

1 BEFORE THE WASHINGTON STATE
 UTILITIES AND TRANSPORTATION COMMISSION
2 WASHINGTON UTILITIES AND)
 TRANSPORTATION COMMISSION,) DOCKETS UE-072300 and
3) UG-072301 (Consolidated)
 Complainant,)
4)
 vs.) Volume V
5) Pages 364 to 623
 PUGET SOUND ENERGY, INC.,)
6)
 Respondent.)
7 _____)

8 A hearing in the above matter was held on
9 September 3, 2008, from 9:30 a.m to 3:20 p.m., at 1300
10 South Evergreen Park Drive Southwest, Room 206,
11 Olympia, Washington, before Administrative Law Judge
12 ADAM E. TOREM and CHAIRMAN MARK H. SIDRAN and
13 COMMISSIONER PATRICK J. OSHIE and COMMISSIONER PHILIP B.
14 JONES.

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4	CHARLES W. KING		
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14	MICHAEL J. MAJOROS		
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21	LEE SMITH		
22	LS-1 TC	435	443
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1	GLENN A. WATKINS		
2	GAW-1 TC	435	443
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4	DEK-1 TC	437	443
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7	ROGER KOUCHI		
8	RK-1 T	438	443
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13	ROLAND C. MARTIN		
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15	DAVID C. PARCELL		
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1 E X H I B I T L I S T

2 BENCH EXHIBITS

3 B-1 Multiple Parties - Multiparty Settlement Re:
4 Electric Rate Spread and Electric Rate Design

5 B-2 Multiple Parties - Multiparty Settlement Re:
6 Natural Gas Rate Spread and Rate Design

7 B-3 Multiple Parties - Multiparty Settlement Re:
8 Emergency Response and Storm Preparedness

9 B-4 Multiple Parties - Partial Settlement Re:
10 Service Quality, Meter and Billing
11 Performance, and Low Income Bill Assistance

12 B-5 C Multiple Parties - Partial Settlement Re:
13 Electric and Natural Gas Revenue Requirements

14 B-6 PSE - Low Income Program Financial Information

15 B-7 PSE - Updated Revenue Models (Gas & Electric)

16 B-8 PSE - Confirmed Dates re: AURORA Data
17 (as originally set out in DEM-17)

18 Public Public Counsel - Public Comments (CD-ROM)

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20 JOINT TESTIMONY AND EXHIBITS RE STIPULATIONS

21 JT-3 T Kevin C. Higgins, David W. Hoff, Donald
22 Schoenbeck, Thomas E. Schooley, and Glenn A.
23 Watkins - Electric Rate Spread and Rate Design

24 JT-4 T Kevin C. Higgins, Donald Schoenbeck, Thomas E.
25 Schooley, Glenn A. Watkins, Stanley Gent, and

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1 Janet K. Phelps - Natural Gas Rate Spread and
2 Natural Gas Rate Design

3 JT-5 T Susan McLain, Greg J. Zeller and Douglas E.
4 Kilpatrick - Supporting Multiparty Settlement
5 on Emergency Response and Storm Preparedness

6 JT-6 T Susan McLain, Booga K. Gilbertson, Karl R.
7 Karzmar, Steven V. King and Barbara R.
8 Alexander - Supporting Partial Stipulation
9 Regarding Service Quality, Billing and
10 Metering Performance, and Low-Income Bill
11 Assistance

12 JT-7 T John H. Story, Karl R. Karzmar, Michael P.
13 Parvinen, Kevin C. Higgins and Michael J.
14 Majoros, Jr. - Joint Testimony Supporting
15 Partial Settlement Regarding Electric and
16 Natural Gas Revenue Requirements

17 PSE WITNESSES

18 C. RICHARD CLARKE, Director, Western U.S. Services,
19 Valuation and Rate Division, Gannett Fleming, Inc.

20 CRC-1 T Prefiled Direct Testimony re PSE's new
21 depreciation study of property in service as
22 of 12/31/2006

23 CRC-2 Witness Qualifications

24 CRC-3 Depreciation Study

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1 CRC-4 T Rebuttal Testimony disputing Mr. King on
2 certain depreciation issues and Mr. Weinman on
3 production plant service lives

4 CRC-5 Summary of Estimated Survivor Curves, Net
5 Salvage, Original Cost, Book Depreciation
6 Reserve and Calculated Annual Depreciation
7 Rates as of December 31, 2006

8 JEFFREY A. DUBIN, Pacific Economics Group, L.L.C.,
9 Adjunct Full Professor of Economics, UCLA Anderson
10 School of Management and Visiting Professor of Economics
11 at UC Santa Barbara

12 JAD-1 T Rebuttal Testimony contesting Staff's proposed
13 filtering of hydro-generation data; supporting
14 Staff's proposal to study and align PCA
15 sharing bands to reflect the asymmetrical
16 nature of power costs

17 JAD-2 Witness Qualifications
18 W. JAMES ELSEA, Financial Analysis Manager of Energy
19 Resources, PSE

20 WJE-1 HCT Prefiled Direct Testimony re modeling tools
21 and quantitative analyses in RFP process
22 (phases I and II in 2005 RFP)

23 WJE-2 Witness Qualifications

24

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1 WJE-3 HC Testimony re modeling tools and analyses used
2 to evaluate resources in 2005 RFP w/ multiple
3 appendices
4 WJE-4 HC Levelized Costs and Portfolio Benefits of
5 Various Resources
6 WJE-5 HC 20 Year Levelized Costs and Portfolio Benefits
7 of Various Resources
8 WJE-6 HC Levelized Costs--Coal and IGCC
9 WJE-7 HC Levelized Costs--Capacity Offers and 20 Year
10 Portfolio Benefit
11 WJE-8 HC Levelized Costs--PPAs and 20 Year Portfolio
12 Benefit
13 WJE-9 HC Graph of Portfolio Benefit/Portfolio Ratio
14 WJE-10 HC Bar Graph of Levelized Costs (\$/MWh)--Various
15 Resources
16 WJE-11 C Annual Sumas Natural Gas Prices
17 WJE-12 HC March 2007 Portfolio Screening Model Results
18 WJE-13 C Comparison in Nominal \$/MWh, Annual Sumas
19 Natural Gas Prices vs. Annual Mid C Power
20 Prices
21 WJE-14 HC E-mail String of May 1, 2007 re Powerex PPA
22 WJE-15 PSM Model Change
23 WJE-16 C Whitehorn 2&3 Analysis of Lessor's Offer To
24 Sell, November 17, 2003
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1 WJE-17 HC Whitehorn 2&3 Analysis of Lessor's Letter of
2 Intent dated April 27, 2006, subsequent
3 counteroffers and other alternatives
4 WJE-18 HC Prudency Analysis--Whitehorn
5 WJE-19 C Summary Comparison of Replacement Energy
6 Offers - Rounds 1 & 4 of Bidding
7 WJE-20 HC Bid Comparison
8 WJE-21 Goldendale Board of Directors
9 Presentation--Comparison of Various Resources
10 WJE-22 HC Summary of Adjustments to Goldendale Price to
11 Estimated Sumas Plant Value
12 WJE-23 C Portfolio Benefit vs. Benefit Ratio--Portfolio
13 Screening Model 10-2
14 DONALD E. GAINES, Vice President Finance & Treasurer,
15 PSE
16 DEG-1 T Prefiled Direct Testimony re capital structure
17 and overall ROR proposing an equity ratio of
18 45% and a 10.8% ROE (per Morin) contributing
19 to an overall ROR of 8.60%
20 DEG-2 Witness Qualifications
21 DEG-3 Stock Purchase Agreement, October 25, 2007
22 DEG-4 Summary of Rate Cases Decided Between 1/1/2006
23 and 9/30/2007
24 DEG-5 C Utility Capital Structure and Cost of Capital
25 Calculations

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1 DEG-6 Moody's Release on Puget Energy, October 29,
2 2007
3 DEG-7 S&P Release on Puget Energy, October 29, 2007
4 DEG-8 CT Rebuttal Testimony on cost of capital
5 DEG-9 PSE's Response to Staff DR 189
6 DEG-10 Summary of Rate Cases Decided Between 1/1/2006
7 and 3/31/2008
8 DEG-11 PSE Response to Public Counsel DR 24
9 DEG-12 PSE Ratemaking Capital Structure
10 DEG-13 Transcript Excerpt, PSE 2004-05 GRC, Dockets
11 UG-040640 et al (Examination of Stephen G.
12 Hill)
13 DEG-14 Credit Spreads for Commercial Paper (PSE's
14 Commercial Paper Rates Less LIBOR)
15 DEG-15 Spread Between the CBBBO 30-Year Bond Rate and
16 30-Year Treasury Yield
17 DEG-16 PSE Earned Return on Equity
18 DEG-17 Attachment E to PSE's Response to Public
19 Counsel DR 12
20 DEG-18 PSE Capital Structure at Market Value of
21 Equity and PSE Stock Prices January 1, 2008 -
22 June 6, 2008
23 DEG-19 C PSE Utility Capital Structure, Cost of
24 Capital, and Rate of Return
25

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1 ROGER GARRATT, Director of Resource Acquisition and
2 Emerging Technologies, Energy Resource Group, PSE
3 RG-1 HCT Prefiled Direct Testimony re resource
4 acquisition activity (focus on qualitative
5 analysis; see Elsea for quantitative analysis)
6 RG-2 Witness Qualifications
7 RG-3 HC 2005 All-Source RFP Evaluation--Phase I
8 RG-4 HC PSE's Phase I Qualitative Evaluations of
9 Proposed Projects
10 RG-5 HC Draft Technical Review of Wind Power
11 Proposals--May 5, 2006
12 RG-6 HC PSE 2005 RFP Update Presentation to Commission
13 Staff, July 20, 2006
14 RG-7 HC 2005 All-Source RFP Evaluation--Phase II
15 RG-8 HC Phase II qualitative evaluations of projects
16 on the Candidate Short List
17 RG-9 HC Resource Acquisition Update--All-Source RFP
18 Short List Selections--Presentation to
19 Commission Staff 9/11/2006
20 RG-10HC Resource Acquisition Update--All-Source RFP
21 Short List Selections--Presentation to
22 Commission Staff 10/13/2006
23 RG-11 HC Klondike Wind Power III LLC 50 MW Wind Energy
24 20-Year PPA--Presentation to Energy Management
25 Committee 3/15/2007

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1 RG-12 HC Klondike III Wind Project-PPM Energy--Location
2 Relative to PSE Wind Projects
3 RG-13 HC PPA Between Klondike III Wind Power, LLC and
4 PSE
5 RG-14 WSPP Agreement--March 16, 2007
6 RG-15 HC Master Confirmation Agreement Under the WSPP
7 Agreement
8 RG-16 HC Confirmation Agreement Under the WSPP
9 Agreement
10 RG-17 HC Parent Company Guarantee
11 RG-18 HC Presentation to Energy Management Committee re
12 Resource Acquisition of a Seasonal PPA
13 RG-19 HC Presentation at Board of Director's Retreat,
14 August 3, 2007, re Renewable Resource
15 Acquisition
16 RG-20 C Hopkins Ridge Infill Project Costs
17 RG-21 C Hopkins Ridge Infill Project--Total Project
18 Capital Costs
19 RG-22 HC Wind Turbine Supply Agreement between PSE and
20 Vestas-American Wind Technology, Inc. for the
21 Dayton Wind Energy Project
22 RG-23 HC Expansion of Hopkins Ridge Project--Contract
23 Between PSE and RES America Construction, Inc.
24 RG-24 C Hopkins Ridge Expansion Project Summary for
25 2007 GRC

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1 RG-25 HC Presentation to Energy Management Committee re
2 7.2 MW Hopkins Ridge Wind Infill Project,
3 4/30/2007

4 RG-26 Lease Agreement of May 1, 1981, Between The
5 Bank of California, National Association and
6 Puget Sound Power & Light Company--Whitehorn 2
7 and 3 Combustion Turbine Electric Generating
8 Facility

9 RG-27 Second Amendment to Lease Agreement of May 1,
10 1981, Between The Bank of California, National
11 Association and Puget Sound Power & Light
12 Company--Whitehorn 2 and 3 Combustion Turbine
13 Electric Generating Facility

14 RG-28 C Whitehorn 2 and 3 Lease Renewal Analysis

15 RG-29 C Notice of Default (Whitehorn 2 and 3)

16 RG-30 C Purchase Agreement of 10/16/2006 Between
17 Public Service Resources Corporation and PSE

18 RG-31 FERC Order Authorizing PSE's Acquisition of
19 Generation Facility (Whitehorn 2 and 3) and
20 Merger--11/1/2006

21 RG-32 HC Presentation to Energy Management Committee re
22 Sumas--PPA Financial Concerns--3/15/2007

23 RG-33 HC Presentation to Energy Management Committee re
24 Sumas--PPA Financial Concerns--3/15/2007
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1 RG-34 HC Letter of 5/7/2007 from Charles Martin
2 (President, Sumas Energy) to Roger Garratt and
3 Ken Finicle (PSE) re Sumas Cogeneration
4 Company, LP Power Purchase Agreement
5 RG-35 HC Presentation to Energy Management Committee re
6 Sumas Default--June 11, 2007
7 RG-36 C PSE Term Sheet, Proposed Long Term Firm Power
8 Purchase--5/30/2007
9 RG-37 C PSE Term Sheet, Proposed Long Term Firm Power
10 Purchase--7/2/2007
11 RG-38 HC Letter Agreement of 8/30/2007 re Sumas
12 RG-39 HC Agreement for Waste Water Utility Services
13 Between City of Sumas and Sumas Cogeneration
14 Company
15 RG-40HC Wastewater Treatment Program Operating Costs
16 RG-41 HC Property Evaluation Report re NESCO
17 Cogeneration Plant, Sumas,
18 Washington--10/2/2007
19 RG-42 HC Sumas Facility--Stand Alone Financial Pro
20 Forma Assumptions and Notes
21 RG-43 HC Sumas Costs Summary
22 RG-44 HC Goldendale 297760 Compressor Incident
23 RG-45 HC Goldendale 297760 Compressor Repair
24 Options/Costs
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1 RG-46 HC Goldendale Compressor and Turbine Repair
2 Proposal
3 RG-47 HC GE-Goldendale Turbine Rotor Repair
4 Options--August 2007
5 RG-48 HC GE Maintenance Options for Goldendale
6 RG-49 C Correspondence Series Re Hopkins Ridge Wind
7 Power Facility Expansion and Wake Assessment
8 RG-50 C Notice of Construction of Marengo Wind Project
9 RG-51 C Wind Loss Settlement Agreement
10 RG-52 HC Wild Horse Wind Project--Total Project Capital
11 Costs
12 RG-53 T Prefiled Supplemental Testimony re purchase of
13 Sumas Cogeneration Station
14 RG-54 C Membership Interest Purchase and Sale
15 Agreement between Sumas Cogeneration Company,
16 L.P. and PSE, December 7, 2007
17 BOOGA K. GILBERTSON, Director, Performance Excellence,
18 PSE
19 BKG-1 T Rebuttal Testimony addressing metering issues
20 and retroactive billing
21 BKG-2 Witness Qualifications
22 BKG-3 Stopped Meter Process Guide
23 BKG-4 To-Be-Investigated Zero Consumption Gas and
24 Electric Meters, 12/7/2006 - 5/22/2008
25

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1 BKG-5 Unassigned Energy Usage Accounts that Exceed
2 Disconnect Steady State Thresholds January
3 2004 - April 2008
4 BKG-6 Data from March 17, 2008 Zero Consumption
5 Report
6 KIMBERLY J. HARRIS, Executive Vice President and Chief
7 Resource Officer, PSE
8 KJH-1 T Prefiled Direct Testimony presenting summary
9 of PSE's long-term electric supply portfolio,
10 changes to the portfolio since the 2007 PCORC,
11 and PSE's gas supply portfolio
12 KJH-2 Witness Qualifications
13 KJH-3 Map of PSE's Generation Resources
14 KJH-4 Least Cost Plan
15 KJH-5 Integrated Resource Plan
16 KJH-6 HC Resource Acquisition Update Presentation of
17 June 11, 2007
18 KJH-7 HC Resource Acquisition Update: What's Next?
19 Presentation of June 9, 2007
20 KJH-8 C Timelines for Snoqualmie Project
21 KJH-9 C Rebuttal Testimony re PCORC and PCA; disputing
22 Public Counsel's proposed cost disallowances
23 for Whitehorn and Goldendale, and for salaries
24 related to federal regulatory efforts
25

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1 CROSS-EXAMINATION EXHIBITS

2 KJH-10 Public Counsel - PSE Response to Public
3 Counsel Data Request No. 629

4 KJH-11 Public Counsel - PSE Response to Public
5 Counsel Data Request No. 808

6 KJH-12 Public Counsel - PSE Response to Public
7 Counsel Data Request No. 809

8 KJH-13 Public Counsel - PSE Response to Public
9 Counsel Data Request No. 810

10 KJH-14 Public Counsel - PSE Response to Public
11 Counsel Data Request No. 811

12 KJH-15 Public Counsel - PSE Response to Public
13 Counsel Data Request No. 812

14 KJH-16 Public Counsel - PSE Response to Public
15 Counsel Data Request No. 813

16 KJH-17 Public Counsel - PSE Response to Public
17 Counsel Data Request No. 814

18 KJH-18 Public Counsel - PSE Response to Public
19 Counsel Data Request No. 815

20 KJH-19 Public Counsel - Order No. 14 in Docket No.
21 UE-031725 Rejecting Tariff Filing, Authorizing
22 And Requiring Compliance Filing, And Requiring
23 PCA Account Adjustment

24 KJH-20 HC Public Counsel - Exhibit No. 52 HC in Docket
25 No. U-072375 PSE Response to WUTC Staff Data

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1 Request No. 1047 (excerpt) (Highly
2 Confidential)
3 KJH-21 C Public Counsel - Exhibit 76C in Docket No.
4 072375 - Prefiled Rebuttal Testimony of Eric
5 M. Markell on behalf of PSE in Docket No.
6 072375 dated July 2, 2008 (Confidential)
7 DAVID W. HOFF, Manager, Pricing and Cost of Service, PSE
8 DWH-1 T Prefiled Direct Testimony re electric cost of
9 service, rate spread, rate design, temperature
10 adjustment and basic charge
11 DWH-2 Professional Qualifications
12 DWH-3 C Electric Cost of Service--Derivation of Peak
13 Credit
14 DWH-4 Electric Cost of Service Summary--Adjusted
15 Test Year for 12 Months Ended September 2007 @
16 Pro Forma Revenue Requirement
17 DWH-5 Electric Rate Spread Summary
18 DWH-6 Summary of Basic Charges
19 DWH-7 Tariff Sheets
20 DWH-8 T Prefiled Supplemental Direct Testimony
21 Recalculating Average Rate Increase of All
22 Rate Schedules
23 DWH-9 REVISED Electric Rate Spread Summary
24 DWH-10 T Rebuttal Testimony re rate design; appropriate
25 costs to include in basic charge; impact of

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1 PSE's residential rate proposal on low income
2 customers; cost of service issues raised by
3 Mr. Watkins and Mr. Schoenbeck
4 DWH-11 PSE Response to Public Counsel DR 77
5 DWH-12 Residential Gas Customer Impacts Schedules 23
6 and 7
7 DWH-13 Monthly Differences-Bills of an Electric
8 Customer with an Above Average Usage Profile
9 DWH-14 Electric Cost of Service Summary--Adjusted
10 Test Year Twelve Months Ended September 2007
11 at Proforma Revenue Requirement--ICNU Summary
12 - DWS Work papers
13 DWH-15 Summary - Rate Spread
14 TOM M. HUNT, Director of Compensation, Benefits and
15 Payroll, PSE
16 TMH-1 T Prefiled Direct Testimony re wages and
17 incentive plans
18 TMH-2 Witness Qualifications
19 TMH-3 Employee Overview--Nonrepresented Total
20 Compensation
21 TMH-4 PSE Goals and Incentive Plan
22 TMH-5 C Historic Merit Increases
23 TMH-6 Executive Compensation
24 TMH-7 CEO - S. Reynolds Comparator Group 25th to
25 75th Percentile Total Comp Analysis; Top Ten

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1 Comparator Group 25th to 75th Percentile Total
2 Comp Analysis
3 TMH-8 C PSE Compared to Mercer Survey--Total Health
4 Benefit Cost per Employee per Year
5 TMH-9 T Rebuttal Testimony re executive and incentive
6 plan compensation
7 TMH-10 Listing of Publicly Traded Gas and Electric
8 Utilities - 2007 Scope and Reported CEO Pay
9 Data
10 TMH-11 Puget Energy, Inc. 10-K Summary Compensation
11 Table - Additional Views on Executive Total
12 Compensation
13 TMH-12 Trends in Executive Retirement Programs and
14 Change in Control Arrangements
15 TMH-13 CEO S. Reynolds - Comparator Group 25th to
16 75th Percentile Total Compensation Analysis
17 TMH-14 LTIP Estimated Accelerated Vesting for
18 Officers
19 MICHAEL L. JONES, Manager, Colstrip Project Operations &
20 Fuels, PSE
21 MLJ-1 CT Prefiled Direct Testimony re Colstrip
22 MLJ-2 Witness Qualifications
23 MLJ-3 C Powder River Basin Coal Supply Study
24 MLJ-4 C Pro Forma Coal Cost Estimates for Colstrip
25 Units 1&2

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1 MLJ-5 C PPL Montana--Fuel Receiving and Handling
2 Recommendations for Switching to Wyoming PRB
3 Coal
4 MLJ-6 C Colstrip 1& 2 Long Term Coal Supply Strategy
5 Steering Committee Meeting July 6, 2005
6 MLJ-7 C Colstrip 1 & 2 Future Coal
7 Supply--Presentation to Energy Management
8 Committee, August 18, 2005
9 MLJ-8 C Energy Resources Progress Report--Board of
10 Directors Meeting, July 13, 2006
11 MLJ-9 C Colstrip Units 1& 2 Coal Supply Review,
12 October 12, 2005
13 MLJ-10 C Powder River Basin Coal Demand and Price
14 Forecast prepared by Hill & Associates, Inc.,
15 2005
16 MLJ-11 C E-mail from M. L. Jones to E. Demeter et al,
17 11/11/2005 with attachments
18 MLJ-12 C Summary of Options
19 MLJ-13 C Coal Purchase and Sale Agreement
20 MLJ-14 Letter Agreement--Colstrip Steam Electric
21 Station Operating Limit
22 MLJ-15 T Rebuttal Testimony on Colstrip forced outage
23 rate and depreciation
24 MLJ-16 Staff Response to PSE DR 15
25

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1 KARL R. KARZMAR, Director of Regulatory Relations, PSE
2 KRK-1 T Prefiled Direct Testimony re gas results of
3 operations (revenue requirement), revision to
4 working capital calculation, allocation of
5 common expenditures between gas and electric,
6 and proposed change in manner of recovery of
7 Everett Delta Pipeline expansion costs
8 KRK-2 Professional Qualifications
9 KRK-3 Gas Income Statement for 12 Months Ended
10 9/30/2005 and 9/30/2007
11 KRK-4 Gas Results of Operations for 12 Months Ended
12 9/30/2007
13 KRK-5 Revenue Deficiency for 12 Months Ended
14 9/30/2007
15 KRK-6 Gas Results of Operations Unit Cost
16 KRK-7 T Supplemental Prefiled Direct Testimony
17 Updating Gas Rate Base and Revenue Requirement
18 KRK-8 Rate Base and Working Capital
19 KRK-9 REVISED Gas Results of Operations for 12
20 Months Ended 9/30/2007
21 KRK-10 REVISED Revenue Deficiency for 12 Months Ended
22 9/30/2007
23 KRK-11 T Rebuttal Testimony proposing revised gas
24 working capital and various restating and pro
25 forma adjustments to which PSE agrees;

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1 contesting other adjustments; revising gas
2 revenue deficiency to \$55,523,937
3 KRK-12 PSE Income Statement for Twelve Months Ended
4 September 30, 2005 and September 30, 2007
5 KRK-13 Revised Results of Operations for Gas
6 KRK-14 General Rate Increase Total Revenue
7 Requirement
8 KRK-15 Aircraft Log KingAir B200 - January - December
9 2007.
10 MATTHEW R. MARCELIA, Director of Tax, PSE
11 MRM-1 CT Rebuttal Testimony re federal income taxes
12 MRM-2 Witness Qualifications
13 MRM-3 C Puget Energy, Inc. Summary of 2006 Tax Return
14 MRM-4 C Puget Energy and Affiliated Companies Analysis
15 of Taxes Paid
16 MRM-5 PSE Response to Public Counsel DR 671
17 ERIC M. MARKELL, Executive Vice President and Chief
18 Financial Officer, PSE
19 EMM-1 CT Prefiled Direct Testimony summarizing the
20 Company's requested rate relief, describing
21 PSE's financial condition and need for
22 capital, providing progress report on PCORC
23 Collaborative including proposal for
24 rulemaking to consider forward-looking test
25 year, and other topics including depreciation,

