having been admitted on the 18th.

0803

1                   Anything else along these lines?

2                   MR. FFITCH: We have the public comment  
3 exhibit when you're ready, Your Honor.

4                   JUDGE MOSS: Do you have that ready to  
5 tender?

6                   MR. FFITCH: Yes.

7                   JUDGE MOSS: All right, well, let's go ahead  
8 and have that then, and I'm assuming that we can receive  
9 the compilation of public comments without objection, so  
10 it will be received.

11                   MR. FFITCH: Your Honor, this is the original  
12 and one copy for the Bench.

13                   JUDGE MOSS: Thank you.

14                   MR. FFITCH: And I have copies for the  
15 parties here which I can pass out.

16                   JUDGE MOSS: All right, if any of the parties  
17 want one they can indicate and Mr. ffitch will provide  
18 them with. There are strict limitations on how much  
19 weight you can carry on overseas flights.

20                   MS. DODGE: I'll keep that in mind.

21                   MR. FFITCH: We hope to give a lot of weight  
22 to this exhibit.

23                   JUDGE MOSS: It is quite heavy.

24                   All right, is there any other thing of this  
25 nature that we need to take care of, housekeeping

0804

1 matters?

2                   Anything any of the parties wish to raise  
3 with me?

4                   All right, I have one further thing, perhaps  
5 not all of you have had an opportunity yet to meet our  
6 new judge, Judge Patricia Clark, who has been sitting  
7 over here patiently this week participating in our  
8 hearing in a silent way. We have decided that on Monday  
9 Judge Clark will preside, so you will not be, well, you  
10 will see me, I will be sitting over there where she is,  
11 but I will not be on the Bench on Monday. And so that  
12 means that I must take this opportunity to express my  
13 appreciation to all of you for the fine job you have  
14 done thus far and to encourage you to continue that on  
15 Monday so that Judge Clark feels like similarly  
16 expressing her appreciation for your good work in the  
17 hearing room, so thank you all very much, and with that  
18 we will stand in recess until 9:30 Monday morning.

19                   (Hearing adjourned at 4:05 p.m.)

20

21

22

23

24

25