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1 executive compensation, low income, and
2 proposed merger transaction
3 EMM-2 Witness Qualifications
4 EMM-3 Business Plan Update and Review--October 19,
5 2007 Board of Directors Meeting
6 EMM-4 Utility Environment--Industry Capital
7 Requirements
8 EMM-5 PSE Return on Equity 2002 through 2008
9 EMM-6 Soliel Equity Research Company Update--Puget
10 Energy -- January 8, 2007
11 EMM-7 UBS Investment Research--Puget Energy Inc. --
12 January 8, 2007
13 EMM-8 KeyBanc Capital Markets--Puget Energy Inc. -
14 December 14, 2005
15 EMM-9 KeyBanc Capital Markets--Puget Energy Inc. -
16 January 8, 2007
17 EMM-10 J. P. Morgan North America Equity
18 Research--Puget Energy - October 27, 2005
19 EMM-11 J. P. Morgan North America Equity
20 Research--Puget Energy - January 8, 2007
21 EMM-12 Moody's Investors Service--Storm Clouds Gather
22 on the Horizon for the North American Electric
23 Utility Sector, August 2007
24
25

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1 EMM-13 T Rebuttal Testimony providing general reaction
2 to Response Cases and overview of PSE's
3 rebuttal to various specific objections
4 EMM-14 Levelized Resource Cost Comparison
5 EMM-15 Comparison of Gas Prices - 2003, 2005, 2007 &
6 2009 IRPs
7 EMM-16 SNL Financial Article by Kathleen Hart: FERC
8 Warns of Rising Electricity Prices for Years
9 to Come, June 19, 2008
10 EMM-17 Presentation to FERC: Increasing Costs in
11 Electric Markets, June 19, 2008
12 EMM-18 IRS Notice giving interim guidance re tax
13 credit for electricity produced from certain
14 renewable resources
15 EMM-19 Correspondence from six members of Congress to
16 Eric Solomon Asst Secretary of Tax Policy,
17 U.S. Dept of Treasury, April 30, 2008
18 EMM-20 Correspondence on behalf of a coalition of
19 regulated utilities to Eric Solomon Asst
20 Secretary of Tax Policy, U.S. Dept of Treasury
21 and other officials, January 22, 2008
22 EMM-21 Correspondence dated June 9, 2008, responding
23 to April 30, 2008 Correspondence from six
24 members of Congress (Exh. EMM-19)
25 EMM-22 C PSE Return on Equity for Rate Year

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1 SUSAN MCLAIN, Senior Vice President Operations, PSE
2 SML-1 CT Prefiled Direct Testimony re need for
3 infrastructure investments
4 SML-2 Witness Qualifications
5 SML-3 2006 Combo Non-production/generation O&M Cost
6 per Customer
7 SML-4 The Brattle Group (M. Chupka and l
8 Basheda)--Rising Utility Construction Costs:
9 Sources and Impacts
10 SML-5 Organization Chart
11 SML-6 C PSE Projected Vegetation Management Expenses
12 2007 - 2012
13 SML-7 Guggenmoos, S. and Sullivan T.E., Outside
14 Right-of-Way Tree Risk Along Electrical
15 Transmission Lines
16 SML-8 Monthly Non-Storm SAIDI Tree and Non-Tree
17 Related Outages Comparison, 2002 - 2007
18 SML-9 Monthly Non-Storm SAIFI Tree and Non-Tree
19 Related Outages Comparison, 2002 - 2007
20 SML-10 2006 Electric Non-Production/Generation O&M
21 Cost per Customer
22 SML-11 C PSE O&M Statistics 2002-2008
23 SML-12 C T&D Capital Expenditures by
24 Category--Electrical and Gas Total
25 SML-13 C Contractor and Project Management

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1 SML-14 C T&D Capital Expenditures by Category--Electric
2 SML-15 C T&D Capital Expenditures by Category--Gas
3 SML-16 T Rebuttal Testimony re Service Quality
4 SML-17 Pacific Economics Group LLC - Service Quality
5 Regulation for Detroit Edison: A Critical
6 Assessment, March 2007
7 SML-18 2007 Customer Access Center Satisfaction and
8 Call Answer Performance Level Comparison
9 SML-19 PSE Response to Staff DR 190
10 SML-20 PSE's 2007 IRP, Chapter 7: Delivery System
11 Planning
12 SML-21 PSE Top 50 Worst Circuits Projects
13 SML-22 Attachment C to PSE's Response to Staff DR 81
14 SML-23 C PSE Response to Public Counsel DR 100
15 DAVID E. MILLS, Director, Energy Supply & Planning, PSE
16 DEM-1 CT Prefiled Direct Testimony re power costs and
17 risk management, including activities related
18 to Renewable Energy Credits (I-937) and Carbon
19 Financial Instruments
20 DEM-2 Professional Qualifications
21 DEM-3 CT Additional Testimony re Portfolio Risk
22 Management
23 DEM-4 C Energy Cost Risk Management
24 DEM-5 C Renewable Energy Credits
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1 DEM-6 2007 GRC Power Cost Projections Rate Year
2 AURORA + non-AURORA Power Costs 10.31.07 Model
3 Run
4 DEM-7 C WSPP Agreement Service Schedule C
5 -Confirmation--May 24, 2007 and presentation
6 to Energy Management Committee re same
7 DEM-8 C 2007 GRC vs. 2007 PCORC Power Cost Projections
8 DEM-9 T Supplemental Prefiled Direct Testimony
9 Updating Projected Power Costs
10 DEM-10 2007 GRC Power Cost Projections Rate Year
11 AURORA + non-AURORA Power Costs 4.8.08 Model
12 Run
13 DEM-11 C Updated vs. As-Filed Power Cost Projections
14 DEM-12 T Rebuttal Testimony re PCA; Colstrip outage
15 rate; water filtering adjustment; updating
16 power costs to reflect gas prices in GRCs and
17 PCORC proceedings; prudence of Transalta
18 Exchange Agreement
19 DEM-13 C Colstrip Forced Outage Adjustment
20 DEM-14 C Commission Staff Water Filtering Adjustment
21 Calculation - With Correction
22 DEM-15 C Gas Price Trends for 2007 GRC Rate Year -
23 Forward Prices Over Time - 01/01/07 - 06/13/08
24
25

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1 CROSS-EXAMINATION EXHIBITS

2 DEM-16 C Public Counsel - PSE Response to Public

3 Counsel Data Request No. 543(C)

4 DEM-17 ICNU - REVISED PCORC Procedural History

5

6 DEM-18 ICNU - PSE Response to ICNU Data Request 1.030

7 in Docket UE-070565 (2007 PCORC)

8 DEM-19 ICNU - Excerpt from Work Papers

9 ROGER A. MORIN, Emeritus Professor of Finance, Robinson

10 College of Business and Professor of Finance for

11 Regulated Industry at the Center for the Study of

12 Regulated Industry, Georgia State University; Principal,

13 Utility Research International

14 RAM-1 T Prefiled Direct Testimony re cost of capital

15 RAM-2 Professional Qualifications

16 RAM-3 Betas of Widely-Traded Investment-Grade

17 Utilities

18 RAM-4 Betas of the Companies in Moody's Electric

19 Utility Index

20 RAM-5 Betas of Investment-Grade Dividend-Paying

21 Western Electric Utilities as Reported on

22 Value Line

23 RAM-6 CAPM, Empirical CAPM

24 RAM-7 Historical Risk Premium for the Electric

25 Utility Industry Using Moody's Electric

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1 Utility Index as an Industry Proxy

2 RAM-8 Historical Growth in Earnings, Dividends and

3 Book Value Per Share of Utilities in Value

4 Line's Electric Utility Composite Group

5 RAM-9 Puget Energy, Inc.: DCF Analysis Value Line

6 Growth Forecasts

7 RAM-10 Investment-Grade Utilities Designated as

8 "Integrated" Utilities by S&P

9 RAM-11 Utilities Listed in RAM-10 After Eliminating

10 Foreign Companies, Private Partnerships,

11 Private Companies, Companies Below

12 Investment-Grade and Companies Without Value

13 Line Coverage

14 RAM-12 Utilities Listed in RAM-11 After Eliminating

15 Companies that do not Pay Dividends and

16 Companies with Market Capitalizations Less

17 Than \$500 Million

18 RAM-13 Final Proxy Group of Twenty-Five S&P

19 Integrated Utilities

20 RAM-14 DCF Analysis of S&P Integrated Utilities Proxy

21 Group Using Value Line Long-Term Earnings

22 Growth Forecasts

23 RAM-15 DCF Analysis of S&P Integrated Utilities Proxy

24 Group Using Analysts' Long-Term Earnings

25 Growth Forecasts

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1 RAM-16 DCF Analysis of Moody's Electric Utilities
2 Index Proxy Group Using Value Line Long-Term
3 Earnings Growth Forecasts
4 RAM-17 Analysis of Moody's Electric Utilities Index
5 Proxy Group Using Analysts' Long-Term Earnings
6 Growth Forecasts
7 RAM-18 Flotation Cost Allowance
8 RAM-19 Equity Ratio of Each Utility in the Proxy
9 Group of Twenty-Five S&P Integrated Utilities
10 RAM-20 T Rebuttal Testimony re Cost of Capital
11 RAM-21 Authorized Return on Equity of Each Utility in
12 Public Counsel's Proxy Group
13 RAM-22 Authorized Return on Equity of Each Utility in
14 ICNU's Proxy Group
15 RAM-23 Authorized Return on Equity of Each Utility in
16 Staff's Proxy Group
17 JANET K. PHELPS, Regulatory Consultant, Pricing and Cost
18 of Service, PSE
19 JKP-1 T Prefiled Direct Testimony re Gas Rate Schedule
20 Review (per UG-060267 GRC Order), pro forma
21 gas revenue, gas cost of service study, rate
22 spread and rate design
23 JKP-2 Witness Qualifications
24 JKP-3 Gas Rate Schedule Review Project Report,
25 November 2007

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1 JKP-4 Adjustments to Volume (Therms) by Rate
2 Schedule for Test Year ended September 30,
3 2007
4 JKP-5 2007 Gas Cost of Service Study--Proposed Test
5 Year Without Gas--Summary
6 JKP-6 2007 Gas Cost of Service Study--Proposed Test
7 Year With Gas--Summary
8 JKP-7 Account Detail by Classification and Rate
9 Class
10 JKP-8 Account Inputs
11 JKP-9 External Allocators
12 JKP-10 Allocation of Revenue Deficiency by Rate Class
13 JKP-11 Comparison of Residential Basic Charges of Gas
14 Distribution Companies
15 JKP-12 Estimated Monthly Bill Impacts, Schedule 23,
16 Current and Proposed rates
17 JKP-13 Revised Tariff Sheets
18 JKP-14 T Prefiled Supplemental Direct Testimony
19 Updating Gas Pro Forma Revenue and Rate Spread
20 JKP-15 REVISED Adjustments to Revenue by Rate
21 Schedule
22 JKP-16 REVISED Allocation of Revenue Deficiency to
23 Rate Classes
24 JKP-17 CT Rebuttal Testimony on cost of service, rate
25 spread and rate design

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1 JKP-18 2007 Allocation of Account 376 Distribution
2 Mains
3 JKP-19 Nucor's Proposed Allocation of Account 376
4 Distribution Mains
5 JKP-20 2007 Gas Cost of Service Study - 85T and 87T
6 Separated - Proposed Test Year Without Gas
7 JKP-21 Estimated Monthly Impacts Assuming 60% Load
8 Factor - Schedule 41 - Current and Proposed
9 Rates
10 JOHN H. STORY, Director, Cost and Regulation, PSE
11 JHS-1 CT Prefiled Direct Testimony re electric results
12 of operations (revenue requirement),
13 allocation of common expenditures between
14 electric and gas, and update on PCORC
15 Collaborative
16 JHS-2 Professional Qualifications
17 JHS-3 Income Statement for 12 Months Ended 9/30/2005
18 and 9/30/2007
19 JHS-4 Results of Operations for 12 Months Ended
20 9/30/2007 - General Rate Increase
21 JHS-5 Electric General Rate Increase for 12 Months
22 Ended 9/30/2007
23 JHS-6 Electric Results of Operations
24 JHS-7 C Exhibit A-1: Power Cost Rate; Exhibit A-2:
25 Transmission Rate Base; Exhibit A-3: Colstrip

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1 Fixed Costs; Exhibit A-4: Production
2 Adjustment; Exhibit A-5: Power Costs; Exhibit
3 D: Regulatory Assets and Liabilities net of
4 Accumulated Amortization and Deferred Taxes
5 (PCA Periods) 2007 PCORC
6 JHS-8 C Settlement Terms for PCA
7 JHS-9 T Prefiled Supplemental Direct Testimony
8 Updating Revenue Requirement and Calculating
9 Supplemental Electric Revenue Deficiency
10 JHS-10 Rate Base and Working Capital
11 JHS-11 REVISED Results of Operations for 12 Months
12 Ended 9/30/2007 - General Rate Increase
13 JHS-12 REVISED Electric General Rate Increase for 12
14 Months Ended 9/30/2007
15 JHS-13 C REVISED Exhibit A-1: Power Cost Rate; Exhibit
16 A-2: Transmission Rate Base; Exhibit A-3:
17 Colstrip Fixed Costs; Exhibit A-4: Production
18 Adjustment; Exhibit A-5: Power Costs; Exhibit
19 D: Regulatory Assets and Liabilities net of
20 Accumulated Amortization and Deferred Taxes
21 (PCA Periods) 2007 PCORC
22 JHS-14 T Rebuttal Testimony identifying restating and
23 pro forma adjustments with which PSE agrees;
24 explaining PSE disagreement with other
25 proposed adjustments; presenting revised

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1 revenue requirement for electric of
2 \$165,059,154; revising PCA Power Cost
3 Baseline; addressing concerns about PCA and
4 PCORC; agreeing with some Staff proposed
5 changes to PCORC
6 JHS-15 Revised Results of Operations for Electric
7 JHS-16 GRC Revenue Requirement Deficiency
8 JHS-17 C Revised PCA Exhibit A-1 - Power Cost Rate
9 JHS-18 PSE Response to Public Counsel DR 318
10 JHS-19 Storm Flow-Thru vs. Normalized Tax
11 CROSS-EXAMINATION EXHIBITS
12 JHS-20 Public Counsel - PSE Response to Public
13 Counsel Data Request No. 631
14 JHS-21 Public Counsel - PSE Response to Public
15 Counsel Data Request No. 632
16 JHS-22 Public Counsel - REVISED PSE Response to
17 Public Counsel Data Request -No. 816
18 JHS-23 Public Counsel - PSE Response to Public
19 Counsel Data Request No. 817
20 JHS-24 Public Counsel - PSE Response to Public
21 Counsel Data Request No. 818
22 JHS-25 Public Counsel - PSE Response to Public
23 Counsel Data Request No. 819
24 JHS-26 Public Counsel - PSE Response to Public
25 Counsel Data Request No. 820

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1 JHS-27 ICNU - PCA Report August 14, 2008
2 JHS-28 ICNU - PCA Report November 15, 2005
3 JHS-29 ICNU - PSE Rate Increase History
4 WILLIAM M. STOUT, Chairman and CEO, Gannett Fleming,
5 Inc.
6 WMS-1 T Rebuttal Testimony on net salvage
7 WMS-2 Witness Qualifications
8 MIKE J. STRANICK, Assistant Controller, PSE
9 MJS-1 T Rebuttal Testimony describing PSE's
10 implementation of FAS 143-accounting for asset
11 retirement obligations and FASB Interpretation
12 No. 47; costs of removal
13 MJS-2 Witness Qualifications
14 MJS-3 Accounts Affected by the Implementation of FAS
15 143 on PSE's Financial Statements
16 MJS-4 Accounts Affected by the Implementation of FIN
17 47 on PSE's Financial Statements
18 MJS-5 PSE's Response to Public Counsel DR 243
19 MJS-6 FERC Docket FA84-2-000, Eastern Edison
20 Company, Order on Accounting Adjustment (July
21 5, 1984)
22 MJS-7 Correspondence dated Nov 22, 1991 from FERC
23 Chief Accountant to Counsel for Florida Power
24 Corp
25

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1 JAN A. UMBAUGH, CPA, Partner, Deloitte& Touche LLP
2 JAU-1 T Rebuttal Testimony discussing FAS
3 143-accounting for asset retirement
4 obligations and FASB Interpretation No. 47;
5 FERC Order No. 631 re accounting for asset
6 removal costs
7 GREG ZELLER, Director, Electric Operations, PSE
8 GJZ-1 T Prefiled Direct Testimony re catastrophic
9 storm damage in 2006 and 2007
10 GJZ-2 Witness Qualifications
11 GJZ-3 Cost Element Detail -- Summary of Storm
12 Events during 2006 and through Sept 2007
13 GJZ-4 Cost Element Detail - All Test Year Storms
14 GJZ-5 UTC Internal Memo--N Garcia to Commissioners,
15 March 29, 2007, RE Summary of the Public
16 Workshop of Utility Preparation, Response and
17 Recovery from the December 2006 Wind Storm,
18 Docket U-070067
19 GJZ-6 2006 Qualifying Storm Events Final Report,
20 December 13, 2006--Revised June 27, 2007
21 GJZ-7 Contractors Assisting the Double Whammy Storm
22 12/14/06-12/29/06
23 GJZ-8 Windstorm of December 14-15, 2006--Storm
24 Restoration & Readiness Review, July 2, 2007
25

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1 GJZ-9 KEMA After-Action Review of December 14-15,
2 2006 Windstorm--"Hanukkah Eve Windstorm of
3 2006" (November 28, 2007)
4 GJZ-10 T Rebuttal Testimony regarding recovery of storm
5 costs
6
7 SEATTLE STEAM
8 STANLEY GENT, President and CEO, Seattle Steam
9 SG-1 T Response Testimony contesting allocation of
10 distribution main costs in gas cost of service
11 study; rate spread and rate design as applied
12 to large industrial transportation customers
13 SG-2 Peak Day Load Forecast
14 SG-3 Excerpt (pp. 15 and 16) from testimony of
15 Janet K. Phelps for PSE in UE-060266 and
16 UG-060267
17 SG-4 Allocation of Account 376, 2001, 2004, 2006
18 and 2007 Rate Cases
19 SG-5 Allocation of Account 376 Plant in Service
20 2001, 2004, 2006 and 2007 General Rate Cases
21 SG-6 Allocation of Account 376 Plant in Service
22 2001, 2004, 2006 and 2007 General Rate Cases
23 w/o Schedule 57 Migration to Schedules 85T and
24 87T for 2007
25 SG-7 PSE Response to Seattle Steam DR 017

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1 SG-8 PSE Response to NWIGU DR 016
2 SG-9 Allocation of Account 376 Plant in Service
3 2001, 2004, 2006 and 2007 General Rate Cases
4 Supplemented with 2004 Method Applied to 2007
5 SG-10 Gas Rate Schedule Review--Schedule 57
6 (Transportation), May 17, 2007
7 SG-11 Gas Rate Schedule Review--Schedule 87
8 (Non-exclusive Interruptible with Firm
9 Option), April 24, 2007
10
11 KROGER
12 KEVIN C. HIGGINS, Principal, Energy Strategies LLC
13 KCH-1 T Response Testimony supporting PSE Cost of
14 Service Study; supporting rate spread and rate
15 design for Electric Schedules 25 and 26 at
16 PSE's Requested Revenue Requirement; include
17 domestic production activities tax deduction,
18 which reduces revenue requirement by
19 \$2,474,781
20 KCH-1 T A Attachment A: Witness Qualifications
21 KCH-1 Kroger Recommended Spread Approach Assumes
22 WUTC Ordered Increase of \$125 Million System
23 Average Revenue Increase
24 KCH-2 Estimated Revenue Requirement Impact Assuming
25 Domestic Production Activities Deduction was

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1 Included in PSE's Requested \$179.7 Revenue
2 Increase
3 KCH-3 T Cross-Answering Testimony responding to cost
4 of service and rate spread issues discussed in
5 Glenn A. Watkins's testimony for Public
6 Counsel
7 KHC-4 Comparison of PSE/Staff/Kroger vs. Public
8 Counsel Rate Spread Proposal Impacts on ROR
9 Index Using Public Counsel's Recommended
10 Cost-of-Service Study at PSE's Initially
11 Requested \$174.8M Increase
12
13 NUCOR STEEL
14 KEVIN C. HIGGINS, Principal, Energy Strategies LLC
15 KCH-1 T Response Testimony contesting gas cost of
16 service study (allocation of distribution main
17 costs); rate spread and rate design for
18 Schedules 57 and 87
19 KCH-1 Nucor Recommended Gas Cost of Service Study
20 Approach--PSE Average Demand Allocation
21 Modified to Reflect Direct Assignment of Small
22 Distribution Mains--Summary at PSE's \$58.1
23 Million Requested Revenue Increase
24 KCH-2 Nucor Proposed Rate Spread at PSE's \$58.1
25 Million Requested Revenue Increase

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1 KCH-3 Nucor Recommended Rate Spread
2 Approach--Example Assuming WUTC Ordered 30.9
3 Million Revenue Increase
4 KCH-4 Attachment A: Witness Qualifications
5
6 NWIGU
7 DONALD W. SCHOENBECK, Member, Regulatory & Cogeneration
8 Services, Inc. (RCS)
9 DWS-1 T Response Testimony contesting gas cost of
10 service study (allocation of distribution main
11 costs); rate spread and rate design for
12 industrial customers
13 DWS-2 Witness Qualifications
14 DWS-3 PSE 2007 Gas Cost of Service Study--Proposed
15 Test Year Without Gas--PSE Study-Existing
16 Customer Classification
17 DWS-4 PSE Derivation of Peak-Average Allocation
18 Factor for Mains
19 DWS-5 Existing Customer Classification--Mains on AWD
20 DSW-6 Comparison of PSE and DWIGU Rates for
21 Schedules 85, 87 and 57
22 ICNU
23 DONALD W. SCHOENBECK, Member, Regulatory & Cogeneration
24 Services, Inc. (RCS)
25 DWS-1 T Response Testimony opposing PCORC

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1 continuation; allocation of costs to
2 Transportation Schedules 449 and 459;
3 Transportation Customer Rate Design
4 DWS-2 Witness Qualifications
5 DWS-3 Electric Cost of Service Summary--ICNU Study
6 for Deriving Cost-Based Transportation Rates
7 DWS-4 T Cross-Answering Testimony
8 MICHAEL P. GORMAN, Managing Principal, Brubaker &
9 Associates, Inc.
10 MPG-1 T Response Testimony re Cost of Capital
11 recommending ROE of 10.12% and overall ROR of
12 8.30%
13 MPG-2 Witness Qualifications
14 MPG-3 Regulatory Capital Structure
15 MPG-4 Revised Short-Term Debt Projection--Blue Chip
16 Financial 3-Month LIBOR
17 MPG-5 Proxy Group
18 MPG-6 Growth Rate Estimates
19 MPG-7 Constant Growth DCF Model
20 MPG-8 U.S. Economic Growth is Linked to Electricity
21 Growth
22 MPG-9 GDP and Dividend Growth Rates
23 MPG-10 Current and Projected Payout Ratios
24 MPG-11 Internal Growth Rate
25 MPG-12 Two-Stage Growth DCF Model

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1	MPG-13	Electric Common Stock Market/Book Ratio
2	MPG-14	Equity Risk Premium--Treasury Bond
3	MPG-15	Equity Risk Premium--Utility Bond
4	MPG-16	Utility-Treasury Spreads
5	MPG-17	Utility Bond Yields
6	MPG-18	Beta
7	MPG-19	SNL Electric Company - 12/31/1998 - 12/31/2007
8		Stock Price Performance
9	MPG-20	CAPM
10	MPG-21	S&P Credit Rating Financial Ratios
11		Financial Capital Structure
12		Off-Balance Sheet Debt
13	MPG-22	Western Utility Proxy Group Value Line Betas
14		Moody's Electric Utility Index Value Line
15		Betas
16		Integrated Utility Proxy Group Value Line
17		Betas
18	MPG-23	Integrated utilities Proxy Group Value Line
19		Earnings Growth (Two-Stage DCF Analysis)
20		Integrated Utilities Proxy Group Zack's Growth
21		(Two-Stage DCF Analysis)
22		Moody's Electric Utilities Value Line Earnings
23		Growth (Two-Stage DCF Analysis)
24		Moody's Electric Utilities Zacks Growth
25		(Two-Stage DCF Analysis)

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1 FEA

2 RALPH C. SMITH, CPA and Senior Regulatory Utility

3 Consultant, Larkin & Associates, PLLC

4 RCS-1 T Response Testimony re storm damage cost

5 recovery; wire zone vegetation management

6 expense

7 RCS-2 Witness Qualifications

8 RCS-3 PSE Electric Storm Damage during test year

9 RCS-4 Wire Zone Vegetation Management during the

10 test year

11 RCS-5 T Cross-Answering Testimony responding to

12 Mr. Kermod's testimony re storm damage cost

13 amortization (previously marked as RCS-2T)

14 RCS-6 Storm Damage Costs (previously marked as

15 RCS-3r)

16

17 PUBLIC COUNSEL

18 BARBARA R. ALEXANDER, Consumer Affairs Consultant

19 BRA-1 TC Response Testimony re storm damage costs;

20 failure to meet Service Quality Index;

21 incentive pay for executives; increased fixed

22 customer charges; low income funding; meter

23 reading failures and back-billing policies

24 BRA-2 Witness Qualifications

25 BRA-3 PSE SQI Performance

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1 BRA-4 PSE Response to PC DR 060 (monthly customer
2 charges)
3 BRA-5 PSE Response to PC DR 483
4 STEPHEN G. HILL, Financial Consultant and Principal,
5 Hill Associates
6 SGH-1 THC Response Testimony re Cost of Capital (43%
7 equity at 9.25% ROE; 7.86% overall ROR)
8 SGH-2 Witness Qualifications
9 SGH-3 Arithmetic and Geometric Averages
10 SGH-4 Sustainable Long-Term Growth
11 SGH-5 Sample Company Growth Rate Analyses
12 SHG-6 Corroborative Equity Capital Cost Estimation
13 Methods
14 SGH-7 PSE Recent Historical Capital Structure
15 SGH-8 PSE Electric Utility Sample Group Selection
16 SGH-9 DCF Growth Rate Parameters
17 SGH-10 DCF Growth Rates
18 SGH-11 Stock Prices, Dividends, Yields
19 SGH-12 DCF Cost of Equity Capital
20 SGH-13 CAPM Cost of Equity Capital
21 SGH-14 Proof
22 SGH-15 Modified Earnings-Price Ratio Analysis
23 SGH-16 Market-To-Book Ratio Analysis
24 SGH-17 Overall Cost of Capital

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1 CHARLES W. KING, President, Snavely King Majoros
2 O'Connor & Lee, Inc. (Snavely King)
3 CWK-1 T Response Testimony re Depreciation
4 CWK-2 Professional Qualifications
5 CWK-3 Professional Qualifications
6 CWK-4 Electric Depreciation and Cost of Removal
7 Rates and Accruals Based on December 31, 2006
8 Plant Balances
9 CWK-5 Gas Depreciation and Cost of Removal Rates and
10 Accruals Based on December 31, 2006 Plant
11 Balances
12 CWK-6 PSE Response to PC DR 642 re coal supply from
13 Rosebud Mine
14 CWK-7 PSE Response to PC DR 646 re Colstrip capacity
15 contracts
16 CWK-8 Snavely King National Study of Other
17 Production Unit Lives-2006 Update (steam
18 plant)
19 CWK-9 Snavely King National Study of Other
20 Production Unit Lives-2006 Study (combustion
21 turbine)
22 MICHAEL J. MAJOROS, Jr., Vice President, Snavely King
23 Revised July 21, 2008
24 MJM-1 TC Response Testimony re Revenue Requirement
25 (Various Adjustments)

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1 MJM-2 Witness Qualifications
2 MJM-3 Witness Qualifications
3 MJM-4 Comparative Overall Financial Summary -
4 Electric--Test Year Ending September 30, 2007.
5 (PC Recommendations and Adjustments)
6 MJM-5 C Consolidated Tax Adjustment
7 MJM-6 Excerpt from PSE's December 31, 2007 SEC Form
8 10-K Showing Executive Compensation
9 LEE SMITH, Managing Consultant and Senior Economist, La
10 Capra Associates
11 LS-1 TC Response Testimony on PCORC/PCA
12 LS-2 Witness Qualifications
13 LS-3 Schedule C--Gross PCA Roll Forward & Sharing
14 Provision, UE-011570--PCORC Changes (PCA
15 results without PCORC filings)
16 GLENN A. WATKINS, Principal and Senior Economist,
17 Technical Associates, Inc. (Revised Testimony June 23,
18 2008)
19 GAW-1 TC Response Testimony re Cost of Service, Rate
20 Spread and Rate Design
21 GAW-2 Witness Qualifications
22 GAW-3 Electric COS with Revised Calculation of
23 Income Taxes
24
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1 GAW-4 C PSE Single Cycle Combustion Turbine Hours of
2 Dispatch--Generating Units--Time Period 7/1/06
3 - 6/3/07
4 GAW-5 Classification of Generation Plant--Scenario A
5 GAW-6 Public Counsel Electric Class COS Study
6 Summary
7 GAW-7 PSE and Public Counsel Electric Revenue
8 Distribution Proposals
9 GAW-8 Electric Residential Customer Costs (@ PSE
10 Proposed ROE)
11 GAW-9 Example of Flow Analysis
12 GAW-10 Public Counsel Gas COS Study Summary
13 GAW-11 PSE and Public Counsel Gas Revenue
14 Distribution Proposals
15 GAW-12 Natural Gas Residential Customer Costs (@ PSE
16 Proposed ROE)
17 GAW-13 Natural Gas Residential Customer Costs (O&M +
18 Depreciation Based)
19
20 COMMISSION STAFF
21 ALAN P. BUCKLEY, Senior Policy Strategist, UTC
22 APB-1 T Response Testimony re Power Costs
23 APB-2 Summary of Net Power Supply Expense
24 Adjustments
25

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1 APB-3 C Calculation of Colstrip Forced Outage Rate
2 Adjustment
3 APB-4 C Calculation of Water Filter Adjustment
4 JOANNA HUANG, Regulatory Analyst, UTC
5 JH-1 T Response Testimony re Incentive Pay and
6 Officer Compensation
7 JH-2 PSE Incentive/Merit Payouts from 2004 to
8 2007--Four Year Average as of December 31,
9 2007
10 DANNY P. KERMODE, Regulatory Analyst, UTC
11 DPK-1 T Response Testimony re Investor Supplied
12 Working Capital (ISWC) and Storm Damage
13 Amortization
14 DPK-2 Schedule of ISWC
15 DPK-3 Amortization of Catastrophic Storms
16 DOUGLAS E. KILPATRICK, Energy Engineer 3, WA Dept of
17 General Administration (former Senior Regulatory
18 Engineering Specialist, UTC)
19 DEK-1 TC Response Testimony re Prudence of Generating
20 Resource Acquisitions; KEMA Report and PSE
21 Response
22 DEK-2 Open Meeting Memo of 10/25/2007 re Hanukkah
23 Eve Windstorm KEMA Report
24
25

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1 DEK-3 Memo of 1/30/2008 re Staff Summary of PSE's
2 Response to KEMA's December 2006 Windstorm
3 Report
4 ROGER KOUCHI, Regulatory Analyst, UTC
5 RK-1 T Service Quality Index
6 RK-2 Gas Company Complaints per 1000 Customers
7 RK-3 Electric Company Complaints per 1000 customers
8 RK-4 Exhibit A to PSE's 2005, 2006 and 2007 Annual
9 SQI Reports
10 RK-5 PSE's Service Quality Program-Service Provider
11 Report (Docket Nos. UE-011570 and UG-011571)
12 for 2005, 2006 and 2007
13 ROLAND C. MARTIN, Regulatory Analyst, UTC
14 RCM-1 T Response Testimony re Adjustment to Electric
15 Results of Operations (Power Costs;
16 Miscellaneous Expense and Revenue; Revised
17 Production Adjustment); Gas Results of
18 Operations (Miscellaneous Operating Expenses);
19 PCORC Modifications
20 DAVID C. PARCELL, President and Senior Economist,
21 Technical Associates, Inc.
22 DCP-1 T Response Testimony on Cost of Capital
23 DCP-2 Analyses Supporting Cost of Capital
24 Recommendations--Schedules 1 - 15
25

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1 DCP-3 Moody's and Standard and Poor's Recent
2 Descriptions of PSE and Announcements to
3 Proposed Acquisition of PSE by Macquarie
4 Infrastructure Partners Consortium
5 MICHAEL P. PARVINEN, Assistant Director of Energy, UTC
6 MPP-1 T Response Testimony re PCORC/PCA; Future Test
7 Year Rulemaking
8 MPP-2 T Cross-Answering Testimony
9 THOMAS E. SCHOOLEY, Regulatory Analyst, UTC
10 TES-1 T Response Testimony re Adjustments for Meter
11 Malfunctions; Revenue Allocation and Rate
12 Design
13 TES-2 Unassigned Meters Sample
14 TES-3 Zero Consumption Meters, Investigations, and
15 Billing Corrections
16 TES-4 Retroactive Billing and Discounts
17 TES-5 Staff Revenue Allocation-Electric
18 TES-6 Staff Revenue Allocation-Gas
19 WILLIAM H. WEINMAN, Regulatory Analyst, UTC
20 WHW-1 T Response Testimony re Electric and Gas Revenue
21 Requirements; Depreciation; Baker River
22 Relicensing and Crystal Mountain Diesel Spill
23 WHW-2 Electric Results of Operations and Revenue
24 Requirement
25 WHW-3 Coal Additions and Plant Retirement by Year

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1 WHW-4 Dept. of Ecology Notice of Penalty for Crystal
2 Mountain Diesel Spill of November 2006
3 WHW-5 Gas Results of Operations and Revenue
4 Requirement
5 WHW-6 T Supplemental Testimony--Revenue Requirement
6 Corrections
7 WHW-7 Revised Electric Revenue Requirements
8 WHW-8 Revised Gas Revenue Requirements

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

2 JUDGE TOREM: Good morning, we're ready to
3 begin the settlement hearing in Docket UE-072300 and
4 UG-072301. This is the Washington Utilities and
5 Transportation Commission versus Puget Sound Energy,
6 it's the general rate case for both electric and natural
7 gas. My name is Adam Torem, and I'm the Administrative
8 Law Judge presiding in today's settlement hearing.

9 On our agenda today are five separate
10 settlements that are proposed by various parties in this
11 case and then some cross-examination on the power cost
12 only rate case, the PCORC methodology, and we hope to
13 get through all of that in one day.

14 To move right along, I want to take
15 appearances from all the parties in a short form, and
16 we'll start with the Company.

17 MS. CARSON: Good morning, Sheree Strom
18 Carson with Perkins Coie representing Puget Sound
19 Energy.

20 JUDGE TOREM: Commission Staff.

21 MR. CEDARBAUM: Thank you, Your Honor, Robert
22 Cedarbaum, Assistant Attorney General, appearing for
23 Commission Staff.

24 JUDGE TOREM: And Public Counsel.

25 MR. FFITCH: Simon ffitch, Assistant Attorney

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1 General for Public Counsel.

2 JUDGE TOREM: All right, we have a variety of
3 other interveners who are present here today, for
4 Industrial Customers of Northwest Utilities or ICNU.

5 MR. VAN CLEVE: Yes, Your Honor, Brad Van
6 Cleve representing ICNU.

7 JUDGE TOREM: All right, thank you, Mr. Van
8 Cleve.

9 For Northwest Industrial Gas Users.

10 MR. STOKES: Good morning, this is Chad
11 Stokes for the Northwest Industrial Gas Users.

12 JUDGE TOREM: Thank you, Mr. Stokes.

13 For Seattle Steam.

14 MS. SPENCER: Good morning, this is Elaine
15 Spencer for Seattle Steam.

16 JUDGE TOREM: Good morning, Ms. Spencer.

17 Kroger Company.

18 MR. BOEHM: Good morning, Your Honor, Kurt
19 Boehm for Kroger.

20 JUDGE TOREM: And for the Federal Executive
21 Agencies or FEA.

22 MR. FURUTA: Good morning, Norman Furuta for
23 the consumer interests of the Federal Executive
24 Agencies.

25 JUDGE TOREM: For the Energy Project.

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1 MR. ROSEMAN: Good morning, Ronald Roseman
2 representing the Energy Project.

3 JUDGE TOREM: And I believe appearing by
4 phone for Nucor Steel.

5 MR. XENOPOLOUS: Damon Xenopolous, Your
6 Honor.

7 JUDGE TOREM: All right, Mr. Xenopolous,
8 thank you very much.

9 MR. XENOPOLOUS: Thank you.

10 JUDGE TOREM: Are there any other parties
11 that I may have overlooked?

12 All right, seeing none, then I want to turn
13 our attention to the evidentiary record. Judge Moss
14 yesterday circulated an updated exhibit list, and
15 apparently there's been a stipulation from all the
16 parties that prefiled exhibits as now numbered on this
17 including the five Bench exhibits have been stipulated
18 to their admissibility. We'll deal with
19 cross-examination exhibits as a separate item, but was
20 there any objection at all to anything that was on Judge
21 Moss's exhibit list that was not a cross-examination
22 item?

23 All right, seeing none, then the exhibit list
24 will be furnished to the court reporter, all of those
25 prefiled exhibits are now deemed admitted in this

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1 consolidated record.

2 On this exhibit list there were some
3 questions that we had from the Bench, particularly with
4 the numbering of the joint testimony which began with
5 JT-3 and ran on from there. Were there any of the
6 attorneys here today that can tell me why the numbering
7 started with 3 instead of 1 or 2?

8 MR. CEDARBAUM: Your Honor, this is Robert
9 Cedarbaum, I believe that's because way back in the case
10 there was a multiparty settlement on natural gas rate
11 spread and industrial rate design, and the numbers
12 chosen for the testimony and exhibit in that case were
13 JT-1 and 2, so we just assumed that if we started with 3
14 that would be acceptable.

15 JUDGE TOREM: All right. And because that
16 natural gas rate spread and rate design was overcome by
17 a full settlement as opposed to just the multiparties
18 without the Company, then that was discarded and is no
19 longer an exhibit.

20 MR. CEDARBAUM: That would be fine, Your
21 Honor, and if you wished us to renumber the documents,
22 we can do that.

23 JUDGE TOREM: I don't think there's any need,
24 I just wanted to make sure we weren't missing something.
25 If I read the current version of the settlement, that

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1 overtook and replaced the earlier one that you
2 mentioned.

3 MR. CEDARBAUM: That's correct, so there's no
4 need to have that earlier one admitted into evidence.

5 JUDGE TOREM: All right.

6 MR. CEDARBAUM: At least from Staff's
7 perspective.

8 JUDGE TOREM: All right, so those will be
9 out, and now everybody will be aware that there's not a
10 numbering error, but there was some method to the
11 madness. All right, excellent.

12 Let's move then to the prefiled
13 cross-examination exhibits which I believe will be only
14 used this afternoon. This morning it was brought to my
15 attention that, Mr. Van Cleve, you had a replacement
16 exhibit for David Mills, the PCORC procedural history
17 has now been replaced with an updated one. You filed
18 that electronically and also gave me 8 copies this
19 morning. You've also got an additional
20 cross-examination exhibit that you've marked as JHS-29,
21 and that was for Mr. Story regarding PSE rate changes.
22 Each of those was 1 page.

23 MR. VAN CLEVE: That's correct, Your Honor.

24 JUDGE TOREM: All right, so all the parties
25 should make sure if they're interested in those

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1 particular cross-examination exhibits that they have
2 them. I will distribute those to the Commissioners this
3 afternoon.

4 Mr. ffitch, you also let me know that JHS-22
5 which used to be 6 pages is now an updated response to
6 Public Counsel Data Request Number 816, JHS-22 is now a
7 total of 8 pages, and those looking at that particular
8 issue for Mr. Story this afternoon should make sure they
9 have the updated version that's 8 pages. You gave me 8
10 copies, I will distribute those to Commissioners this
11 afternoon as well.

12 MR. FFITCH: Yes, Your Honor, thank you, I
13 have provided copies to Staff and the Company, and I can
14 give those to other counsel at a break in the hearing.

15 JUDGE TOREM: All right.

16 Now as to those other cross-examination
17 exhibits, I believe ICNU and Public Counsel are the only
18 ones that have submitted cross-examination exhibits, did
19 the Company have any objections to these
20 cross-examination exhibits for Mr. Mills or Mr. Story?

21 MS. CARSON: We do have objections to some of
22 the cross-examination exhibits for -- are you talking
23 about the corrected ones that were submitted now? Yeah,
24 we object to both of these exhibits, these revised
25 exhibits.

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1 JUDGE TOREM: All right, do you want to
2 handle those objections then when the witnesses are on
3 this afternoon?

4 MS. CARSON: That's fine.

5 JUDGE TOREM: All right. As to the ones that
6 were not revised, were those all meeting the Company's
7 readiness for admissibility?

8 MS. CARSON: We also have one objection to a
9 Kimberly Harris cross-examination exhibit.

10 JUDGE TOREM: All right, well, perhaps we'll
11 take those up witness by witness, and if any other
12 parties have objections and if you know if there are
13 objections that can be resolved somehow prior to this
14 afternoon, we'll have hopefully some time to do that,
15 but we'll anticipate dealing with those one at a time
16 this afternoon.

17 All right, on the bridge line I hope we have
18 a variety of witnesses that were appearing by telephone,
19 I just want to take a quick roll call of who I expect
20 for the witness panels to be out there, and those
21 included Mr. Karl Karzmar, are you on the bridge line,
22 sir?

23 MR. KARZMAR: Yes, Karl Karzmar.

24 JUDGE TOREM: Excellent.

25 And Glenn Watkins, Mr. Watkins, are you on

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1 the bridge line?

2 All right, perhaps not yet.

3 Mr. Majoros.

4 MR. MAJOROS: Majoros.

5 JUDGE TOREM: Majoros, thank you, you're

6 there then.

7 And Mr. Kevin Higgins?

8 MR. HIGGINS: I am present, yes.

9 JUDGE TOREM: Excellent.

10 All right, so all the other witnesses I think
11 should be hear in the room this morning. If my count is
12 right, there should be 16 or 17 here in Olympia and 4
13 appearing by phone if Mr. Watkins makes his appearance.

14 And what I want to do is quickly state for
15 the record that all the Commissioners are here to my
16 right, they're ready to ask questions of the settlement
17 panels who will be seated to my left, and I already have
18 the first panel seated. I'm going to ask though that
19 all the witnesses who are present please rise for taking
20 an oath and also ask those on the telephone to do the
21 same wherever they're located. I will see if I can
22 state the oath loud enough into the mike that all those
23 can hear it.

24 (Witnesses were sworn.)

25 JUDGE TOREM: Commissioners, are we ready to

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1 start then with the first panel?

2 All right, first panel is on storm response,
3 was a multiparty settlement, this is regarding emergency
4 response and storm preparedness, and I have been
5 informed that for these first four panels there's no
6 need for an opening statement from any of the parties,
7 but when we get to the revenue requirements panel, there
8 may be some opening statements from those who do not
9 have witnesses. So with that, the panel is for the
10 record Susan McLain of Puget Sound Energy, Greg Zeller
11 of Puget Sound Energy, and Douglas Kilpatrick
12 representing Commission Staff.

13 Commissioners.

14 COMMISSIONER JONES: Thank you, Judge Torem,
15 this is Commissioner Jones.

16

17 Whereupon,

18 SUSAN MCLAIN, GREG J. ZELLER, and DOUGLAS E. KILPATRICK,
19 having been first duly sworn, were called as witnesses
20 herein and were examined and testified as follows:

21

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

23 BY COMMISSIONER JONES:

24 Q. This is a question for the panel, I don't
25 know who wants to take it up, but it regards in Section

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1 4, number 1 of the agreement, paragraph 9, it talks
2 about the Company will file a report on or about
3 September 1st of each year dealing with the KEMA
4 recommendations and until PSE either implements or
5 communicates its intention not to implement each KEMA
6 recommendation. When is that first report due? Because
7 if I'm correct, I think September 1st just expired a
8 couple days ago.

9 A. (Mr. Zeller) This is Greg Zeller, the report
10 was filed on August 29th with the Commission, and I have
11 it here in front of me as well, so a comprehensive
12 update to the recommendations provided by KEMA.

13 Q. Is KEMA under contract with PSE to look at
14 anything currently, for example an OMS/GIS system? I
15 thought I read in the testimony that the Company has
16 hired KEMA.

17 A. (Mr. Zeller) KEMA is not currently under
18 contract to my knowledge. The contractual arrangement
19 was originally to evaluate the cost benefits to an
20 OMS/GIS narrow to the electric system. Based upon the
21 results of that report, we learned that there would be
22 other benefits across the PSE enterprise to other GIS
23 implementations, so we contracted with another
24 consulting firm to provide us a high level understanding
25 of that implementation. Further, we have hired,

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1 retained that firm to provide us a detailed analysis,
2 such things as the cost benefit and the work force skill
3 changes, the change management process management that
4 goes along with an implementation of a GIS and an OMS as
5 well, so that product is due fourth quarter 2008.

6 Q. In the report you submitted on August 28th,
7 and I apologize, I haven't had time to look at that or
8 even see that yet, but I assume that you disagreed with
9 some KEMA recommendations on implementation, did you
10 not?

11 A. (Mr. Zeller) There were some recommendations
12 that we disagreed with. However, the majority of
13 recommendations we agreed with.

14 Q. So can you summarize how you handled the
15 recommendation in that report, just high level how you
16 summarized your response to that?

17 A. (Mr. Zeller) I want to make sure I understand
18 the question, the response to the OMS/GIS?

19 Q. No. If you disagreed with the KEMA
20 recommendation and the report submitted on August 29th,
21 how did you fashion your reply?

22 A. (Mr. Zeller) It would have been to a specific
23 item, and the reply would have been narrow to that
24 specific item of why we disagreed or partially agreed
25 with that particular element.

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1 Q. And I assume that it would also describe the
2 action items or whatever response you're taking in
3 response to that particular issue?

4 A. (Mr. Zeller) Correct.

5 Q. Thank you.

6 My last question is with respect to the items
7 to be included in this annual report submitted annually
8 and for the first one on August 29th, what sort of
9 metrics will Staff determine whether to recommend the
10 disallowances, penalties, or other enforcement actions
11 as described in I think it's paragraph 3 of Section 4
12 where it states, this does not preclude Commission Staff
13 in future proceedings from recommending disallowances,
14 penalties, et cetera?

15 A. (Mr. Kilpatrick) This is Doug Kilpatrick
16 representing Commission Staff, I believe that question
17 would be better posed to perhaps Mr. Parvinen. It's a
18 bit beyond my engagement in this.

19 Q. Okay.

20 A. (Mr. Kilpatrick) In the hearing, being as
21 I've moved on to different employer. So my focus was to
22 try and wrap up the Commission's position on the storm
23 response, on the reporting, and I believe your question
24 has to do with future determinations by Staff on
25 positions that may have to do with future litigation.

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1 Q. Is Mr. Parvinen in the room?

2 But before Mr. Parvinen comes up, maybe the
3 parties, maybe -- I would like to understand the
4 Company's, the parties' view of this particular metric,
5 maybe Ms. McLain if you could offer something on that,
6 maybe then Mr. Parvinen.

7 A. (Ms. McLain) From our standpoint, I believe
8 that we were looking at in the event of future storm
9 activity and future expenses that if there were issues
10 that it would not preclude the Staff from disagreeing on
11 whether or not those expenses should be recovered
12 through the rate process, that was our interpretation.

13

14 Whereupon,

15 MICHAEL P. PARVINEN,

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

18 BY COMMISSIONER JONES:

19 Q. Mr. Parvinen.

20 A. (Mr. Parvinen) This is Mike Parvinen with
21 Commission Staff. Yes, the way I would view this is in
22 the future in a future proceeding, for example an item
23 would be like the OMS investment into that system,
24 whether it's done or not and at what level, the details
25 behind it and amounts would all be evaluated in a future

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1 proceeding from a prudence standpoint, the costs and the
2 elements themselves would be evaluated and -- from all
3 standpoints from a prudence cost recovery mechanism as
4 well as kind of a compliance role in terms of kind of --
5 trying to get the right words.

6 Q. Well, let me, I'm sorry, let me help you here
7 a little bit, because I think that there would be two
8 options, one, we could deal with it in a general rate
9 case in terms of the nature of this proceeding and how
10 Staff would view it, or perhaps Staff would have its
11 idea of a different proceeding, an enforcement action or
12 some investigation. So what is Staff's view on the most
13 likely way in which this issue would be teed up before
14 the Commission?

15 A. (Mr. Parvinen) We really left the options
16 open by that language where items could be done in a
17 general rate case or in a complaint or proceeding
18 initiated by the Commission. For example, in the
19 reports that come out in September, if a party found
20 something in those reports that they disagreed with,
21 they could initiate a complaint with the Commission and
22 go that route.

23 COMMISSIONER JONES: Thank you.

24 Judge, that's the end of my questions.

25 COMMISSIONER OSHIE: Your Honor, I have a

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1 question for Mr. Zeller, a follow-up question.

2

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

4 BY COMMISSIONER OSHIE:

5 Q. Mr. Zeller, in your testimony response, I
6 guess the cross-examination by Commissioner Jones, you
7 made reference to the consultant's review of cost
8 effectiveness of your response program, so I would like
9 to get an idea, a better idea from you of what you mean
10 by cost effectiveness. Not in the general sense, I
11 think we all understand what that means, but what's the
12 contractor looking at? Give us some examples of how the
13 contractor is comparing alternatives to help you better
14 understand what might be most cost effective and how you
15 then value certain impacts and try to assign some kind
16 of dollar amount to what an impact may be for example to
17 a family who's out of power for three to four days.

18 A. (Mr. Zeller) The cost benefit analysis to my
19 knowledge was focused around the implementation and the
20 conversion of data from the existing state to a GIS/OMS
21 state and the value that customers would see from that.
22 Now you're asking how is that value based, and so it
23 would be based upon increased efficiencies, potentially
24 increased information, improved process. Some of those
25 items are difficult to quantify and put a value on,

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1 however, and so they become -- they become hard costs,
2 the things that are certain, and the soft costs are
3 things that are intangible and you can't put the value
4 on it. So it was completely around the conversion of
5 data, implementation, and then the cost of product
6 itself and the training and work force transition.

7 Q. And I guess maybe implied in your answer is
8 the cost of not doing anything? I don't know how that
9 would be calculated, but in other words you would have
10 to have some kind of baseline from which you examined
11 the cost benefit. I mean not changing your system in
12 other words, you stay with the system you have now, or
13 you make a change, but so that's the -- that's the
14 benefit analysis that you're intending to run?

15 A. (Mr. Zeller) Correct, assuming that our
16 existing processes and systems would be a baseline, it's
17 an increment from that to provide better information,
18 better process, and in regards -- in the context of
19 outage management as well as enterprisewide information.

20 COMMISSIONER OSHIE: No further questions.

21

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

23 BY CHAIRMAN SIDRAN:

24 Q. Good morning, I wanted to ask, and I'm not
25 sure who the most appropriate responder is other than

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1 someone from the Company, but this has to do with the
2 commitment that refers to PSE's involvement on
3 legislative and regulatory solutions to vegetation
4 management and infrastructure rights of way. One of the
5 lessons learned from the Hanukkah Eve storm was the
6 challenges that are posed, not just for PSE but all
7 utilities, with respect to these issues of impingement
8 on the right of way, the adequacy of the rights of way,
9 and so on. It was a subject of a legislative hearing
10 last session and the subject of an interim workshop, and
11 I would just like to know if PSE has any specific ideas
12 in mind that the Company intends to pursue in the next
13 session of the legislature with respect to these issues.

14 A. (Ms. McLain) Again within the report that we
15 filed on Friday, we specifically outlined the actions
16 and the steps that we have been taking, which obviously
17 we are working with the state legislative
18 representatives who have pulled together workshop on
19 this area, additionally in our primary objectives in
20 terms of our focus, and we are working with other
21 utilities in the state to have a comprehensive overview,
22 but our primary objectives are to improve the utility
23 access of hazard trees in the area of utility
24 infrastructure, to require local jurisdictions to plant
25 compatible trees with -- along the right of way and

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1 around, again around utility infrastructure, and also to
2 look at public policy relative to reducing damage around
3 infrastructure with respect to land development, so
4 minimizing strips of land that then become susceptible
5 to failure when there are high winds. And those are the
6 predominant areas that we are working from a public
7 policy on. We're also engaged in the rule-making
8 processes with the Department of Community Trade and
9 Economic Development and with the Department of Natural
10 Resources, again working toward an effort on
11 prioritizing utility infrastructure protection as it
12 pertains to vegetation management.

13 Q. And this may be addressed in the report you
14 mentioned, but is there an expectation that there will
15 be some legislative proposals in the next session?

16 A. (Ms. McLain) It is our intent, we're working
17 again with other utilities and various groups to see if
18 we can't move that forward.

19 CHAIRMAN SIDRAN: Thank you.

20 JUDGE TOREM: Commissioners, any other
21 questions for these panelists?

22 All right, I don't see any other hands waving
23 from the attorneys here that have questions for this
24 panel either, so I will thank the first panel for its
25 testimony, and we'll shift to the next panel.

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1 Second panel is that for the settlement on
2 service quality, meter and billing performance, and the
3 low income bill assistance. Mr. Karl Karzmar is already
4 in place by the telephone, and Ms. Susan McLain is
5 already at the panel table, I'm going to ask that Booga
6 Gilbertson and Mr. Steven King come and take their
7 places at the panel table.

8 MR. ROSEMAN: Your Honor, since Ms. Alexander
9 who was our witness on the low income issue is not
10 available today, I might have overlooked the request
11 from Judge Moss, but I think I would like to make a very
12 brief opening statement regarding low income if that
13 would be allowed.

14 JUDGE TOREM: In regards to the settlement
15 that's been reached?

16 MR. ROSEMAN: Right. It's basically the
17 Energy Project's understanding of why this is in the
18 public interest, which I think is the whole subject
19 here.

20 JUDGE TOREM: I think that would be
21 appropriate, Mr. Roseman, so we were going to entertain
22 other opening statements later on the fifth panel for
23 those that didn't have witnesses, so I don't see why I
24 would deviate from that now.

25 MR. ROSEMAN: Okay.

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1 JUDGE TOREM: While they're getting settled,
2 they've all been sworn I believe, Mr. King, were you
3 here when I swore everybody in?

4 MR. KING: Yes, Your Honor.

5 JUDGE TOREM: Excellent.

6 So, Mr. Roseman, the floor is yours for a few
7 minutes.

8 MR. ROSEMAN: Thank you, Your Honor.

9 The Energy Project appears in this docket
10 regarding approximately 180,000 customers of Puget Sound
11 Energy who live at or below 125% of poverty. In
12 Washington that's approximately \$27,500 for a family of
13 3. While increasing energy costs affect all residential
14 customers, they have a more profound effect on low
15 income and elderly on fixed income. Even though
16 currently the economic situation is not an optimistic
17 one for these customers, the Energy Project believes the
18 settlement regarding low income and the settlement
19 overall is in the public interest for the following
20 reason. The settlement provides an increase in their
21 low income rate assistance program of \$4.75 Million.
22 This will do 2 things. It would allow for funding to be
23 increased in this case by the same amount as rates are
24 increased in this docket. It will also allow for the
25 first time really a greater number of low income

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1 customers to receive assistance through this rate
2 assistance program and will help avoid these customers
3 from being disconnected from the system.

4 The settlement also places the low income
5 energy efficiency program -- the settlement also allows
6 the low income energy efficiency program for the first
7 time to increase at the same rate as an increase in the
8 residential energy efficiency program. In times past,
9 they were on two separate tracks, and the low income
10 program lagged far behind. Without this sort of
11 program, no low income customer could afford to take
12 advantage of any energy efficiency measures that the
13 Company would offer because of the costs of doing that.
14 The Energy Project believes that PSE in this docket
15 recognizes its unique responsibility to these customers.

16 As Eric Markell said in his rebuttal testimony:

17 Unlike other private corporations, a
18 regulated utility has unique
19 responsibilities, not only to render
20 reliable gas and electric service, but
21 to discharge the social responsibility
22 it implicitly assumes when it accepts
23 the public trust to place the works in
24 the public right of way.

25 Thank you.

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1 JUDGE TOREM: Thank you, Mr. Roseman.

2 The rest of the panelists are now in place.

3 Mr. Karzmar, can you hear me okay?

4 MR. KARZMAR: Yes, I can hear you okay, this
5 is Karl Karzmar.

6 JUDGE TOREM: All right, sir.

7 I'm going to turn it over to the
8 Commissioners for questions again on this multiparty
9 settlement about service quality, billing and meter
10 performance, and low income bill assistance.

11 Commissioners.

12 COMMISSIONER JONES: Thank you, Judge Torem,
13 this is Commissioner Jones.

14

15 Whereupon,

16 SUSAN MCLAIN, BOOGA K. GILBERTSON, KARL R. KARZMAR,

17 STEVEN V. KING,

18 having been first duly sworn, were called as witnesses

19 herein and were examined and testified as follows:

20

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

22 BY COMMISSIONER JONES:

23 Q. Page 4 of the settlement agreement refers to
24 paragraph 10, and it states, the parties understand that
25 only Sections 4, which is SQI, through -- excuse me, I

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1 think I misread this, the settlement, so just let me ask
2 this for the record, is each of the sections, Section 4,
3 5, and 6, subject to Commission Approval? The first
4 time I read that, I thought it omitted Section 5, the
5 metering provision, but the metering -- is Section 5
6 subject to Commission approval?

7 A. (Mr. King) Yes, all three sections are
8 subject to Commission approval.

9 Q. Let's go to Section 4 on the service quality
10 benchmarks, what is called SQI, what is the basis for
11 allowing a cumulative annual payment cap on service
12 guarantee payments in Section 4.E of the settlement
13 agreement, I think it's in paragraph 5 on page 7 where
14 it sets a cumulative cap of 1.5 Million or 30,000
15 customers, so two questions, what is the likelihood the
16 cap will be reached in any given year -- so why don't we
17 start there.

18 A. (Ms. McLain) This is Susan McLain, we do not
19 have a history of tracking this information, and I think
20 that it would be based upon our understanding of our
21 system and outages, we believe it is highly unlikely
22 that this cap would be reached. However, in very
23 unusual instances, so for example the Hanukkah Eve
24 storm, the cap would have been reached in that
25 situation. However, our ability or the qualifier on our

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1 ability to get to a site when roadways are closed and
2 not accessible may have influenced our reaching that cap
3 number even in that scenario.

4 Q. So --

5 A. (Ms. McLain) So our belief is that it will be
6 unusual for the cap to be reached.

7 Q. And my understanding of this is this customer
8 bill will be issued of \$50 whether or not the outage
9 event is excluded from the calculation of a SAIDI or a
10 SAIFI, correct?

11 A. (Ms. McLain) Correct.

12 Q. And the Hanukkah storm was classified as an
13 unusual --

14 A. (Ms. McLain) Event, yes.

15 Q. -- event, okay.

16 Second question. If customers deserve to be
17 compensated in this fashion, why shouldn't all comers be
18 compensated, not just those who get in line early
19 enough?

20 A. (Ms. McLain) From the Company's standpoint,
21 it's a matter of risk and at what point, because there
22 had been so many additional increases to the penalty
23 provision, for example increasing or doubling the SQI's
24 in general and the doubling penalty requirement, we were
25 trying to manage our risk level, and so placing a cap

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1 that would be unusual for us to achieve was a way that
2 we could do so.

3 Q. Ms. McLain, moving on to paragraph G, which
4 is SQI number 7, gas safety response time, this is on
5 page 8, is there sufficient data and analysis now that
6 PSE has accumulated in your data system for a
7 performance standard with a penalty to be promulgated?

8 A. (Ms. McLain) We currently have a penalty
9 associated with this SQI and onto the current metric,
10 which is that we will be on site within 55 minutes. The
11 issue that was discussed in the settlement or by the
12 settlement parties was whether or not we should be
13 looking at changing that metric. And there is some data
14 from an industry standard that does show that some gas,
15 natural gas utilities, use a metric of the percentage of
16 time that the utility is on site within 60 minutes. We
17 have not -- we have some history with that metric, we
18 are not currently meeting the metric at that level, but
19 nor did we have time as a group to ascertain the level
20 throughout the industry where that metric is being used.
21 So our interest was to look at the feasibility of
22 perhaps in the future changing the metric to the 95% of
23 the time we will be on site within 60 minutes.

24 Q. So just to clarify for the record, the metric
25 you are referring to is 95% of gas emergencies within 60

0466

1 minutes?

2 A. (Ms. McLain) That is the metric we are
3 exploring, yes.

4 Q. And is that pretty much the industry, the AGA
5 standard throughout the country?

6 A. (Ms. McLain) It is not -- we could not find
7 that it is a standard. We do know that some utilities
8 use that metric, and there is -- there does appear to be
9 a trend of utilities looking at X percentage within 60
10 minutes, but the 95% is not consistent throughout the
11 industry.

12 A. (Mr. King) Commissioner Jones, I might add to
13 that.

14 Q. Yes.

15 A. (Mr. King) We did a survey of other gas
16 safety programs, we got 20 some responses, and we only
17 found 5 states, all of them in the Northeast, that have
18 this sort of standard in place either through a
19 commission rule or in some cases through a
20 company-specific performance agreement. The rest of the
21 states that responded, 1 or 2 had standards, most states
22 did not, and we didn't hear from almost 30 different
23 jurisdictions. But we don't yet know why the
24 jurisdictions that have this standard are located in the
25 Northeast, if there's something specific about their gas

0467

1 systems, the age of the systems perhaps or maybe they're
2 particularly compact, we don't have that sort of
3 information. I thought I would offer that as additional
4 information about the standard from a Commission
5 standpoint.

6 Q. Thank you.

7 Why is SQI Number 1, which has been in place
8 for some years, overall customer satisfaction, being
9 eliminated?

10 A. (Ms. McLain) From the Company's perspective,
11 the metrics that we have in place are -- it's we would
12 like to have them to be such that they influence our
13 actions. And what we have found with this metric over
14 time is that we are unable to unpeel the onion to see
15 what drives a customer's response to overall customer
16 satisfaction. This is a telephone survey that a
17 customer would be asked a variety of questions about
18 Puget Sound Energy's performance, and one of the
19 questions is used for this particular SQI, and what we
20 have found is that many customers may have very little
21 interaction with the utility directly. They may simply
22 pay their bill and they're not -- they do not have any
23 direct contact with the Company, and their impressions
24 of the company may be coming from the media, and it may
25 be such that they are coming as a result of the industry

0468

1 in general. The research was such that we were unable
2 to find a driver on this measure that would help us to
3 change our actions to influence the outcome.
4 Additionally, some of the parties had records from the
5 original SQI conversations or recollections from those
6 meetings, and it was such that I believe Public
7 Counsel's Barbara Alexander had commented that her
8 original I think opinion of this measure was that it was
9 not helpful to have as an SQI.

10 Q. And that's Staff's position too?

11 A. (Mr. King) Yes.

12 Q. Okay.

13 A. (Mr. King) Staff agrees with that.

14 Q. If this particular provision is eliminated,
15 Ms. McLain, what happens to other programs, incentive
16 pay and peer review, you have internal reviews,
17 performance reviews of your customer service staff, and
18 I would imagine they are linked to these metrics, these
19 SQI metrics, so what happens to some of those programs
20 as this changes?

21 A. (Ms. McLain) Yes, we do have incentive
22 programs that are tied to our service quality indices.
23 And again we look to unpeel the onion, so for example
24 there is an SQI on customer satisfaction with or when a
25 customer has interaction with our call center or our

0469

1 customer service department. We still have that SQI,
2 it's still part of the program, and we would use it. So
3 we would be able to continue to point our employees from
4 an incentive standpoint to influence the interaction
5 that they have with our customers. We would be using --
6 we would continue to use the overarching SQI program,
7 but we would look to modify our incentive program as
8 needed based upon the changes to the SQI's.

9 Q. Okay, that's all on Section 4, I would like
10 to move on to Section 5, which is meter and billing
11 performance, I have a couple questions there. The first
12 question I think is more for Staff, the magnitude of the
13 issue I think on page 11 in Section B where it says the
14 Company had identified potential problems with 17,276
15 meters. Two questions. Why do you use the word
16 potential here? Aren't these real problems, or is there
17 some question that there may or may not be a problem
18 with the different types of metering difficulties?

19 A. (Mr. King) These numbers have been flagged
20 off of a company generated report that I believe the
21 report is that the zero consumption report, so there's
22 lots of different reasons that a given customer could
23 have zero consumption for two months in a row, which is
24 the standard by which gets a customer account on this
25 report. The Company's experience in this is that

0470

1 approximately 50% of those numbers turn out to be valid,
2 valid zero reads, for a variety of reasons, and that's
3 why the term potential.

4 Q. Okay.

5 A. (Mr. King) Is in the -- is used throughout
6 this document related to meters.

7 Q. Is it Staff's view that the number of
8 potential meter problems has increased from 2005 to
9 2007, or has it stayed the same or decreased?

10 A. (Mr. King) It's not clear partly because
11 during a part of this period, the Company's been working
12 on this very hard, and I think that with a lot of
13 problems, as you begin to examine it, you begin to find
14 more that maybe you didn't find in the past.

15 Q. This is more for the Company I think.
16 Ms. McLain, could you explain the timing of the phase-in
17 plan for the new standards for identifying and remedying
18 the metering problems in this section. There appears to
19 not match this notion of resolving 75% of the fairly
20 significant legacy problem by December 31st, 2008, and
21 also the stipulation calls for the initiation of, quote,
22 a hiring process for appropriately qualified personnel
23 also by December 31st, 2008. How do those two, from an
24 operational and resolving these problems, how do they
25 match up?

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1 A. (Ms. Gilbertson) So if I could take your
2 question in pieces. The first part would be the
3 phase-in period, how is the Company going to approach or
4 how do the numbers work out to address 75% of the
5 problem by December 31st.

6 Q. Yes, let me clarify that, that's the
7 overarching question is how are you going to achieve 75%
8 of the problems by December 31st and then 100% by March
9 31st or by June 30th of next year?

10 A. (Ms. Gilbertson) Our approach is fourfold,
11 the way that we're addressing these issues. We are
12 addressing them through technology, and the technology
13 being the data systems, the meter data warehouse that
14 collects the automatic meter reading information, the
15 AMR information, and so we're approaching this from a
16 technology perspective to use technology to help us
17 better define the potential problems, in other words
18 reduce the potential problems so that we don't have to
19 have people look at them. In order to help us do that,
20 we have engaged some experts who use these different
21 kinds of data analysis algorithms to help us work
22 through that, that's approach number one, technology.

23 The second approach is we are looking at our
24 equipment, and this is the actual automatic meter
25 reading modules that transmit the signal and also the

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1 actual meters themselves to determine if there are
2 particular populations of equipment that need to be
3 replaced so that we can eliminate more problems at the
4 root cause.

5 The third approach is through different
6 processes, streamlining, adding efficiencies of the
7 various work flow and work streams, to categorize the
8 billing information, get the bills out, analyze if
9 there's problems, and interact with a customer.

10 And the fourth approach is to add resources
11 and training so that we have the capacity to match the
12 volume of the issues that need to be first identified
13 and then resolved. We do have run rates now such that
14 we believe that the 75% is achievable by December 31st
15 and 100% of that backlogged by the date that we have
16 indicated.

17 I will also say that this is a new program
18 for Puget Sound Energy, and we expect that we will learn
19 some things throughout this process, and we have a
20 number of occasions to interact with the parties and
21 provide them progress so that we can see how it's going.

22 Q. Do you use one vendor or several vendors for
23 the equipment and the communication modules?

24 A. (Ms. Gilbertson) We use several vendors for
25 the actual meters themselves, and the communication

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1 modules it's my understanding is that is one vendor.

2 Q. My last question, when is the report due?

3 Let's -- I think the reporting in sub -- in paragraph D
4 calls for reports on March 31st, June 30th, September
5 30th, so let's say the Commission hypothetically were to
6 issue an order approving this in late October, when
7 would the first report be due?

8 A. (Ms. Gilbertson) The first report is due by
9 the end of October 2008, and that will take us through
10 business through the end of September 2008, and then
11 quarterly thereafter.

12 Q. Okay, so it's irrespective of whether or the
13 not the Commission acts on this order by a particular
14 date?

15 A. (Ms. Gilbertson) Correct.

16 COMMISSIONER JONES: Okay, thank you.

17 JUDGE TOREM: Thank you, Commissioner Jones.

18 Commissioner Oshie.

19 COMMISSIONER OSHIE: Thank you, Judge.

20

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

22 BY COMMISSIONER OSHIE:

23 Q. Let's go back to Section 4, I would like to
24 talk to you about paragraph 14 on page 5, that's
25 subsection C identified as return of penalty amounts to

0474

1 customers. I think I understand the paragraph, but I
2 want to make sure that it is clear what the parties
3 intend by paragraph C, and so perhaps, Ms. McLain or
4 Mr. King, you can just explain to us, the Commission,
5 what it is the parties intend?

6 A. (Ms. McLain) It was our intent that in the
7 event that the SQI penalty amount exceeded \$12 per
8 customer that the customer directly would receive that
9 credit on their bill. In the event that the dollar
10 amount for the penalty was less than \$12 per customer on
11 average, then the total dollar amount for the penalty
12 amount would be allocated or directed toward the help
13 program for low income customers.

14 Q. And it's not -- it's the entire amount if it
15 exceeds \$12, in other words if the amount is for just a
16 hypothetical example \$12.01, the entire amount would be
17 allocated to the customers, and maybe you can, just so
18 maybe, you know, I'm clear at least, you can define a
19 customer under this paragraph.

20 A. (Ms. McLain) Because the SQI's pertain to all
21 customers irrespective of gas or electric, we would take
22 the total penalty amount and divide by the total number
23 of customers, gas and electric combined, and that would
24 help us to determine the average cost per customer to
25 determine whether or not the amount would go to each

0475

1 individual customer prorata or if it would go to the
2 help fund.

3 Q. Okay, so I still don't know if you answered
4 my question, but if it's \$12.01, the entire amount goes
5 to the customers?

6 A. (Ms. McLain) Correct.

7 Q. Okay, that helps clarify, thank you.

8 I've got another question here, and this is
9 more of a curiosity than anything else. I'm on page 8
10 of the settlement agreement, paragraph 22, and I'm
11 looking at the second sentence of paragraph 22 under F.
12 Is Public Counsel not invited to these meetings? I mean
13 what's the purpose of this sentence? I just didn't get
14 it, I thought Public Counsel was, as a statutory party,
15 was invited to participate in particular this kind of a
16 meeting, so why is it necessary for the parties to agree
17 that Public Counsel can participate?

18 A. (Ms. McLain) I think from our standpoint,
19 there had been discussions, and I'm not certain if there
20 were formal invitations. And this was about the format
21 of the reliability report, the system reliability
22 report, which the Company is required to file on an
23 annual basis. And we have sought input from various
24 parties, Staff, on the format of our submitting that
25 report, and I don't know that we have extended a formal

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1 invitation when the subjects have been discussed.

2 Q. Is there a reason why not? I guess I'm just
3 kind of grasping here to figure out what the reasoning
4 may be as to why Public Counsel wouldn't be invited?

5 A. (Ms. McLain) And I think it was predominantly
6 a -- because we have regularly scheduled meetings on a
7 monthly basis with Staff on a variety of topics that
8 those kinds of processes had been put in place that we
9 determined an oversight and wanted to make certain that
10 when it came to the format of the report that we
11 certainly did not inadvertently exclude Public Counsel.

12 Q. Okay.

13 I have a question for I guess it's to the
14 Company, it's also to Mr. Roseman who in his opening
15 statement made reference to energy efficiency programs
16 for low income customers, and I just wanted to perhaps
17 understand better how the administrative costs are
18 allocated. And I understand that, and I want to make
19 sure I understand it correctly, that the administrative
20 costs for the energy efficiency programs for low income
21 customers and all energy efficiency programs are
22 allocated on the basis of or are allocated within the
23 program itself. In other words the administrative costs
24 of the program are figured in any final revenue
25 requirement that the Company may require as part of a

0477

1 separate tariff filing to fund energy efficiency. Is
2 that my understanding, or is my understanding correct, I
3 guess that is my understanding, so Mr. Roseman?

4 MR. ROSEMAN: Unfortunately, Your Honor, this
5 is a subject -- I don't know the answer to that
6 question. Mr. Eberdt or the Company are the ones that
7 know about how these costs are allocated, I'm sorry, I
8 just don't.

9 Q. That's fine, Mr. Roseman. I think I
10 understand it, and I really am -- if I do understand it,
11 let's say hypothetically that is the way it's done, so
12 I'm trying to distinguish why, because it was the cost
13 effectiveness -- the programs, the energy efficiency
14 programs, whether low income or to all customers, they
15 have to meet a cost effectiveness test, and they're
16 considered to be resources, energy resources, and
17 perhaps in some circumstances even capacity resources of
18 some kind by the Company, and so why would we treat --
19 the administrative costs for delivering other resources
20 I believe are just absorbed within the general resource
21 portfolio of the Company, so what's the policy reason
22 for singling out efficiency and low income efficiency
23 and saying these administrative costs, even though it's
24 a resource, will be treated differently than the other
25 resources that the Company acquires to deliver power to

0478

1 its customers, energy?

2 A. (Ms. McLain) I think Mr. Karzmar is on the
3 line and may be able to help.

4 Q. Karl, are you still there?

5 A. (Mr. Karzmar) Yes, I am on the line, and
6 you're referring to the administrative costs of the
7 Energy Project?

8 Q. Well, I'm referring generally, Mr. Karzmar,
9 to the administrative costs of the energy efficiency
10 programs that the company runs, including the low income
11 programs.

12 A. (Mr. Karzmar) The administrative costs of the
13 energy efficiency programs are the same as any other
14 administrative costs of the company, and they're
15 recovered through the revenue requirement.

16 Q. I thought there was a special tariff filing
17 that the Company filed to pay for the energy efficiency
18 programs?

19 A. (Mr. Karzmar) There is a special -- so as a
20 result of that, all the money that was collected -- that
21 allocated energy efficiency is --

22 JUDGE TOREM: Mr. Karzmar, I'm not sure if
23 you're on a speaker phone or not, but it's breaking up
24 about every fifth or sixth word, maybe you could restart
25 your answer to Commissioner Oshie's question.

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1 MR. KARZMAR: Can you hear me okay now?

2 JUDGE TOREM: It's a little bit better, let's
3 see if it holds out.

4 A. (Mr. Karzmar) The Company recovers all its --
5 am I getting feedback?

6 JUDGE TOREM: Just a little bit.

7 A. (Mr. Karzmar) The Company recovers the costs
8 of the energy efficiency programs through the tariff
9 rider and the tariff tracker that the Company has, and
10 both of these are trued up annually, so those costs are
11 recovered through the tariff tracker and rider,
12 including the administrative costs.

13 BY COMMISSIONER OSHIE:

14 Q. That was my understanding, Mr. Karzmar, and I
15 guess I was really asking a policy question is why we
16 would treat these resources differently than the other
17 resources that the Company acquires to deliver energy to
18 its customers as far as the administrative costs, is
19 there a reason for that, or is it just an administrative
20 convenience?

21 A. (Mr. Karzmar) I would say it's an
22 administrative convenience.

23 Q. All right, thank you, Mr. Karzmar. It's a
24 question a bit off the topic, and I appreciate your
25 willingness to at least provide an answer.

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1 I have one last question, and that is to the,
2 you know, we have the phase-in program, I guess it's
3 Section 5.B, PSE will phase in ongoing standards, and
4 that's on page 11 of the settlement, and I guess what
5 I'm really interested in is there are two -- there's
6 dates of significance, one is there's the notion I guess
7 of resolving 75% of all fairly significant legacy
8 problems by December 31st, 2008, and then initiating a
9 hiring process I thought to hire people to do that work
10 by December 31st, 2008, so I'm just trying to, you know,
11 trying to figure out, it seems to be a bit of a
12 disconnect between resolving the problem and hiring the
13 people that will help you resolve the problems. They
14 both have the same date in the agreement, just exploring
15 what's the intention of the parties here?

16 A. (Ms. Gilbertson) Yes, the December 31st date
17 for the hiring process was to have -- allow time to work
18 through any contract issues that there may be or any
19 particular issues to obtain enough skilled work force to
20 address the problem and take care of the equipment
21 issues and the different replacements that might be
22 necessary. The hiring of additional resources to the
23 degree that it can happen has already begun, and many of
24 those resources are in place. We -- that timing was
25 just to allow for additional conversations if additional

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1 conversations for the right skill work force to do this
2 work safely needs to occur.

3 COMMISSIONER OSHIE: All right, thank you,
4 Ms. Gilbertson.

5 Judge, I have no further questions.

6

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

8 BY CHAIRMAN SIDRAN:

9 Q. I just have one clarifying question, perhaps
10 more of a comment, but in light of Mr. Roseman's
11 quotation of an eloquent statement by Mr. Markell from
12 the Company about the commitment to social obligations
13 related to low income customers and Mr. Karzmar's
14 explanation of the tariff riders, my understanding is
15 all the money at issue here to support low income
16 programs comes from rate payers, it does not come from
17 shareholders; is that correct?

18 MR. ROSEMAN: That is 90% correct.

19 Q. Well, then I just want to point out that's
20 not bad, I mean 90% is better than I usually do. So
21 educate me about the other 10%.

22 MR. ROSEMAN: My understanding is that in the
23 energy efficiency funding for low income that -- and
24 this goes -- well, since we're in the middle of a sale
25 case, this goes back to the last time there was a merger

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1 with this company and Washington Natural Gas, and in
2 that case, in that proceeding, there was an agreement
3 that will be -- I may be off on the money, but the
4 concept will come through -- I think it was \$6 Million
5 over a 5 or 6 or 7 year period of shareholder money
6 would be contributed to a low income energy efficiency
7 program, a part of the program. As of I believe 2008,
8 there currently is \$300,000 of the \$2 1/2 Million I
9 think that is allocated to low income energy efficiency
10 that is -- still continues as shareholder money. I
11 presume, but I'm not sure, that at some point that will
12 totally be expended and that will go to zero, then the
13 answer will be, in answer to your question you are 100%
14 correct, it will all be shareholder contributions.

15 Q. Well, I look forward to being 100% correct,
16 but from the standpoint of rate payers and low income
17 rate payers in particular, hopefully there will be
18 additional contributions.

19 Mr. Karzmar, can you just clarify out of the
20 total funds that are discussed here with respect to
21 support for both energy efficiency and support for low
22 income customers in terms of rate bill paying support,
23 the help program, how much is coming from the Company
24 itself in relationship to the amount that's coming from
25 the rate payers?

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1 A. (Mr. Karzmar) I'm going to have to look that
2 up. Most of it is coming -- is being recovered through
3 general rates from the rate payers.

4 Q. All right, thank you.

5 MR. ROSEMAN: Your Honor, there is a, maybe
6 it's no longer outstanding, but there is a Bench request
7 from Commissioner Oshie, I guess from all three of you
8 but I think it was a question that Commissioner Oshie,
9 asked that -- I believe won't answer this question, but
10 it will give you where this \$300,000 is, it will show
11 you a chart. And I've seen this document, there is
12 nothing that I know of regarding the rate assistance
13 program in that regard. I think Commissioner Oshie's
14 question was on energy efficiency, and that's the Bench
15 request, and it's Bench Request Number 21, so you should
16 have that. And maybe that -- it might muddle the issue
17 more, it might provide some clarification.

18 CHAIRMAN SIDRAN: Well, in terms of
19 clarification, is that Bench request in the other docket
20 related to the merger case?

21 MS. CARSON: It is, yes.

22 MR. ROSEMAN: Oh, I'm sorry, I apologize.

23 MS. CARSON: It's actually a Bench request we
24 asked for to clarify some of these issues in the merger,
25 and we circulated it to the Energy Project yesterday and

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1 the Energy Coalition, so we can file that if you would
2 like, we can clarify this issue as well.

3 CHAIRMAN SIDRAN: Yes, why don't we consider
4 this a Bench request, I would like to know with respect
5 to both energy efficiency and the help program at least
6 in percentage terms of these funds how much is coming
7 from the Company's shareholders and how much is coming
8 from rate payers, thank you.

9 (Bench Request 5.)

10 JUDGE TOREM: Commissioners, any other
11 questions for this panel?

12 All right, seeing none, it looks like this
13 would be an appropriate time for a break, we'll come
14 back in about 5 or 6 minutes or maybe 10 by the time
15 everybody gets seated, and at a quarter 'til or so I
16 will ask that the panel for the natural gas rate spread
17 and rate design be in place, and we'll start as soon
18 thereafter as we can.

19 (Recess taken.)

20 JUDGE TOREM: All right, it's about 10
21 minutes to 11:00, we're going to go back on the record,
22 I understand that Mr. Glenn Watkins is now on the line;
23 is that correct, sir?

24 MR. WATKINS: Yes, that is correct.

25 JUDGE TOREM: All right, if you can speak up,

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1 Mr. Watkins, and raise your right hand.

2 (Witness GLENN WATKINS was sworn.)

3 JUDGE TOREM: All right, thank you very much.

4 We're now ready to resume our panels, this is
5 the natural gas rate spread and rate design panel, it's
6 composed of Mr. Kevin Higgins, who I believe is on the
7 telephone line; is that correct?

8 MR. HIGGINS: That is correct, Your Honor.

9 JUDGE TOREM: And Mr. Don Schoenbeck, Tom
10 Schooley, Stanley Gent, and Janet Phelps, who are here
11 in Olympia, and Mr. Glenn Watkins who was just sworn in.

12 Mr. Higgins, I caught you earlier on the
13 swearing in, right?

14 MR. HIGGINS: Yes.

15 JUDGE TOREM: All right, excellent, so the
16 panel is now in place. I don't believe we have any
17 requests for opening statement with regard to this
18 panel, so we'll dive right back into Commissioner
19 questions.

20 COMMISSIONER OSHIE: All right, thank you,
21 Judge, I have a few questions for the panel, this is
22 Commissioner Oshie.

23

24

25 Whereupon,

1 KEVIN C. HIGGINS, DONALD W. SCHOENBECK, THOMAS E.
2 SCHOOLEY, GLENN A. WATKINS, STANLEY GENT, and JANET K.
3 PHELPS,

4 having been first duly sworn, were called as witnesses
5 herein and were examined and testified as follows:

6

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

8 BY COMMISSIONER OSHIE:

9 Q. There was a statement in the testimony, the
10 joint testimony supporting the settlement, that the
11 commercial industrial class was significantly below
12 parity, and as a result the settlement, I believe as a
13 result the settlement provides for a proposed assignment
14 of 142.35% of the average rate increase to these
15 classes, the commercial industrial class, and my
16 question is how close does it get this class to parity?

17 It looks like the panelists are looking to
18 you, Mr. Schoenbeck.

19 A. (Mr. Schoenbeck) I hope not.

20 A. (Ms. Phelps) Actually, this is Janet Phelps
21 from PSE, I don't have the answer --

22 Q. Yes, Ms. Phelps.

23 A. (Ms. Phelps) I don't have the answer to that
24 on my fingertips, I might if I look.

25 Q. I don't need a precise answer, I would just

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1 like at least a general answer. I mean are we at parity
2 with the class after this if we would implement the
3 settlement, or are we getting close at all?

4 A. (Ms. Phelps) I actually think that would
5 make a considerable movement. In the cost of service
6 study that we filed originally, they were 89% of parity,
7 and the Company's proposed rates would have taken them
8 to 95%, it's not going to take them --

9 MR. HIGGINS: Commissioner Oshie, this is
10 Kevin Higgins, are we waiting for Ms. Phelps to answer?

11 COMMISSIONER OSHIE: No, Mr. Higgins,
12 Ms. Phelps is answering right now.

13 MR. HIGGINS: Oh, okay, sorry, I can't hear.

14 COMMISSIONER OSHIE: There we go, we've got
15 the mike on.

16 A. (Ms. Phelps) Okay, so under PSE's proposed
17 rates, it would have taken them to about 95% of parity,
18 and I expect that it will take them into the low 90's,
19 so somewhere between 90% and 95% parity, so moving in
20 the right direction.

21 BY COMMISSIONER OSHIE:

22 Q. And so that would be roughly 6% to 7%, 8%
23 higher than they are right now round numbers, do I
24 understand --

25 A. (Ms. Phelps) Are you talking about in terms

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1 of parity ratios or --

2 Q. In terms of what they -- it's just they were
3 at 89% of parity, and this would bring them up to you
4 said 95% to 97%?

5 A. (Ms. Phelps) Right around 95%.

6 Q. Oh, right around 95%, okay, thank you.

7 I am looking to now the partial settlement on
8 natural gas rate spread and rate design, which I believe
9 is I'm on page 3, and I'm under Section 1, subsection B,
10 still in the same category, and there it states that the
11 commercial and industrial sales classes 31, 36, 51, and
12 61 will receive 142.35% of the system average margin
13 increase. Now I would like to refer you back, this is
14 just, you know, kind of follow a moving target here, I
15 would like to refer you back to page 7, and on that page
16 at paragraph 32 entitled the elimination of schedules 36
17 and 51. So my question really is, in one paragraph of
18 the settlement we assign them a certain system average
19 margin increase, and in another paragraph we eliminate
20 two of the schedules that are within that class, so how
21 is that going to work?

22 A. (Ms. Phelps) I think that the language on
23 page 3 where it references 31, 36, 51, 61, that language
24 is really not precise.

25 Q. I see.

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1 A. (Ms. Phelps) All of this analysis assumes
2 that 36 and 51 are terminated.

3 Q. I see.

4 A. (Ms. Phelps) Those customers are included in
5 other schedules.

6 Q. How many customers are we talking about,
7 Ms. Phelps?

8 A. (Ms. Phelps) About 5,000.

9 Q. About 5,000, okay. And do you know what
10 schedules will they be transferred to?

11 A. (Ms. Phelps) The schedule 51 customers we
12 expect to move to schedule 31, which is general service
13 commercial industrial. Most of the schedule 36
14 customers we expect to also go to 31, but we also expect
15 that some of those would go to 41, which is large volume
16 high load factor.

17 COMMISSIONER OSHIE: Okay, thank you very
18 much, I have no further questions.

19 CHAIRMAN SIDRAN: No questions.

20 JUDGE TOREM: All right, you've exhausted the
21 Commissioners already for this particular panel, thank
22 you all. We'll have you step down, and we'll have those
23 of you that are remaining for the multiparty settlement
24 regarding electric rate spread and electric rate design
25 to stay in place.

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1 This fourth panel is composed of Mr. Higgins
2 who is on the line, Mr. Watkins who is on the line, and
3 ask Mr. David Hoff to come and take Ms. Phelps' place.
4 Mr. Schoenbeck and Mr. Schooley have of course stayed in
5 place.

6 And for those of you who haven't picked up on
7 the fact that the more microphones we have on, the more
8 likely we have feedback, so for the panelists that are
9 here, if one of you has a microphone on and the other
10 can be off, that would be fantastic and will minimize,
11 probably won't eliminate, but at least minimize the
12 feedback in the room, at least the feedback from the
13 microphones, I can't do much about the Commissioners.

14 All right, now turning to this fourth panel,
15 they're all in place. Mr. Watkins and Mr. Higgins, are
16 you still on the line?

17 MR. WATKINS: Yes, I am, this is Mr. Watkins.

18 MR. HIGGINS: Yes, Kevin Higgins here.

19 JUDGE TOREM: All right, Commissioners, then
20 your questions then on electric rate spread and rate
21 design, the fourth panel.

22 COMMISSIONER JONES: Thank you, this is
23 Commissioner Jones.

24

25

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1 Whereupon,

2 KEVIN C. HIGGINS, DONALD W. SCHOENBECK, THOMAS E.

3 SCHOOLEY, GLENN A. WATKINS, and DAVID W. HOFF,

4 having been first duly sworn, were called as witnesses

5 herein and were examined and testified as follows:

6

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

8 BY COMMISSIONER JONES:

9 Q. My first question is for anyone who wishes to
10 offer an answer. Please describe what sort of customer
11 takes service under schedule 40 and how many customers
12 are served under this schedule. I think this is called
13 the "campus rate".

14 A. (Mr. Hoff) It is the campus rate. It's a
15 rate for large customers that are basically on a campus
16 that have -- that would not be eligible for a direct
17 service because -- at one location, but the locations
18 are close enough to one another that the campus takes a
19 large amount, and I believe right now there are 8
20 customers.

21 Q. Do you know what proportion of overall
22 revenue this schedule contributes to PSE's overall
23 revenue, these 8 customers?

24 A. (Mr. Hoff) Yes, just a minute.
25 They -- the pro forma revenue in the

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1 settlement is approximately \$40.5 Million out of a total
2 \$2 Billion revenue, so it's whatever that percentage is.

3 Q. It's small?

4 A. (Mr. Hoff) Small.

5 Q. Mr. Schoenbeck, you have the number in your
6 head, don't you?

7 A. (Mr. Schoenbeck) 2%.

8 Q. The parties propose that schedules 25, 26,
9 and 29 receive a 50% assignment of the average rate
10 increase. What class of customer takes service under
11 these schedules?

12 A. (Mr. Hoff) This is secondary, it's generally
13 commercial and small industrial customers. They take
14 secondary service, which means that there's a set of
15 transformers before they take it. The 25 -- the
16 secondary non-residential service is 24, 25, and 26, and
17 24 are the very small ones, 25 they're between 50
18 kilowatts and 350 kilowatts, and 26 would be above that.

19 Q. So schedule 26 would be above 350 kilowatts?

20 A. (Mr. Hoff) Yes.

21 Q. So broken down into those three categories?

22 A. (Mr. Hoff) Correct.

23 Q. Okay.

24 A. (Mr. Hoff) And we broke that down several
25 rate cases ago into those categories.

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1 Q. And last question, how would this class of
2 customer compare to parity cost basis under this
3 assignment?

4 A. (Mr. Hoff) Under this assignment I don't
5 exactly know for the settlement, but in our rebuttal
6 they would have been the -- 25 would have been at 115%,
7 and 26 would have been at 110%, so it would be something
8 a little bit less than that because the rate increase is
9 less.

10 A. (Mr. Schoenbeck) Just as a rough
11 approximation, if you look at the average electric
12 increase was 7%, and they only received a 3% difference,
13 then there's roughly a 4% movement towards parity, so
14 they've improved by 4% basically.

15 COMMISSIONER JONES: Okay, thank you, that's
16 all I have.

17 COMMISSIONER OSHIE: No questions.

18 CHAIRMAN SIDRAN: None.

19 JUDGE TOREM: All right, seeing no other
20 Commissioner questions, I assume that the rate design
21 and rate spread panel must have had particularly concise
22 statements to support their joint testimony.

23 We're ready for the last, the fifth and final
24 of the panels, and that is on revenue requirements. I'm
25 going to ask that John Story and Mr. Mike Parvinen take

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1 their places, and we actually have three witnesses who
2 will be by phone, Mr. Karzmar, Mr. Higgins, and
3 Mr. Majoros are all available by phone. And for this
4 panel, there were a number of parties that were asking
5 to make opening statements. I'm not sure who those
6 parties were, but I will ask that they identify
7 themselves by desire since they don't have a witness on
8 the panel.

9 MR. VAN CLEVE: Brad Van Cleve, Your Honor,
10 for ICNU.

11 JUDGE TOREM: Were there any other parties
12 besides ICNU that wanted to make opening statements with
13 regard to this panel?

14 MR. STOKES: Yes, Your Honor, Chad Stokes for
15 the Northwest Industrial Gas Users.

16 MR. FURUTA: And Norman Furuta for Federal
17 Executive Agencies.

18 JUDGE TOREM: All right, so gentlemen, if we
19 go in that order, I take it that satisfies everyone.

20 All right, Commissioners, if you're ready,
21 then I'll turn it over to Mr. Van Cleve for a short
22 opening statement on behalf of the Industrial Customers.

23 MR. VAN CLEVE: Thank you, Your Honor, Brad
24 Van Cleve for ICNU. ICNU supports the partial
25 settlement on revenue requirement, and we believe that

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1 it is a reasonable outcome. There's two features of the
2 settlement that we like particularly. First, PSE has
3 agreed not to file a general rate case until April 1st,
4 2009, and second, they have agreed that there will be no
5 further update to the gas costs in this proceeding. And
6 we think that taken together these two agreements give
7 some measure of rate stability to customers. And I
8 would also note that this settlement does not advance
9 the rate effective date from what it would have been in
10 a litigated case, so that's also a good achievement.
11 Finally, we did have or ICNU did have an ROE witness in
12 this case, Mike Gorman, who has somewhat of a reputation
13 for coming in in the middle of the ROE witnesses, which
14 he did again, and he recommended in his testimony an ROE
15 of 10.12%, which is extremely close to the 10.15% in the
16 settlement. So we join with the other parties in
17 requesting that the Commission approve the partial
18 settlement on revenue requirement.

19 JUDGE TOREM: Thank you, Mr. Van Cleve.

20 Mr. Stokes.

21 MR. STOKES: Good morning again, Chad Stokes
22 for the Northwest Industrial Gas Users. We are a party
23 to the revenue requirement settlement. We believe it's
24 in the public interest and should be approved. In our
25 opinion, it won't result in excessive rates, and the

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1 10.15 ROE is in our opinion a fair rate of return for a
2 combined gas and electric entity in today's capital
3 markets, and we also appreciate the next rate case
4 filing being extended to April 1st, 2009.

5 Thank you.

6 JUDGE TOREM: And Mr. Furuta.

7 MR. FURUTA: Yes, good morning, Norman Furuta
8 for the Federal Executive Agencies. The FEA also
9 supports the partial settlement. The partial settlement
10 adopts one of our primary recommendations, which was to
11 amortize the costs of the Hanukkah Eve wind storm of
12 2006 over a 10 year period rather than the Company's
13 proposed 6 year period. FEA supports the partial
14 settlement because it provides a reasonable resolution
15 of the revenue requirement issues in this case, taking
16 into account the arguments presented by the various
17 parties that addressed electric revenue requirements and
18 that the FEA believes that the partial settlement
19 produces a result that is in the public interest and
20 urges that it be adopted. Thank you.

21 JUDGE TOREM: Thank you, Mr. Furuta.

22 All right, turning now to the panel,
23 Commissioners I will remind you that you have only two
24 witnesses here on your left, but I don't want you to
25 neglect the three that are on the telephone if they're

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1 appropriate for directing any of your questions.

2 Mr. Chairman.

3 CHAIRMAN SIDRAN: Thank you.

4

5 Whereupon,

6 JOHN H. STORY, KARL R. KARZMAR, MICHAEL P. PARVINEN,

7 KEVIN C. HIGGINS, and MICHAEL J. MAJOROS, JR.,

8 having been first duly sworn, were called as witnesses

9 herein and were examined and testified as follows:

10

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

12 BY CHAIRMAN SIDRAN:

13 Q. Anyone who feels qualified is welcome to
14 answer this question. At page 3 of this portion of the
15 settlement, paragraph 8, there is a table that describes
16 the cost of capital, and I note that unlike most other
17 similar cost of capital structures, there's no
18 distinction drawn with respect to debt between
19 short-term and long-term debt, and I am interested in
20 hearing why that might be. And I assume that there is
21 some expectation that there will be both short-term and
22 long-term debt, so I would like to hear from any
23 witnesses who wish to offer an opinion as to why short
24 and long-term debt have been in effect consolidated
25 here.

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1 A. (Mr. Story) This is John Story for PSE. This
2 is the standard way we normally presented the cost of
3 capital, and in Don Gaines' testimony there's a breakout
4 of the short-term debt and the long-term debt and the
5 different prices for both.

6 Q. And will that breakout add up to what we see
7 here in terms of the percentages?

8 A. (Mr. Story) This is a weighted average of
9 that, yeah.

10 CHAIRMAN SIDRAN: All right, thank you.

11 We're getting some substantial feedback, and
12 I don't know where it's coming from, so my apologies for
13 that. All right, thank you.

14

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

16 BY COMMISSIONER JONES:

17 Q. Mr. Story, just I would like to follow up on
18 the Chairman's questions, so in that paragraph 8, the
19 cost of debt, the weighted cost of debt of long-term and
20 short-term at 6.64%, that's your answer?

21 A. (Mr. Story) Yes, that's the updated version
22 in the rebuttal.

23 Q. Okay.

24 Now let's turn to paragraph 9, page 4 of the
25 settlement agreement, deals with depreciation schedules.

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1 And this is more of a record keeping issue, but the
2 Bench just wants to ensure what is being accepted for
3 the purposes of the settlement agreement for
4 depreciation. Does paragraph 9 refer to only the ink
5 pages in the settlement agreement which is Attachment 1,
6 or do the parties intend that the companies adopt the
7 entire new depreciation study, which is CRC-3, which is
8 473 pages long as amended by the settlement agreement
9 and by CRC-5, what do the parties intend for the
10 Commission to adopt as the, quote, new depreciation
11 study as amended by the settlement agreement provisions
12 on Colstrip property?

13 A. (Mr. Story) Again this is John Story for the
14 Company. What we had here were just the rates from that
15 study, but the underlying study would also -- I mean it
16 supports these rates, so it is a part of the acceptance.
17 The methodologies used in that study as it says in the
18 agreement, we're not agreeing to any methodologies going
19 forward. It's for the purpose of this case only that
20 these rates are being accepted, and I imagine in another
21 case if somebody wants to bring up an issue they could.
22 We would most probably not bring up another issue on
23 depreciation until we do another depreciation study.

24 Q. Is that Staff's understanding too,
25 Mr. Parvinen?

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1 A. (Mr. Parvinen) Yes, it is. Typically the
2 depreciation studies are filed about every 5 years or so
3 they're updated at that point in time. So it's
4 important that the depreciation rates are what's adopted
5 in here, and those are the 8 pages that are attached to
6 the settlement.

7 Q. I see.

8 Second question on depreciation, is the
9 November 1st, 2008, effective date for the new
10 depreciation rates significant for any other reason than
11 it is tied to the date the parties recommend the new
12 tariffs become effective?

13 A. (Mr. Story) There was an issue in the general
14 rate case where Staff had supported a January 1st date,
15 so this is the settlement date. The Company had a
16 concern with the January 1st date because we've already
17 reported financially depreciation based on the old
18 rates, and we have no capability of moving to the new
19 rates until they're approved, so it's getting rid of
20 that issue.

21 Q. So, Mr. Story, the Company's concern was that
22 because you reported for second quarter results,
23 financial results based on the old depreciation study,
24 you didn't want to go back in and revisit that?

25 A. (Mr. Story) First, second, and third quarter

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1 it would be.

2 Q. Thank you.

3 Moving on to paragraph 10, which deals with
4 storm damage, why is this deferral set to begin with
5 January 2009, and this is a timing issue like the
6 depreciation study, and not at the same time new rates
7 are proposed to become effective, meaning November 1st,
8 2008?

9 A. (Mr. Story) From the Company's point of view,
10 this was set to be January 1st because it's an annual
11 calculation, and we've been tracking under the \$7
12 Million cap right now for EEI or EII storm, so to switch
13 mid stream basically would be very difficult, so we're
14 just going to set the new annual rate at \$8 Million.

15 COMMISSIONER JONES: Okay, thank you.

16 COMMISSIONER OSHIE: Judge, I have a
17 question, at least one, thank you.

18

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

20 BY COMMISSIONER OSHIE:

21 Q. This is for the panel, I would like to turn
22 your attention to the partial settlement on page 7 under
23 paragraph 17, and there the parties agree that PSE will
24 study the efficacy of the PCA sharing bands and if
25 warranted propose modifications to the bands in the next

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1 general rate case. So my question is to the parties,
2 what is the -- what do the parties believe and what's
3 PSE's intent as to the areas in which it will be
4 exploring the efficacy, which is a very in some respects
5 a general word, so what is it the parties are going to
6 be looking at, what do the parties expect PSE to be
7 looking at as it conducts its study?

8 A. (Mr. Parvinen) I can give you Staff's
9 perspective of what -- how we viewed this. It was
10 essentially Staff had done a preliminary analysis kind
11 of looking at the bands from the standpoint of we've
12 historically said that symmetry is important, so Staff
13 had done an initial look that said, okay, well, the
14 sharing, whether the band is the initial -- primarily
15 it's in the initial, the initial deadband. If costs are
16 positive, is it symmetrical, the first 20 million
17 positive, does that have the same symmetry as 20 million
18 negative was the question. Staff had kind of looked at
19 it and done an initial analysis that said, well, 20
20 million positive is not equal to 20 million negative
21 from the standpoint of the number of data points that
22 would hit in those ranges, so should it be something
23 else. So Staff felt that something else would be
24 appropriate, so as part of this agreement the Company
25 has agreed to do an analysis on its own to see if that

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1 relationship is true or not and present that results to
2 the parties.

3 Q. And is that the understanding of the other
4 parties as well, just to make sure that there's -- you
5 as well, Mr. Story?

6 A. (Mr. Story) Yes, and another part of this was
7 in Mr. Buckley's testimony he had talked about a hydro
8 adjuster, and when we were talking with the other
9 parties, we brought up the, you know, we had brought up
10 the situation where it's not just a hydro adjuster, it's
11 also market prices would vary. When you have good
12 water, your market prices tend to be lower. So on the
13 downside, the Company also doesn't have a benefit,
14 because normally when you're paying higher power costs,
15 the water tends to be lower. So we have a real upside
16 but not much on the downside, you know, as to where the
17 Company can recover its power costs to offset that. So
18 we're going to look at the hydro impact on the bands,
19 we're going to look at prices on the bands, we're going
20 to look at temperature, try to change some of the
21 variables that would impact prices and see how that
22 would impact the bands.

23 Q. And those are the general areas you're going
24 to be examining, or will there be others potentially?

25 A. (Mr. Story) We may identify more, but right

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1 now that's some we have identified.

2 Q. Do the other parties have anything to add?

3 MR. FFITCH: Your Honor, Simon ffitich for
4 Public Counsel. Since this is primarily an issue that
5 was teed up by Staff, we don't have an objection to this
6 study taking place. We're very interested in having the
7 PCA be properly designed, and we're happy to participate
8 in it. We're not so sure that we see the same issues or
9 problems that other people do, but this process will let
10 us all, you know, take it apart and take another look at
11 it and see if it needs revisions.

12 Q. All right.

13 MR. CEDARBAUM: Commissioners, this is Bob
14 Cedarbaum, just one clarifying point. Paragraph 17 I do
15 not believe was intended to limit the issues of that PCA
16 review to only the ones that the Company would identify.
17 It may be that other parties have other issues that they
18 want to raise and might agree or disagree with the
19 Company's issues on that matter, so this wasn't intended
20 to limit the analysis of other parties to just what
21 Puget believed would be necessary to review.

22 Q. All right, thank you, Mr. Cedarbaum. That
23 brings me to another point, which is after the study has
24 been completed, the paragraph states or that sentence
25 states, and the Company would propose modifications to

0505

1 the bands, is any proposal regarding the PCA bands, is
2 that restricted only to the company, or can any party
3 who might have the study in hand, could agree with at
4 least parts of it, may propose adjustments to the PCA
5 band?

6 MR. CEDARBAUM: My understanding of this
7 paragraph is that it is not limited to just the Company
8 being a party with the ability to propose amendments or
9 revisions to the PCA in any respect. So this was both
10 with respect to the issues that could be examined and
11 with respect to revisions to the mechanism itself, it's
12 open season really for all parties. This was just a
13 mechanism to get the Company's initial stab at the issue
14 and analysis from the Company to get that whole review
15 going.

16 Q. All right, thank you, Mr. Cedarbaum.

17 Now is the -- there's an implied deadline,
18 that being the next general rate case which has been
19 identified as not before April 2009, so what is this --
20 is that an aspirational goal for the Company to get the
21 job done, or would you consider that to be more of a
22 hard deadline, Mr. Story?

23 A. (Mr. Story) We consider it more of a hard
24 deadline that we will have a study done. We've actually
25 started talking about it internally, and we have a

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1 meeting on it tomorrow actually, so we will be sending
2 out ideas to the other parties here fairly soon.

3 COMMISSIONER OSHIE: Okay, thank you very
4 much.

5 Judge, I have no further questions.

6

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

8 BY CHAIRMAN SIDRAN:

9 Q. This is Mark Sidran, I just want to ask a
10 follow-up question with respect to I guess the practical
11 value of some of this effort to review the PCA. In the
12 merger docket, we heard that the Company expects to file
13 either a power cost only rate case or a general rate
14 case every other year for the foreseeable future. And
15 in those proceedings, and I'm sure we'll get into this
16 in the next phase of this hearing, but in those
17 proceedings, my understanding is that the power baseline
18 rate is reset. The more often the power baseline rate
19 is reset, it seems to me the less likely the power cost
20 adjustment bands would ever actually come into play,
21 because that baseline rate is being reset, which reduces
22 it seems to me the likelihood that one would see any
23 actual implementation, if you will, of the provisions of
24 the PCA. Am I right, or am I missing something about
25 how this will play out in the real world?

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1 A. (Mr. Story) From the Company's point of view,
2 I would say that is not correct.

3 Q. Okay.

4 A. (Mr. Story) When you set the baseline rate,
5 you're setting the baseline rate based on a normalized
6 cost. So whenever we go out and reset the baseline
7 rate, it's always to a normalized cost. And the intent
8 of the PCA was to protect the Company and the customers
9 from extreme situations such as cold weather, low hydro,
10 high hydro, whatever. It wasn't meant to have the
11 Company absorb a change in its portfolio, that's why you
12 have the PCORC, to bring in new resources or to true up
13 your power costs. So the baseline is being reset on a
14 normalized basis always for the next rate year, and any
15 deviations from that baseline will always be because
16 something wasn't normal or should be.

17 Q. So it would only come into play in
18 extraordinary circumstances given the size of these
19 bands; is that right?

20 A. (Mr. Story) Actually it doesn't take real bad
21 situations to have it come into play. If you look at
22 the history of the PCA over the last 6 years, there was
23 a time period where we hit the cap, you know, \$40
24 Million, and we weren't in extreme situations. Hydro
25 was most probably around 86%, weather was basically

0508

1 normal during that time period, and we hit \$40 Million,
2 and the customer hit \$25 Million deferred. Since that
3 time, it's reversed where hydro has been much higher,
4 temperatures colder, and now the Company is actually in
5 the over recovery mode when you look on the cumulative
6 basis, and the customer is actually getting money back.
7 So I don't think we would characterize any of the last
8 few years, David Mills can talk to this more, as
9 anything like the California situation, which is what we
10 were looking at when we designed the PCA.

11 CHAIRMAN SIDRAN: All right, thank you,
12 that's helpful.

13 JUDGE TOREM: Commissioners, any other
14 questions for this panel?

15

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

17 BY JUDGE TOREM:

18 Q. I've got one question from the Judge
19 perspective on making sure what's in paragraph 7, it's
20 back on page 3, the agreement says that the revenue
21 models that are used to determine electric and natural
22 gas rate requirements are the revenue models supporting
23 the Company's rebuttal testimony and exhibits that were
24 filed back on July 3rd, and they were adjusted for some
25 follow-on issues. So I want to make sure that what the

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1 parties are referring to is what's been admitted earlier
2 today, first, Mr. Story, as your exhibit for revised
3 results of operations electric that's been labeled
4 JHS-15, and I think there's attachments A through D.

5 A. (Mr. Story) That's correct.

6 Q. All right.

7 So the same question on the natural gas side
8 then would be Mr. Karzmar's exhibit KRK-13, A through D,
9 is that your understanding, Mr. Story?

10 A. (Mr. Story) I believe that's correct, but
11 Mr. Karzmar is on the phone.

12 Q. All right, Mr. Karzmar, is that the revenue
13 model you were referring to there?

14 A. (Mr. Karzmar) Yes, it is.

15 Q. All right, thank you.

16 And I want to make sure that those two
17 exhibits that are JHS-15 and its attachments and KRK-13,
18 is there an updated model that shows the adjustments
19 that are referred to in the settlement, or do we -- is
20 that one readily available?

21 A. (Mr. Story) There is an updated version that
22 we can print out the supporting pages in the same format
23 as what 15 and 13 are.

24 JUDGE TOREM: All right, I think that would
25 be helpful, so let's consider that a Bench request as

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1 well, so we'll add that to our Bench request list
2 regarding the updated revenue models. And if we can get
3 that turned in shortly, the next few days, maybe we'll
4 send out a formal Bench request with a formal deadline,
5 but I would think that Monday would do the trick if that
6 is doable for the parties.

7 All right, thanks for the agreement on that.

8 (Bench Request 6.)

9 A. (Mr. Karzmar) Attachments 2 and 3 to this
10 filing show the results of that revised model, just for
11 your information.

12 BY JUDGE TOREM:

13 Q. Okay, so they would already be attached here
14 to the settlement?

15 A. (Mr. Story) The detail pages are not
16 attached, that's the summary page, and we'll provide the
17 detail pages.

18 JUDGE TOREM: Thank you, Mr. Story, and thank
19 you, Mr. Karzmar, for calling that my attention.

20 All right, thank you fifth and final panel, I
21 will ask you to return to your seats, and I think we're
22 going to go, before we get started looking at a lunch
23 break, we're just a little bit away, to turn to a few
24 other wrap-up issues and see if we can take the disputed
25 issue on the power cost only rate case and take those

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1 issues one witness at a time.

2 First, this may be while we're getting
3 Mr. Mills in place as the first listed witness, a
4 chance, Mr. ffitch, you and I had talked earlier today
5 about two motions that Public Counsel still has
6 outstanding that have not been decided yet in this case.
7 There was one regarding confidentiality, that one was
8 filed on the 22nd of July in an amended format, and the
9 Company filed its response on the 28th of July, and this
10 was an amended motion challenging the confidentiality of
11 PSE's response to a Data Request Number 131.

12 Mr. ffitch, can you comment on the posture of that
13 particular item.

14 MR. FFITCH: Yes, Your Honor, I conferred
15 with Ms. Carson this morning and indicated to her that
16 Public Counsel is still advancing the motion and
17 notwithstanding the settlement we believe it's important
18 that that be resolved in order to determine whether or
19 not that part of the record should be confidential or
20 not, and so we are not withdrawing the motion. It's
21 fully briefed and submitted at this time.

22 JUDGE TOREM: Ms. Carson, do you concur?

23 MS. CARSON: We concur, the Company continues
24 to oppose the motion and believes this is confidential
25 information that needs to be protected.

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1 JUDGE TOREM: All right, then does either
2 party have an objection to this being included within
3 the decision or perhaps coming out in a simultaneous
4 order if it's numbered separately, is there any need,
5 Mr. ffitch, for it to be addressed ahead of the decision
6 on the proposed settlements and the PCORC?

7 MR. FFITCH: I don't know any reason why it
8 can't be treated in the same order, Your Honor.

9 JUDGE TOREM: All right, so I just want to
10 make sure that we don't have a time sensitive issue on
11 this, it's just a question of a policy issue being
12 resolved?

13 MR. FFITCH: That's right, Your Honor. The
14 only thing that occurs to me is that in the event either
15 party wanted to appeal the ruling on the motion, it
16 might be administratively more clear if it was not
17 incorporated into a ruling on the general rate case
18 matters.

19 JUDGE TOREM: I think for housekeeping that
20 would be quite good advice.

21 All right, so that's one motion, there's a
22 second motion out, and I can't remember the exact
23 characterization, Mr. ffitch, can you enlighten me?

24 MR. FFITCH: Your Honor, it was earlier in
25 the case, Puget Sound Energy moved for leave to

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1 supplement its testimony in the case by increasing the
2 amount of the revenue requirement request, and Public
3 Counsel opposed the motion and raised issues about the
4 legality of increasing the revenue requirement amount
5 above the tariffed level that was on file. The
6 Commission granted the motion allowing the
7 supplementation of the testimony and took our legal
8 objections under advisement. Your Honor, given the
9 level of revenue that's now been agreed to by the
10 parties in the revenue requirement settlement, our
11 objections to the increased level addressed in the
12 supplemental testimony are moot, and we're no longer
13 advancing that motion, Your Honor, or that legal
14 argument.

15 JUDGE TOREM: All right, so for this case
16 it's become moot, and I trust that you will continue to
17 work with the Company if this were to arise again and
18 work out some resolution, or we can trust we'll see your
19 similar motion again.

20 MR. FFITCH: That may happen, Your Honor.

21 JUDGE TOREM: All right, but for this one
22 it's moot and we'll move along.

23 All right, Mr. Mills has taken his seat, and
24 I think we're ready then to shift gears to our power
25 cost only rate case. All of the witnesses that we'll

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1 see should have been sworn this morning, and the
2 cross-examination that's been indicated for you,
3 Mr. Mills, is by Industrial Customers for 10 minutes,
4 and perhaps Staff may have 5 minutes. So, Mr. Van
5 Cleve, I see you're in place, and I will turn this over
6 to you for your questions.

7 MR. VAN CLEVE: Thank you, Your Honor.

8

9 Whereupon,

10 DAVID E. MILLS,

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

13

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

15 BY MR. VAN CLEVE:

16 Q. Good morning, Mr. Mills.

17 A. Good morning Mr. Van Cleve.

18 Q. Could you please refer to your rebuttal
19 testimony, that's Exhibit DEM-12 T at page 11.

20 A. I'm there.

21 Q. And you state at line 9 on page 11 that the
22 PCA mechanism is intended to be a balance mechanism; can
23 you explain that?

24 A. The intent of that statement and the intent
25 of PCA being a balance mechanism I think is pretty much

0515

1 set forth in the distribution of the sharing bands, and
2 first and foremost is that the first \$20 Million of
3 power costs over/under recovery is born by the
4 customers, and as you deviate beyond there in extreme
5 power cost situations, that cost then is shared more
6 equitably between the Company and the customers.

7 JUDGE TOREM: Mr. Van Cleve, I just want to
8 make sure everybody is on the same page. We are trying
9 something a little bit new here with the exhibit
10 numbers, and so it might help because there's not a
11 separate exhibit number from the witness's initials and
12 what were previously assigned by the company that we
13 identify the exhibit itself as well, and I can do that
14 from the exhibit list I have in front of me if you give
15 me the number. On this particular case it appears we're
16 referring to Mr. Mills' rebuttal testimony, so I want to
17 make sure the Commissioners are able to get to the
18 source of your questions and can follow along so that
19 they actually benefit from this cross-examination rather
20 than spend the time flipping pages. So this is in
21 Mr. Mills' rebuttal testimony, and can you remind me
22 what page we're on?

23 MR. VAN CLEVE: Page 11, Your Honor.

24 JUDGE TOREM: Thank you.

25 CHAIRMAN SIDRAN: Excuse me, this is Mark

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1 Sidran, so I need a little more clarification, because
2 the books that we have are not tabbed with the exhibit
3 reference that you're using, so tell me again, it's DEM
4 what?

5 MR. VAN CLEVE: 12 T.

6 CHAIRMAN SIDRAN: All right, DEM-12 T, so
7 give me a moment while I look for 12. Got it, thank
8 you. And what page are you on?

9 MR. VAN CLEVE: Page 11.

10 CHAIRMAN SIDRAN: Thank you.

11 MR. VAN CLEVE: And we're looking at line 9.

12 THE WITNESS: Can I continue my response?

13 MR. VAN CLEVE: Certainly.

14 A. In addition to the distribution and the
15 algorithm set forth in the sharing bands, the intent of
16 the PCA mechanism is to be revenue neutral over the long
17 run. And I think a review of the PCA period starting
18 with PCA period 1 through PCA period 6, you will see the
19 distribution in the deviations of power costs over and
20 under recovery pursuant to such things as hydro and
21 weather situations that Mr. Story referenced previously.
22 And I think taken in total on a cumulative basis, I
23 believe that the mechanism appears to be equitable in
24 the sense of the sharing of those costs between
25 customers and the Company.

0517

1 BY MR. VAN CLEVE:

2 Q. And referring to line 15 on page 11 where you
3 talk about the PCA mechanism itself may require
4 adjustment, what were you referring to there?

5 A. Well, as you know, Puget Sound Energy's power
6 portfolio is changing all the time as we acquire new
7 resources but more importantly as our long-term Mid-C
8 hydro electric contracts, which are typically lower cost
9 base load type of resources, as those contracts start to
10 expire over the next 5 to 10 years, it does change the
11 distribution of potential risk to the portfolio, both
12 from a hydro perspective, which in all practical
13 purposes could decrease, but the other types of risks as
14 replacement resources are brought to the portfolio could
15 in actuality increase. We could find ourselves more
16 reliant on natural gas, we've seen how volatile those
17 prices are, the Company could find ourselves more
18 reliant on renewable or on what I call more intermittent
19 type of resources, which also could have an impact on
20 power costs. So I think the intent here on this
21 statement is that we need to continuously look at the
22 mechanism in light of the portfolio and the risks that
23 we're trying to manage.

24 Q. Now the second band, sharing band in the PCA,
25 is 20 to 40 million, correct?

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1 A. That's correct.

2 Q. And there's 50/50 sharing in that band?

3 A. That is correct.

4 Q. And in the last general rate case, the
5 Company proposed to change the bands so that there was
6 90/10 sharing above 25 million; is that right?

7 A. I don't have that testimony from the '06
8 general rate case in front of me.

9 Q. The PCA calculation is a comparison of
10 adjusted power costs with the power cost baseline; is
11 that right?

12 A. Can you restate that, please.

13 Q. The PCA compares adjusted actual power cost
14 with the power cost baseline?

15 A. That is correct.

16 Q. And the baseline can be changed in either a
17 PCORC or a general rate case; is that right?

18 A. You're taking me out of my little area of
19 expertise, I would defer that question to John Story.

20 Q. Well, let me ask you this, you heard
21 Mr. Story just testify that the baseline was based on
22 normalized costs, and my question is, if the PCORC is a
23 five month process, is it possible that the Company has
24 information about what will occur in the rate year that
25 might indicate that costs will be different from

0519

1 normalized?

2 A. During the filing process or in advance of
3 the filing?

4 Q. In advance of the filing.

5 A. We model our portfolio on a probabilistic
6 basis, which in layman's terms means 100 different
7 scenarios are run against every artifact in that
8 portfolio entertaining all sorts of risks. We plan
9 toward the median or the mid point distribution of that
10 100 range of scenarios. Having granularity about what
11 is likely to happen with respect to natural gas prices
12 or hydro conditions, I think any look at volatility
13 would indicate that, you know, the near term prior to
14 delivery continues to be the most volatile. So I think
15 while it is true that there are some fundamental
16 information sources out there that portend to predict
17 hydro conditions or what natural gas prices might be, I
18 think that history with respect to volatility in both of
19 those components of our portfolio have proven that even
20 if we did believe that we might know, we would in all
21 likelihood be wrong.

22 Q. Now can you explain in PCORC what the test
23 year is?

24 A. Again, I would have to defer to John Story.

25 Q. Okay. At page 14 of your rebuttal testimony,

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1 Exhibit DEM-12 T, at line 12 and 13 you're responding to
2 a Staff proposal regarding forecasting rate year power
3 costs, and you say that it would be even more
4 complicated if this hydro filtering adjustment was
5 implemented. And I would like you to just give us a --
6 which implies that it's even complicated now. I would
7 like you to give us a description of how you calculate
8 these power costs for a PCORC and the complexity
9 involved in it.

10 A. Well, we, specific to hydro, we run a 50 year
11 water set through the Aurora production cost model, and
12 we run each of those water years. The comment here with
13 respect to the hydro filtering proposal is that even
14 though it is complicated today to take that 50 year
15 historical water set and run it through the system, I
16 think that the premise here was that to then sit back
17 and second guess 50 years of longitudinal history as to
18 what might be a data outlier or not seemed like it was
19 becoming not only a statistical challenge and ergo
20 complicated, but also started to violate kind of the
21 concept of the normal distribution.

22 Q. But I'm trying to get a sense of the overall
23 effort required to produce a PCORC power forecast.

24 A. Well, we run Aurora, again the production
25 cost model, feeding into that all of the available

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1 generation, we feed it a 90 day natural gas price
2 forecast, average over the last 90 days I might add.
3 Aurora is a WECCwide dispatch logic production cost
4 model. It does attempt to model transmission
5 limitations. And in effect what the Aurora model is
6 attempting to do is to take all westside generation
7 given that gas price and dispatch units under some sort
8 of a dispatch logic. From that run, then what you get
9 is you get the Aurora power prices, which basically
10 reflect the secondary market for wholesale power sales
11 and purchases.

12 Q. And how long does it take you to prepare that
13 forecast?

14 A. A 50 year water run which is a complete
15 robust run of Aurora takes our analysts roughly 9 hours.

16 Q. And how long would it take to validate all
17 the data inputs to that model?

18 A. Well, therein lies a lot of the challenge
19 here, because what typically happens is both the Company
20 and the intervening parties are changing input
21 assumptions and data parameters as they are fed into the
22 Aurora model as well as data components that are what we
23 call the not-in model costs which are outside of Aurora
24 type power costs. And typically what happens is these
25 new proposals require both the Company and ultimately

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1 the other intervening parties to go back and scrub the
2 data inputs to ensure consistency and validate those
3 data. We have had conversations and have agreed with
4 Commission Staff, and it's shown in Ms. Harris's
5 rebuttal testimony, some steps that we support and agree
6 with Staff on how to make the PCORC process more
7 streamlined and more efficient, specifically extending
8 the procedural time frame from 5 to 6 months, shortening
9 the data response time from 10 working days to 5 working
10 days, limit the updates, once we're in that PCORC
11 filing, limit the update to one update, although the
12 Commission can order a second update based upon what
13 might be going on with natural gas prices, be they up or
14 down. And last thing mandates that there's no overlap
15 between a PCORC process and a GRC process. Those are
16 the points that we've already agreed with Commission
17 Staff on to make this process more efficient.

18 Q. So from a power cost standpoint, is there any
19 difference between the kind of case that you put
20 together and file in a PCORC as compared to a general
21 rate case?

22 A. From a power cost perspective?

23 Q. Right.

24 A. Not at this time, there is not.

25 Q. But the time frame for the review of that is

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1 about 6 months less, right?

2 A. Well, my understanding is a general rate case
3 brings in a number of other cost components that would
4 not be addressed in a PCORC.

5 Q. I would like to ask you about the gas
6 updating that you've done in both PCORC cases and
7 general rate cases, and I think you refer to it on page
8 18 of your rebuttal testimony, and if you look I believe
9 starting at line 8, does that describe what's involved
10 in doing a gas update?

11 A. That's correct.

12 Q. And can you just kind of walk us through each
13 of those 3 components so we can understand what changes
14 you're making to your case when you make a gas update?

15 A. Feeding Aurora an updated or a different gas
16 price will change the dispatch, not so much the logic,
17 but it will change the amount of generation being
18 dispatched. And keep in mind gas fire generation will
19 dispatch on a heat rate, which is just an assumed power
20 price divided by the gas price. So feeding Aurora that
21 new gas price will change not only the resulting
22 underlying power cost for the WCC and ultimately for
23 Mid-C, but it also changes potentially the amount of
24 secondary purchases and/or sales the Company might have
25 to make at those power prices. That information as well

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1 as other information, as I referenced earlier the not-in
2 models and production costs O&M type calculations, will
3 then also be reviewed for any impact as a result of that
4 change to Aurora.

5 Q. And what is the not-in models update for the
6 fixed rate year gas for power contracts?

7 A. Are you asking me conceptually or --

8 Q. Yes.

9 A. Well, the not-in models are non-fixed cost
10 type items that won't show up, so this is where your
11 production O&M type information will show up.

12 Q. So you put in forward gas prices?

13 A. Into Aurora.

14 Q. And then outside the model you put in power
15 purchases that you've made; is that right?

16 A. Historical, the hedges that have already been
17 done, yes.

18 Q. Since the case was filed?

19 A. If there is an update, that's true.

20 Q. And then you also put in gas hedges that
21 you've put in place as well?

22 A. That's correct.

23 Q. And do you know, these last two categories,
24 are there hundreds of transactions or what, I mean what
25 kind of new contracts are coming into the case at that

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1 point?

2 A. Not hundreds of new transactions. Given the
3 size of the blocks that the commodity market trades in,
4 25 megawatts on electricity and 10,000 decatherms on
5 natural gas, we just don't find ourselves in that many
6 transactions. And it is going to vary over both the
7 time period involved, because the Company is more net
8 short in the winter months, but what I have seen
9 historically is the amount of those purchase contracts
10 that are assumed here in not-in models have been
11 reducing as of course we acquire new resources, it makes
12 us less reliant on that wholesale market.

13 Q. And given that gas prices are fairly
14 volatile, how do you decide during a case when you're
15 going to file a gas update?

16 A. While we're filing a case, we're of course
17 managing the trading side, you know, we're living and
18 breathing the gas markets every day. What we have
19 agreed in past cases to is rather than letting the
20 numbers in the process be whipsawed by using a daily
21 natural gas price, which has been incredibly volatile,
22 as opposed to say maybe a 10-day average, we have now
23 settled on a 90-day average. Typically what you see is
24 it takes, with a 90-day average, it takes quite a period
25 of time to effect, well, two things, quite a period of

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1 time or a dramatic shock in the underlying price of
2 natural gas to make a change in that 90-day. My folks,
3 the traders, we track that number on a daily basis.
4 Again you don't see a lot of change on the 90-day
5 average, and we don't decree, we make a recommendation
6 when we see a significant change in gas prices, but
7 we're not the determining factor as to when those gas
8 prices might be updated in the process.

9 Q. Okay, I would like to refer you to one of the
10 cross exhibits that we distributed, it's actually the
11 second one, it's labeled DEM-18.

12 A. Mine's not numbered.

13 JUDGE TOREM: Mr. Van Cleve, I think for
14 clarity, this is an ICNU data request; is that correct?

15 MR. VAN CLEVE: Yes, and it's Data Request
16 Number 1.030 in Docket Number UE-070565.

17 A. I have that.

18 BY MR. VAN CLEVE:

19 Q. And this is a data response prepared by you
20 or under your direction in the last PCORC case; is that
21 correct?

22 A. That's correct.

23 MS. CARSON: And, Your Honor, we did want to
24 object to this cross-exam exhibit in the form that it
25 currently is in.

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1 JUDGE TOREM: And explain that a little bit
2 more for me.

3 MS. CARSON: Sure. There are two parts to
4 it, two pages, the response to the data request, which
5 should be a stand-alone document, and then attached to
6 it is a separate document that is work papers from that,
7 I believe it's also from the last PCORC case. So this
8 was not -- this gives the appearance that this is the
9 data request response, the first page is the data
10 request response, the second page is a work paper.

11 MR. VAN CLEVE: Your Honor, the point here
12 was the data request refers to a page of the work paper,
13 so it was just attached to show what the reference was
14 to.

15 JUDGE TOREM: Ms. Carson.

16 MS. CARSON: Well, we don't have an objection
17 to the work paper coming in, but it should be a separate
18 exhibit. It was not attached to this exhibit, it is not
19 a part of the data request.

20 JUDGE TOREM: All right, well, what I'm
21 understanding then is that you're stating the first page
22 of what's been marked as DEM-18 is the data request and
23 the 3 paragraphs of response. The second page of what's
24 currently marked as DEM-18 has nothing to do with that,
25 but it's referenced, and it's a separate document, and

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1 to avoid any confusion in those observing these pages
2 together, that's what makes it objectionable, the
3 association, the way it's marked?

4 MS. CARSON: Well, I think it's misleading,
5 it's coming in as a data request response, and the first
6 page is a response, and the second page is a work paper
7 from the case.

8 JUDGE TOREM: All right, given the way we
9 have things numbered then, I'm going to renumber the
10 second page as a second exhibit, DEM-19, does that
11 resolve your concerns?

12 MS. CARSON: It does.

13 JUDGE TOREM: And we'll call DEM-19 an
14 excerpt from work papers?

15 MS. CARSON: That works.

16 JUDGE TOREM: Mr. Van Cleve, as it's your
17 exhibit, does it work for you?

18 MR. VAN CLEVE: Yes, Your Honor, that's fine.

19 JUDGE TOREM: All right, so are you moving at
20 this time that DEM-18 and 19 be admitted?

21 MR. VAN CLEVE: Yes, I will.

22 JUDGE TOREM: Any objections?

23 MS. CARSON: No.

24 JUDGE TOREM: All right, 18 and 19 are
25 admitted as separate 1-page exhibits.

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1 Mr. Van Cleve, why don't you continue with
2 your questions.

3 BY MR. VAN CLEVE:

4 Q. Mr. Mills, is DEM-19 a load forecast that was
5 part of the 2007 PCORC case?

6 A. In partial form, the answer is yes. The
7 reason I caveat that is it is a sales forecast. This
8 happens to be net of conservation. I can not attest
9 that somewhere else in the case is not a load forecast
10 that is not net of conservation.

11 Q. Do the PCORC proceedings generally include
12 new load forecasts?

13 A. We prefer and typically will use the most
14 recent data available for developing be it a general
15 rate case or a PCORC filing. There's a lot to be said
16 for the consistency. We've also noticed in this load
17 forecast issue specifically that our load forecasts have
18 been consistently underrunning actuals, which means our
19 actuals are -- actual loads are 1% to 2% higher than any
20 of these forecasts.

21 Q. And if you refer to Exhibit DEM-18, which is
22 the ICNU Data Request 1.030, this is a request that you
23 provide support and justification for the increase in
24 retail sales in the 2007 PCORC compared to the 2006 GRC;
25 is that correct?

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1 A. That is correct.

2 Q. And if you look in that exhibit in your
3 response in the second paragraph, it says that the
4 forecast is produced using an econometric model,
5 correct?

6 A. That's correct.

7 Q. And that there's changes from previous
8 forecasts and data and assumptions and economic growth
9 and demographic growth and energy prices, there's a
10 number of changes that go into this model; is that
11 right?

12 A. There is a number of data input changes, the
13 underlying regression model and the coefficients or the
14 explanatory variables remain the same so that the
15 structure of the economic model remains the same, just
16 updating with more recent historical information.

17 Q. And would you need to look at those inputs to
18 determine whether this forecast is reasonable?

19 A. You would not need to look at the individual
20 inputs, you would need to look at the regression
21 coefficients, which would be much simpler. There may be
22 7 or 8 coefficients. Coefficients just explains the fit
23 of the explanatory variable in a statistical sense, and
24 the change in those coefficients will tell you if the
25 input, the extension of the historical input explanatory

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1 variable has changed the overall fit and the accuracy of
2 the model.

3 Q. Did you produce the econometric model or
4 those changes in coefficient in response to this data
5 request?

6 A. No, not I personally nor my Staff. The load
7 forecast is done in another department.

8 Q. So ICNU didn't have any basis based on your
9 response to determine whether this load forecast was
10 reasonable or not; is that right?

11 A. I think that looking at the work papers and
12 looking at the historical loads versus the short-term
13 projection of the next year loads and also dialing back
14 and looking historically at the load growth of the Puget
15 system would indicate that the previous load forecasts
16 were predicting about a 1 1/2% to 2% growth, system's
17 actually been growing better than 2%. The change here,
18 because these are in megawatt hours, looks like a large
19 change. In actuality, the month or actually the year
20 over year changes on an average basis are roughly about
21 30 megawatts per month, which is a 1% adjustment.

22 Q. I would like to refer you to Exhibit DEM-17,
23 which is an ICNU cross exhibit, and it's labeled PCORC
24 procedural history.

25 MS. CARSON: Your Honor --

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1 JUDGE TOREM: Mr. Van Cleve, this is the
2 updated version?

3 MR. VAN CLEVE: It's labeled revised ICNU
4 Cross Exhibit Number DEM-17.

5 JUDGE TOREM: Now if I looked at this the way
6 it was previously submitted, there are three numbers
7 that were changed. Two of them come in the column
8 labeled date Aurora files provided for the first and
9 third entries, they moved by a couple of days. And then
10 in the date direct testimony due column, the third entry
11 there was changed. Are those the only updates?

12 MR. VAN CLEVE: I believe that's correct.

13 JUDGE TOREM: All right.

14 Ms. Carson, you wanted to comment on the
15 exhibit?

16 MS. CARSON: Well, we are objecting to this
17 exhibit. It wasn't created by the witness. It was
18 produced originally on Friday with subsequent changes
19 made yesterday I believe a couple of times. Mr. Mills
20 didn't create this, he hasn't had time to verify, and
21 there is information on here that he can not readily
22 verify as a matter of record, public record, so we
23 object.

24 JUDGE TOREM: Mr. Van Cleve.

25 MR. VAN CLEVE: Your Honor, ICNU is

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1 challenging the PCORC based on the fact that we do not
2 believe that it's possible to review the data and
3 information that is filed in these cases in the time
4 frames provided, and particularly on the power cost
5 issue the Aurora runs, which are quite complicated. So
6 we think it's very relevant for the Commission to know
7 what the process in these cases has actually been. And
8 if this is not accurate, we would either request that
9 the Commission issue a Bench request to obtain this
10 information, or in the alternative we would be happy to
11 put Mr. Schoenbeck on the stand, and he can testify to
12 these dates. But in either case, we think to have a
13 complete record that the Commission should know exactly
14 how much time parties have in these cases to look at
15 this information.

16 JUDGE TOREM: It would appear to me also that
17 the date of the prehearing conference, the date of the
18 filing, and the date that direct testimony is due are
19 all dates that are readily available in the Commission
20 records. The only questions that may not be readily
21 available in our administrative files are the date the
22 Aurora files are actually provided and perhaps any date
23 of update, although that date of update may also be
24 readily available, so it's just the date the Aurora
25 files are provided that aren't already somewhere in the

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1 bowels of the records department downstairs?

2 MR. VAN CLEVE: Yes, I would say that that
3 column, the date the Aurora files are provided, is the
4 only information you could not obtain from the
5 Commission's web site by going through the case files on
6 these cases.

7 JUDGE TOREM: And your intent in questioning
8 Mr. Mills about this is simply to establish the date the
9 Aurora files are provided and how long parties may have
10 to analyze it?

11 MR. VAN CLEVE: That's correct.

12 JUDGE TOREM: Ms. Carson, with those
13 understandings, does your objection still stand?

14 MS. CARSON: It does still stand. We have
15 not been able to verify when the Aurora files were
16 provided. That's not something that's easy to verify
17 that we have readily available. This is information
18 that could have been asked in a data request, it's
19 information that could have been provided as an exhibit
20 to Mr. Schoenbeck's testimony, and I believe the witness
21 will testify that he doesn't know the dates that these
22 were provided. So we continue to object, we don't have
23 that information, we can't authenticate that.

24 JUDGE TOREM: You said you possibly could
25 authenticate that though given some time. If I followed

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1 the advice of counsel then to issue a Bench request for
2 this, could that information be provided and clarified?

3 MS. CARSON: We may be able to do that.

4 JUDGE TOREM: Okay, Mr. Van Cleve, just so I
5 have this down, when you say the date the Aurora files
6 are provided, is that from the Company to the other
7 interveners in the case?

8 MR. VAN CLEVE: To the parties that have
9 requested them, yes.

10 JUDGE TOREM: Mr. Van Cleve, the Company
11 makes a very good point as far as why this is coming in
12 now and causing us some consternation as to the
13 reliability of the numbers and whether this is the
14 appropriate witness, do either you or your witness,
15 Mr. Schoenbeck, have an idea why this wasn't set out in
16 a data request or offered in testimony?

17 MR. VAN CLEVE: Well, two reasons. First,
18 you know, in these cases sometimes it's not clear until
19 the end what's really going to become important. And
20 second, this was an issue that we were actively trying
21 to settle and thought would settle, so we frankly just
22 didn't pursue it at the time. But now it appears
23 relevant, and I think that the benefit of having to pull
24 a record outweighs the harm from coming in late.

25 JUDGE TOREM: Do you find that this argument

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1 then may also prove key in any post hearing brief you
2 intend to file?

3 MR. VAN CLEVE: I believe that it would be
4 helpful in talking about whether there's enough time to
5 respond to the filings that have been made to know how
6 much time there is to know what the actual process has
7 been.

8 MS. CARSON: And, Your Honor, I would just
9 like to add that this has always been a part of the
10 Industrial Customers' argument in their responsive
11 testimony is that there isn't enough time in the PCORC.
12 Of course, now the Company has agreed to additional time
13 in the PCORC, but this is not a new argument, this is
14 not something new from the Industrial Customers, this is
15 something that could have been provided several months
16 ago.

17 JUDGE TOREM: No, I understand, Ms. Carson,
18 and I sympathize with that view, but because I think it
19 does benefit the Commissioners to know the full range of
20 arguments here, and if they can see the dates. Now
21 again, as you suspect, Mr. Mills, we may have this whole
22 discussion, admit the exhibit, which I intend to do, and
23 issue a Bench request to ask if these dates can be
24 clarified, again you tell me how long you need for that,
25 but it may turn out that the Commission wants to know

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1 these dates, and if they come in in the form of a Bench
2 request, at least then there's a case for argument on
3 both sides, cases can be made and persuasion can be made
4 on these three gentlemen as to whether there is
5 sufficient time with the 5 months as it stands or with
6 the 6 months that has been proposed for the new
7 agreement with the Company and Staff. So although,
8 Mr. Van Cleve, I wish you had asked for this earlier and
9 we wouldn't have had to have this discussion today, I
10 will indulge you, and we'll admit this exhibit over the
11 objection of the company and ask also to add to the list
12 of Bench requests that the Company be given an
13 opportunity to clarify these numbers or confirm them.
14 Ms. Carson, when do you think you will need time for
15 that?

16 MS. CARSON: I think we need at least a week.
17 We don't have control, there have been other counsel who
18 have been involved in these cases, and I think sometimes
19 these come directly from the Company, sometimes they go
20 through the attorneys, and we're going back five years
21 for some of this, so I think we need at least a week on
22 this, five working days.

23 JUDGE TOREM: All right, so let's put it out
24 until next Friday then, that would be the 12th of
25 September.

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1 (Bench Request 7.)

2 JUDGE TOREM: All right, let me distribute
3 then what's been marked as the revised exhibit of DEM-17
4 to the Commissioners, I was provided additional copies
5 for that purpose today, and I will send them down.

6 Mr. Van Cleve, do you have a question again
7 then for the witness about these Aurora dates?

8 MR. VAN CLEVE: I just have a couple of
9 questions on this exhibit.

10 BY MR. VAN CLEVE:

11 Q. Mr. Mills, focusing on the 2007 PCORC,
12 subject to correction it appears that the case was filed
13 on March 20th, 2007; is that correct?

14 A. Honestly I can't testify to the dates here.

15 Q. Okay. Well, let me just ask you
16 hypothetically, let's assume that the Aurora files were
17 provided on April the 3rd, and let's assume that ICNU's
18 direct testimony in the case was due on June 15th, and
19 do you believe that that's a reasonable amount of time
20 to conduct discovery and do a thorough analysis of your
21 power cost case?

22 A. Well, a couple points. First, the date that
23 the Aurora files are provided to the counterparties is
24 not a random exercise. It has everything to do with
25 when we get the signed confidentiality agreements back

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1 from parties. It's pretty standard practice. With
2 respect to the time dimension, assuming that these dates
3 are correct, I would say the answer is yes.

4 I think part of the challenge, and I alluded
5 to this earlier in a previous question, part of the
6 challenge that we're facing is not only from the
7 Industrial Customers but potentially from other
8 interveners, there's typically new proposals that are
9 suggested in rebuttal testimony, things having to do
10 with adjusting the forced outage rate or the
11 availability of the Colstrip coal plant, how to model
12 and impute a value for sales and resale as opposed to
13 using the Aurora model, recommendations for how to
14 provide gas supplies to a new, in this case in the PCORC
15 was the Goldendale combustion turbine, how to provide
16 gas supply from what inherently was an asset that
17 belonged to the core gas book, how to swing that back,
18 core gas transportation to provide raw heat gas to the
19 Goldendale plant. Those types of proposals take
20 everybody a significant amount of time to dial in and to
21 try to understand one another in terms of the
22 assumptions and the data points that are used.

23 Another problem that we typically have that
24 kind of finds its way into the Aurora process is people
25 focus -- interveners come in with different suggestions

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1 or recommendations about changing either the
2 availability or the total capacity factors of various
3 units that may or may not be dispatched in the or I
4 should say are dispatched in the Aurora model.

5 So all of that combined, that makes it a more
6 challenging process.

7 Q. It is clear that there is some period of time
8 between the filing of the case and when the Company
9 provides the Aurora model, and that does slow down the
10 review of the case by other parties; would you agree
11 with that?

12 A. Again, I think the relevant date is the date
13 that the confidentiality agreements are signed.

14 Q. Is the Company willing to modify the process
15 so that somehow the Aurora model inputs can be filed
16 with the work papers in the original filing?

17 MS. CARSON: I'm going to object to this,
18 this is a new proposal that was not in testimony, the
19 Company hasn't had an opportunity to fully consider this
20 or respond to it, and so we object. It's new testimony
21 that could have been brought up in the Industrial
22 Customers' response case.

23 MR. VAN CLEVE: Your Honor, I'm just asking
24 the witness whether the Company would be willing to try
25 to do that to expedite the review of these cases.

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1 JUDGE TOREM: Mr. Van Cleve, I don't know
2 that it's this witness's authority, it's something that
3 I concur, and I will sustain the objection, should be
4 discussed, I encourage those discussions, but here is
5 not the place.

6 BY MR. VAN CLEVE:

7 Q. Well, let me ask you about the, staying with
8 the 2007 PCORC, the, and this is a subject to check of
9 public record, that the gas update was filed on May the
10 23rd, is that something that you prepared?

11 MS. CARSON: I'm going to object to that
12 subject to check, that's not an appropriate subject to
13 check, it's not a calculation as required by the
14 Commission rules, it's checking a date.

15 MR. VAN CLEVE: Well, subject to correction
16 by the Company when it updates its exhibit.

17 MS. CARSON: Okay, that's not a subject to
18 check. You're saying you would like us to clarify in
19 the Bench request if that's not correct?

20 MR. VAN CLEVE: Correct.

21 BY MR. VAN CLEVE:

22 Q. My question is, assuming that a party wished
23 to conduct discovery on the gas update and the time for
24 the Company to respond, standard time is 10 business
25 days; is that right?

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1 A. That is my understanding.

2 Q. And assuming that they wanted to analyze the
3 Aurora inputs and review the prudence of the power
4 contracts and the gas for power contracts and the draft
5 testimony, is there enough time between May the 23rd and
6 June the 15th to reasonably get that task done?

7 A. Depends on the nature of the update.
8 Checking the gas price forecast assumptions should be a
9 fairly straightforward process. We use a standard
10 service to provide those prices, it's fairly transparent
11 and open to folks. But again, I will go back to my
12 previous response, which is it's more than just updating
13 of the gas prices and reviewing the pricing and the
14 efficacy of the hedges that have been entered into
15 already, it's also having to model and work through all
16 of the other recommendations that come in in response
17 testimony that then, you know, it just -- it sort of
18 exacerbates the complexity in the process.

19 MR. VAN CLEVE: That's all I have.

20 JUDGE TOREM: Commission Staff had five
21 minutes reserved.

22 MR. CEDARBAUM: I do have just a couple of
23 clarifying questions if that would be permitted.

24 JUDGE TOREM: Well, I want to check with our
25 court reporter, it's now about 10 minutes after 12:00,

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1 we ran a little bit longer than Mr. Van Cleve had
2 estimated, and it may be helpful to have this witness
3 completed before lunch.

4 Ms. Carson, were you planning also to ask any
5 redirect questions?

6 MS. CARSON: I do have some redirect.

7 MR. FFITCH: And, Your Honor, I was going to
8 ask permission to ask one or two questions. Although I
9 didn't identify cross for this witness, the line of
10 questions has raised just one or two follow ups for me.

11 JUDGE TOREM: All right, well, then in the
12 interest then of staying somewhat on track in being able
13 to plan our afternoon, let me ask all counsel to hold
14 their questions.

15 Mr. Mills, I was hoping we would be able to
16 cut you loose before the lunch break, but we're not
17 going to be able to do that, so we will pick up with
18 your cross-examination from Staff after our lunch break
19 when we come back.

20 And, Mr. Van Cleve, you have a couple of
21 other witnesses, Mr. Story and Mr. Parvinen and
22 Mr. Martin, estimates of additional 15 or 10 minutes,
23 and, well, this 10 minutes clearly wasn't adhered to, do
24 you have any idea given how this went this morning
25 whether you want to adjust the accuracy of your other

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1 estimates so we can plan the afternoon?

2 MR. VAN CLEVE: I expect the other estimates
3 to be accurate.

4 JUDGE TOREM: Okay, well, I may take license
5 to hold you to those.

6 MR. CEDARBAUM: Your Honor, just for planning
7 purposes, I have reassessed my estimates, and I believe
8 beyond the few questions I will have for Mr. Mills, I
9 won't have questions for other witnesses, even though I
10 had reserved some time on Friday.

11 JUDGE TOREM: All right, excellent.

12 If counsel want to approach me before they
13 take off and tell me about any other estimates, I don't
14 want to keep the Commissioners, we will be at recess
15 then until 1:30, and we'll start up promptly at 1:30.

16 (Luncheon recess taken at 12:10 p.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 TOREM: All right, good afternoon,
21 we're back on the record, it's now 1:30 in the
22 afternoon. This is Judge Torem again. I want to
23 acknowledge that Chad Stokes of the Northwest Industrial
24 Gas Users and Elaine Spencer of Seattle Steam asked me
25 before the lunch break, right at the lunch break, if

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1 they needed to be here this afternoon for any other
2 reason, they had no other business before the
3 Commission, so I granted them their leave. They may or
4 may not be joining us from the bridge line at various
5 places on I-5, but they indicated they would defer to
6 other counsel as to any discussions about post hearing
7 briefs and the deadlines, so they are all in your hands
8 for those who are remaining present.

9 When we left off, we also had Mr. Mills who's
10 back on the witness stand, and I believe Commission
11 Staff is ready to launch into its cross-exam, and then
12 we're going to have redirect perhaps, Ms. Carson, after
13 some Public Counsel questions as well. Mr. ffitch, did
14 you want to -- we'll do your cross-examination right
15 after Staff?

16 MR. FFITCH: Yes, if Your Honor pleases,
17 thank you.

18 JUDGE TOREM: Yes, I think that would be
19 best, and then Ms. Carson can ask her questions if any
20 more redirect is necessary, and we'll get through it in
21 one fell swoop.

22 Mr. Cedarbaum.

23

24

25

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

2 BY MR. CEDARBAUM:

3 Q. Good afternoon, Mr. Mills.

4 A. Good afternoon.

5 Q. My questions are in the nature of clarifying,
6 and the first is that when you were answering questions
7 of Mr. Van Cleve's with respect to Exhibit DEM-17, which
8 was the PCORC procedural history, I believe you
9 testified that there was a 10 business day turn around
10 on bench, excuse me, on data request responses, and I
11 just want to clarify, it's correct, isn't it, that the
12 Company has agreed to the Staff recommendation to reduce
13 that to 5 business days; is that right?

14 A. That is correct.

15 Q. And my other line of questions and the final
16 one concerns page 18 of your rebuttal testimony, which
17 is exhibit DEM-12 T, again at page 18, and the context
18 here is that in her testimony Ms. Harris deferred to you
19 on how the gas cost updates occur within a PCORC, and so
20 I had a couple of clarifying questions for you about
21 that. And the first is that if I understood your
22 testimony this morning, the gas cost updates involve a
23 change to the input into the methodology that's already
24 being used in the case as opposed to a change to the
25 methodology itself; is that right?

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1 A. That is correct.

2 Q. And that would be the Company's intention
3 going forward with respect to updates during a PCORC?

4 A. Yes.

5 Q. And that would be true both within the time
6 frame of the PCORC itself as well as any compliance
7 filing update that was allowed?

8 A. Yes.

9 Q. Is it the Company -- when the Company makes
10 these gas price updates as you have described this
11 methodology, I assume the Company provides all the
12 supporting documentation and model runs supporting the
13 update; is that correct?

14 A. That's correct. We, in addition to the model
15 runs, we also provide a series of work papers that
16 compare the updated runs by fairly granular component to
17 the pre-update version.

18 Q. And that would be the Company's intention
19 going forward with respect to future PCORC's?

20 A. Yes, it would.

21 Q. Both in the context of the case in chief and
22 any compliance filings?

23 A. Yes.

24 MR. CEDARBAUM: Thank you, those are all my
25 questions.

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1 JUDGE TOREM: Mr. ffitch.

2 MR. FFITCH: Thank you, Your Honor.

3

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

5 BY MR. FFITCH:

6 Q. Good afternoon, Mr. Mills.

7 A. Good afternoon.

8 Q. Just one question. When you update your case
9 during a PCORC, Puget doesn't just update the gas costs,
10 isn't that correct?

11 A. We will typically use the best data available
12 at the time of that update to bring in all relevant
13 information, so that is true.

14 Q. You are updating other costs besides gas
15 costs --

16 A. We could.

17 Q. -- in those updates?

18 A. We could.

19 Q. And you have done, for example in one of the
20 PCORC cases you updated Colstrip fuel costs, did you
21 not?

22 A. I believe that is true.

23 MR. FFITCH: Thank you, Mr. Mills.

24 Those are all my questions, Your Honor.

25 JUDGE TOREM: Ms. Carson.

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

2 BY MS. CARSON:

3 Q. Mr. Mills, you were asked some questions
4 about the complexity of the Aurora model and load
5 forecasts, and I just want to clarify, are there other
6 opportunities for interested parties to review the
7 assumptions of the Aurora model and the projected
8 forecasts other than in the PCORC and the general rate
9 case proceedings?

10 A. Yes, there are. One in particular, every
11 other year the Company is required to file an
12 inter-vendor resource plan. There is a component of my
13 department that is responsible for developing that plan.
14 One component of that plan development is an advisory
15 group called the inter-vendor research plan advisory
16 group for lack of a catchier acronym. In those advisory
17 group meetings that are populated by a number of
18 customers as well as constituents and other interveners,
19 we do talk about the assumptions. We don't necessarily
20 provide all of the raw data or the model runs from
21 Aurora, but we do talk about any major assumption
22 changes or basic -- just the assumptions that we're
23 using, as well as we use that then to discuss and effect
24 the new load forecasts that will be also be used in the
25 IRP.

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1 Q. Do you know if ICNU has been involved in that
2 IRP process?

3 A. To my knowledge looking back at the IRP, I
4 don't believe they have.

5 Q. Are they invited to that process?

6 A. Yes, I believe they are.

7 Q. Just to clarify also you -- in your testimony
8 earlier you talked about the PCA being a balanced
9 mechanism, and I just want to clarify on the first 20
10 million, the first band, now is that a sharing between
11 the Company and customers, or is that not?

12 A. The first 20 million around the deadband, so
13 that would be 20 million up or down is born by the
14 Company.

15 Q. Mr. Van Cleve had asked about the possibility
16 of the company providing the Aurora model at a sooner
17 date, and that was an issue that I objected to because
18 that was something new that hadn't been presented in the
19 case. Have you had an opportunity to discuss that
20 possibility with others in the Company?

21 A. We have, and as long as we have signed
22 confidentiality agreements in place that are at least at
23 the same standard as the previous regulatory proceeding,
24 be it a PCORC or a GRC, I don't see any issue with our
25 being able to release the Aurora information on the day

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1 we file the case.

2 MS. CARSON: I have no further questions.

3 JUDGE TOREM: Counsel, is there any need for
4 recross on what you heard?

5 MR. CEDARBAUM: Just on that last point.

6

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

8 BY MR. CEDARBAUM:

9 Q. Just to be sure, Mr. Mills, you're not
10 stating that the Commission has to have issued a
11 protective order when the filing is made, just that
12 parties sign the protective order agreement from the
13 last case and commit to comply with that; is that right?

14 A. Well, you've got me out of my area of
15 expertise with protective orders. In my line of
16 business, it's a confidentiality agreement that the
17 individual parties would sign such that the information
18 that they're being provided by the Company would not be
19 released to a third party that's not covered by that.

20 MR. CEDARBAUM: So perhaps if counsel can
21 clarify.

22 MS. CARSON: Yes, I can clarify. I believe
23 this has been done in the past, in the last PCORC, and
24 we did use the same standard confidentiality agreement
25 that's been used in previous PCORC's and GRC's. And as

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1 long as parties were willing to sign those, then we
2 would provide them earlier, so I think that's what he's
3 agreeing to do. Protective order doesn't need to be
4 entered, just a confidentiality agreement signed.

5 JUDGE TOREM: And I will observe, Ms. Carson
6 and Mr. Cedarbaum, that just looking at DEM-17 Exhibit,
7 that most recent PCORC the Aurora files were provided it
8 looks like 12 days, calendar days, might be 14 calendar
9 days, ahead of the date of the prehearing conference.
10 And so if the Company has found a way to get that done,
11 I do remember Judge Moss issuing I believe the it must
12 have been a protection order earlier upon request, but I
13 don't know if there were any other releases of the
14 Aurora files prior to the new protective order being
15 issued for that docket number.

16 MR. CEDARBAUM: Well, I can just for Staff,
17 I'm assuming Staff gets the Aurora model with the filing
18 because it's Commission Staff. And I think also there
19 was a process in the prior case of the company asked
20 right away with the filing for a protective order, and
21 it was issued prior to the prehearing conference, that's
22 why the timing of that occurred.

23 JUDGE TOREM: I just don't think it was
24 issued the same day as the filing.

25 MS. CARSON: I think we have also in the past

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1 just agreed to even without a new protective order in
2 place allow parties to sign confidentiality agreements,
3 it's a standard form, so we're willing to do that.

4 JUDGE TOREM: Okay, thank you.

5 Any other questions for this witness?

6 MR. VAN CLEVE: Just to clarify.

7

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

9 BY MR. VAN CLEVE:

10 Q. It's my understanding that you're proposing
11 that that could be signed before the filing so that the
12 Aurora files could be provided with the filing; is that
13 what you said?

14 A. That's what I said.

15 MS. CARSON: That's correct.

16 MR. VAN CLEVE: Okay, thank you.

17 JUDGE TOREM: All right, with all of those
18 clarifications then, Mr. Mills, your time after lunch
19 was short, so we'll have you step down, and the next
20 scheduled witness is Ms. Kimberly Harris.

21 MR. FFITCH: Your Honor, while Ms. Harris is
22 coming forward, just a matter with regard to a cross
23 exhibit that was identified for us by Mr. Mills, I
24 wasn't clear whether there was -- this was stipulated in
25 or not.

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1 JUDGE TOREM: No, I don't believe,
2 Mr. ffitch, that any of the cross-exam exhibits were
3 stipulated in. This was your Public Counsel Data
4 Request Number 543?

5 MR. FFITCH: Correct, Your Honor, it's been
6 marked for identification as DEM-16 C. I did not hear
7 this one identified as being objected to by the Company.

8 MS. CARSON: We have no objection to this.

9 JUDGE TOREM: All right, then DEM-16 C is
10 also admitted at this time then.

11 You've already been sworn this morning,
12 ma'am, or no?

13 MS. HARRIS: No, I have not been sworn.

14 JUDGE TOREM: All right.

15 (Witness KIMBERLY J. HARRIS was sworn.)

16 JUDGE TOREM: We know that your testimony has
17 already been preadmitted.

18 Cross-exam, Mr. ffitch, were you going to
19 lead off?

20 MR. FFITCH: I believe so, yes, Your Honor.

21 JUDGE TOREM: All right, and you've
22 designated 35 minutes, we'll see how close your watch
23 is.

24 MR. FFITCH: Thank you, Your Honor.

25

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1 Whereupon,

2 KIMBERLY J. HARRIS,

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

4 herein and was examined and testified as follows:

5

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

7 BY MR. FFITCH:

8 Q. Good afternoon, Ms. Harris.

9 A. Good afternoon.

10 Q. In your rebuttal testimony, you state that
11 Puget can not time the acquisition of new resources so
12 that they can align filing the general rate case with
13 the acquisition of that new resource; is that right?

14 A. That could be true, yes.

15 Q. Can the Company time the filing of its
16 general rate cases?

17 A. Can they -- I mean just -- I'm trying to
18 clarify the question, can the Company time its filing of
19 a general rate case to coincide with a purchase of an
20 asset or just time the filing of a general rate case in
21 general?

22 Q. Well, let's just start with the general
23 question.

24 A. In general, yes.

25 Q. All right. And so the Company could time the

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1 filing of a general rate case to synchronize with the
2 acquisition of a new resource, could it not?

3 A. Not necessarily, no.

4 Q. But in some cases it could be possible that
5 it could do that?

6 A. It could be possible in some cases, yes.

7 Q. Also in your testimony you state that there's
8 no assurance that accounting petitions for deferred
9 accounting would be granted by the Commission or that
10 the Company would get all of its deferred costs; is that
11 right?

12 A. Yes, that is my testimony.

13 Q. Has the Company ever had an accounting
14 petition denied since 2001?

15 A. I'm not sure whether the Company has had a
16 petition denied, however, we do have several petitions
17 that have been filed that have not been acted upon, and
18 in some cases those could be over the span of one year.

19 Q. Can you state whether Puget has had any
20 experience since 2001 other than the Tenaska proceeding
21 where it was denied recovery of deferred costs?

22 A. Not to my knowledge, no.

23 Q. Could I ask you to turn, please, to what's
24 been marked as Exhibit 21, this is the yellow paper,
25 it's KJH-21, it's the Markell exhibit.

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1 JUDGE TOREM: Mr. ffitch, just to be clear
2 then for all that are searching out the document, this
3 is a cross-examination exhibit that you filed last week,
4 and this is an excerpt from Mr. Markell's testimony in
5 this case that was marked as EMM-6 C, but its new number
6 now is KJH-21 C; is that right?

7 MR. FFITCH: That's partly correct, Your
8 Honor. This is an exhibit from Mr. Markell's testimony
9 in the merger case, it's Exhibit 76 C from the merger
10 case.

11 JUDGE TOREM: I'm sorry, I misread that, the
12 exhibit and the docket number is in the upper right,
13 that's right, this is from the merger case.

14 All right, it appears that everyone has it in
15 front of them.

16 BY MR. FFITCH:

17 Q. And could you please turn to page 7,
18 Ms. Harris.

19 A. I'm there.

20 Q. And, well, first of all just in general, I
21 don't think the title of the document is confidential,
22 is it?

23 MS. CARSON: No.

24 Q. It's a Puget Sound Energy business plan
25 update, correct?

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1 A. Yes.

2 Q. And this page contains some of the key
3 assumptions, and again it's confidential, I'm not going
4 to ask you to talk about what those are on the public
5 record, but --

6 MS. CARSON: Excuse me, counsel, could you
7 clarify what page you're on and whether that's the
8 exhibit page number or the document page?

9 MR. FFITCH: It's the handwritten exhibit
10 page number page 7.

11 BY MR. FFITCH:

12 Q. I guess my first question is, does Puget
13 Sound Energy continue to assert confidentiality as to
14 this page of the exhibit, either for Ms. Harris or for
15 counsel?

16 A. I'm looking to counsel only because this is
17 not my exhibit as far as -- and so I don't know how it's
18 being treated in the other cases.

19 Q. I will let counsel respond.

20 MS. CARSON: It's my understanding certain
21 parts of this document are confidential, and they are
22 shaded.

23 MR. FFITCH: I'm sorry, if I could clarify
24 maybe for Ms. Carson's assistance, I'm just talking
25 about this one page at this point in time, not the

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1 entire document.

2 JUDGE TOREM: Ms. Carson, were you going to
3 indicate there's no shading on this page?

4 MS. CARSON: Yeah, I guess I would want to
5 confer with my client on this. Mr. Markell I don't
6 believe is here, and this was one of his documents, and
7 I believe one of his assistants is here, so I would like
8 to confer.

9 JUDGE TOREM: Go ahead.

10 MS. CARSON: So as I understand it, the page
11 at issue is page 7 of 13 of the exhibit; is that
12 correct, Mr. Ffitch?

13 MR. FFITCH: Mr. Markell's numbering is page
14 6 of 13. The number that we have placed on it under the
15 numbering rules is page 7.

16 MS. CARSON: Okay, so this is the key
17 assumptions regulatory plan?

18 MR. FFITCH: Correct.

19 MS. CARSON: That is not confidential.

20 MR. FFITCH: Thank you.

21 BY MR. FFITCH:

22 Q. Do you have that page in front of you,
23 Ms. Harris?

24 A. I do.

25 Q. And this document shows that the key

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1 assumptions for Puget's business plan through 2013 are
2 to have a rate case of some type every year, correct?

3 A. Well, I would have to say I mean I think that
4 the term there is assumptions, and if I may kind of step
5 back and talk about the assumptions are that there will
6 be regulatory treatment. I don't know necessarily that
7 the assumptions are a specific type of rate proceeding
8 per year. So the assumptions built in to the plan that
9 we provide for our board provides for regulatory
10 treatment, but it's not necessarily tied to this
11 specific time period or this specific plan.

12 Q. Can you explain what you mean by regulatory
13 treatment? I don't see those words on this page.

14 A. Right, well, what we're trying to do here is
15 to model, and we're trying to show a trend, so it's when
16 we talk about on the title page that it is the business
17 plan update, these are the key assumptions for that
18 business plan. So instead of being tied to a specific
19 rate proceeding, the assumption is that there would be
20 appropriate regulatory treatment at the appropriate
21 time, whether that would be through a PCORC or through a
22 general rate case.

23 Q. All right. Am I understanding you correctly
24 to say that there would be a general rate case or a
25 PCORC, one or the other, in each of the years 2008

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1 through 2013?

2 A. If that was necessary, yes.

3 Q. And doesn't this exhibit show that it is a
4 key assumption of the business plan that it will be
5 necessary through 2013?

6 A. Some sort of regulatory proceeding, yes.

7 Q. Meaning some sort of rate case?

8 A. Yes.

9 Q. Isn't it true that the PCORC was originally
10 justified in part as reducing the number of rate cases?

11 A. Reducing the number of general rate cases or
12 rate cases in general?

13 Q. Reducing the number of general rate cases.

14 A. No, I don't believe so.

15 Q. You don't recall that?

16 A. No.

17 Q. How does PSE know when it's going to need to
18 file a PCORC in future years?

19 A. That was my point actually on your earlier
20 question, I don't think that we know whether we will
21 need a general rate case or a PCORC. It's basically
22 driven by resources and the acquisition of resources or
23 power costs. I mean it's specifically driven by where
24 the Company finds itself at that given point on whether
25 we need a general rate case or whether a PCORC is more

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1 appropriate.

2 Q. So Puget doesn't know when it will be
3 acquiring resources to be included in one of these
4 future cases?

5 A. Can you phrase -- I mean as far as a time
6 frame? Puget will know for instance -- I don't know
7 exactly, I don't think Puget can forecast what resource
8 it will be acquiring when. Of course we run the IRP
9 process, we run the RAP process, we are currently going
10 through those processes, but I can't tell you the timing
11 of acquisitions out in a five year period if that's your
12 question. Maybe a one month period out, so I guess it
13 depends on your timing.

14 Q. All right.

15 Would you agree that one of the goals of rate
16 making policy is rate stability and that frequent rate
17 changes are to be avoided if possible?

18 A. No, I would find it to be I guess a bit more
19 complex than that.

20 Q. Do you agree that one of the goals of rate
21 making policy is rate stability?

22 A. I think we're all trying to achieve rate
23 stability, yes.

24 MR. FFITCH: Can I have a moment, Your Honor.

25 Thank you, Ms. Harris.

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1 No further questions, Your Honor.

2 JUDGE TOREM: All right, thank you,

3 Mr. ffitch.

4 Mr. Cedarbaum.

5 MR. CEDARBAUM: No questions.

6 JUDGE TOREM: Ms. Carson, any follow up?

7 MS. CARSON: No.

8 JUDGE TOREM: All right, well, thank you,

9 Ms. Harris.

10 CHAIRMAN SIDRAN: I have a question.

11 JUDGE TOREM: Sorry, Chairman Sidran.

12

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

14 BY CHAIRMAN SIDRAN:

15 Q. I just want to ask a follow-up question. As
16 I understand it, a general rate case has to be filed
17 within three months following a PCORC filing; is that
18 correct?

19 A. Only in certain circumstances if it triggers
20 I believe in the original settlement it was a 5% rate
21 increase. And so if the PCORC caused a rate increase
22 above 5%, then that could trigger a filing of a general
23 rate case within three months.

24 Q. Okay. So you were I think discussing in
25 response to Mr. ffitch's question the Company has to

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1 make presumably a decision about whether to pursue a
2 PCORC or a general rate case, correct?

3 A. Yes, and it would be based off the
4 circumstances of what type of a resource or power cost
5 that we were acquiring.

6 Q. So could you just give me a -- expand on
7 that, what are the criteria that the Company uses to
8 decide whether to pursue a PCORC or a general rate case?

9 A. Well, some resources are really very akin to
10 filing a PCORC. For example, the acquisition of
11 Goldendale or the acquisition of a power plant where
12 basically it is an acquisition. So in purchasing the
13 power plant, it's already been built, you're basically
14 just transferring ownership, so at that point you can
15 time that very well with a PCORC. If you are in a
16 development phase or you have a long lead time as far as
17 a resource and it might be taking two years to actually
18 develop that resource, those types of resource might not
19 need such a short time frame for filing, those resources
20 might be more akin to just filing a general rate case.

21 Q. Okay, so can you envision filing a PCORC
22 where there are no new resources being added?

23 A. It is contemplated in the settlement, and it
24 was intended by the parties to be one of those issues
25 that may come into play. It just has been because of

0565

1 our IRP process and because Puget is in an extremely
2 short position that we have been filing PCORC's with
3 acquisitions.

4 Q. All right, so going back to your prior
5 question, let's assume there are no new resources at
6 issue, then would you change anything about your answer
7 about choosing between a PCORC and a general rate case?

8 A. No, but I think what would happen is at that
9 time if the only driving cost for regulatory filing was
10 power costs, I think you would choose a PCORC. If on
11 the other hand we're dealing with depreciation or ROE or
12 all the other incredibly complex issues that go into a
13 general rate case, then we would be filing a general
14 rate case.

15 Q. Okay, so again to go back to your earlier
16 question because I did not recall this actually from the
17 testimony and I just want to be clear, so under the
18 existing terms of the settlement, the Company could for
19 example obtain under a PCORC a 4.9% increase in rates
20 and never file, well, and not file a general rate case
21 thereafter?

22 A. There was also an exception for that, and I
23 will step back. This was when the issues -- when the
24 parties were contemplating or putting together the
25 PCORC, there were some parties that specifically wanted

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1 to address exactly your issue, so there was limitations
2 put on how many PCORC's we could file consecutively, and
3 there was also the threshold put in as far as the rate
4 increase. So I believe it is 2 PCORC's or 3, I'm sorry,
5 and I can't recall, but there was it's either 2 or 3
6 PCORC's consecutively and then you have to file a
7 general rate case.

8 CHAIRMAN SIDRAN: All right, thank you.

9 JUDGE TOREM: Commissioner Jones.

10

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

12 BY COMMISSIONER JONES:

13 Q. Ms. Harris, I have a question concerning page
14 8 of your rebuttal testimony, if you could. And this
15 relates somewhat to the Goldendale generating station,
16 the deferral, the accounting petition was granted, and
17 then the impact on cash flow in your credit facilities.
18 So there on lines 7 through 10 you state that the
19 Company does not have a large enough credit facility to
20 accommodate -- to both fund its operation and acquire
21 new resource acquisitions at the current pace of the
22 IRP.

23 A. Yes.

24 Q. So a couple of question, what's the current
25 size of your credit facility that you would tap to fund

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1 a new resource acquisition like Goldendale?

2 A. I'm not aware exactly of the amount of the
3 credit facility, but internally we don't have
4 necessarily a threshold or a bench mark or a trigger
5 actually of how much or a percentage of -- that's not
6 one of the issues that we look at in acquisitions.

7 Q. So there's no predetermined like there is for
8 example in the transaction merger case, there is a CapEx
9 facility both at the holding company level and PSE
10 level, so there is no such facility now that you use to
11 fund new acquisitions?

12 A. And that's why I want to clarify, there may
13 be a facility, and that would be a great question for
14 say for Mr. Gaines.

15 Q. All right.

16 A. But what I'm saying is in our determination
17 or in our analysis of acquisitions, that is not a piece
18 that we're looking at as far as a bench mark that we can
19 not go beyond a certain percentage of such facility.

20 Q. Okay, well, this may be a better question for
21 Mr. Gaines, because I wanted you to walk through, it's a
22 little confusing to me, your explanation of cash flow
23 problems when you -- when the Commission did grant the
24 accounting petition on a timely basis I think, so I just
25 wanted you to walk through the Goldendale case where we

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1 -- the Commission granted an accounting petition prior
2 to putting it in to rate base, and then there was a
3 PCORC and the accounting facility, so I just wanted you
4 to specifically deal with that as a case study. It was
5 a \$131 Million acquisition, so maybe you could just
6 clarify for the Bench, at least for me, cash flow, how
7 that was financed, how you paid the vendors, et cetera,
8 because I'm having problems matching your assertion of
9 cash flow problems with the accounting petition that was
10 granted and the size of the acquisition.

11 A. So maybe it would help as far as with, you
12 know, my testimony and looking at the difference between
13 an accounting petition even in the event of Goldendale
14 versus a PCORC, what I'm focusing in on there is an
15 accounting petition does not provide us the regulatory
16 certainty that you're looking for as far as all the
17 different pieces including cash flow. So for instance
18 the acquisition of any resource is very bulky, whether
19 it be \$130 Million or such. The accounting petition on
20 a regulatory side just does not provide that type of
21 regulatory certainty as, like I said, as a PCORC would.

22 The other issue that I was identifying with
23 the accounting petition, for example I believe it's
24 PacifiCorp filed an accounting petition on a very large
25 asset which they don't identify but they describe, and

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1 that accounting petition was filed in April, and it's
2 still -- it has not been addressed. So part of the
3 issue with cash flow in accounting petitions wasn't
4 necessarily whether it's been granted or not, but how
5 long it may take and the timing and so forth.

6 So as far as the specifics on an accounting
7 petition and your point as far as cash flow, I think
8 that's probably a better question for John Story on the
9 accounting piece, but I'm just trying to give you a
10 flavor of when I'm talking about cash flow as an outlay
11 all the different pieces that I'm looking at in my
12 testimony.

13 Q. So two follow-up questions, because you say
14 on page 5 that cash flow is also a significant concern,
15 so let's get back to Goldendale for a minute, you must
16 look at cash flow considerations when you're considering
17 purchasing the asset, are you not? Isn't that part of
18 the equation that goes into your, your as director of
19 acquisitions, cash flow considerations?

20 A. No, not necessarily.

21 Q. No?

22 A. I mean I guess that was my part with the
23 bench mark. I mean we are not looking at -- we are
24 assuming honestly when you're looking at an acquisition,
25 you're looking at all the different factors. Now like I

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1 said, cash flow is going to be one of those factors as
2 far as financing, can we get financing, where is the
3 street, where is Wall Street, just as in a credit rating
4 would apply to those factors, revenues would apply to
5 those factors. So I think it's one of the criteria when
6 you're looking at prudence of an acquisition, but I
7 wouldn't say that there's a specific threshold for cash
8 flow. I would say that it's part of the entire analysis
9 that you're looking at as far as prudence.

10 Q. Isn't the CFO involved in these decisions
11 about when to acquire certain resources? I mean you
12 just can't go in and convince the board to go ahead with
13 an acquisition at a certain date without the opinion of
14 the CFO?

15 A. That is correct, and the CFO is a member of
16 the AMC.

17 Q. Right, and the CFO is quite concerned about
18 cash flow, correct?

19 A. Yes, he is.

20 Q. What was the reaction of Wall Street to the
21 -- I've read a few of the reports, I don't know if
22 they're in the record or not -- to the PCORC granted and
23 the accounting petition granted for Goldendale, was it
24 in general positive, or was it negative or?

25 A. I'm sorry, I don't recall.

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1 Q. You don't recall?

2 A. Hm-mm.

3 COMMISSIONER JONES: Okay, no more questions.

4

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

6 BY CHAIRMAN SIDRAN:

7 Q. So, Ms. Harris, I want to follow up because
8 Commissioner Oshie had the presence of mind, thank you,
9 to hand me a copy of what is the settlement terms for
10 the power cost adjustment mechanism from Docket Numbers
11 UE-011570 and UG-011571, and I don't know, it looks like
12 counsel is approaching you, and she may be handing you
13 that very document. So what I would like you to do is
14 turn to what on my document is page 6 of the settlement
15 terms, at the top of which is paragraph number 9, and
16 take a moment to read paragraphs 9 and 10. And this may
17 refresh your memory, because you've been around a lot
18 longer than I have, so you have -- and I don't mean that
19 chronologically, although I suppose it's possible, so I
20 could understand that there might be some confusion with
21 the passage of time. But if you take a look at
22 paragraphs 9 and 10, I think you will see that there's a
23 provision that limits the proposition that general rate
24 cases only follow a certain cumulative rate increase
25 impact of the filing of a PCORC.

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1 A. Yes, and thank you, this does refresh. I
2 believe it's paragraph 9 which is the 5% trigger, and
3 then paragraph 10 was I believe what I was trying to
4 address before. There was a worry that we would only be
5 filing PCORC's, and so instead of the consecutive which
6 I had stated, it was tied to a date certain. But I
7 referred to the very end of that paragraph, the last
8 sentence, it says not more than one general rate case in
9 any 12 month period shall be required to comply with
10 this requirement. So I'm not sure whether that
11 requirement stands today, because we have filed a
12 general rate case since that date.

13 Q. I think my question is paragraph 10 says:
14 Further, if at any time after July 1st,
15 2005, the Company shall file for a power
16 cost only review and such filing shall
17 result in an increase to general rates
18 then in effect.

19 No 5%.

20 The Company shall within three months of
21 the effective date of any rate increase
22 resulting from the PCORC file a general
23 rate case.

24 A. Yes, that is correct.

25 Q. Then it goes on. So I guess my -- just so

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1 I'm clear, today, 2008, if the Company files a PCORC and
2 it results in any rate increase, within 3 months the
3 Company must file a general rate case unless there has
4 been a general rate case within 12 months, or no, I
5 guess it will have to file after the PCORC and won't
6 have to file another one for 12 months. But my point
7 is, the 5% cumulative impact, the things that you were
8 describing are not applicable today, correct, or am I
9 misreading this? I read paragraph 9 to only apply for
10 the first 3 years, July 1st, 2002, to July 1st, 2005.
11 After July 1st, 2005, if the Company files a PCORC and
12 it results in a rate increase, the Company must file a
13 general rate increase within 3 months?

14 A. I would not disagree with your
15 interpretation.

16 Q. Okay. So maybe I can go back and try to
17 remember my prior question. If the Company has to file
18 a general rate case within 3 months of any PCORC that
19 would result in any rate increase, how likely is it that
20 the Company would file a PCORC not involving any
21 resource addition, just for the purpose of updating base
22 power costs when it will have to file a general rate
23 case within 90 days of an increase in rates that would
24 be triggered by the PCORC filing?

25 A. I understand your question now. That would

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1 probably not be very likely. I can not assume that the
2 Company would make that choice.

3 CHAIRMAN SIDRAN: Okay, thank you.

4 JUDGE TOREM: Commissioners, any other
5 questions?

6 Ms. Carson.

7 MS. CARSON: Yes.

8 MR. FFITCH: Excuse me, Your Honor, if I may,
9 just one follow up given the questions from Chairman
10 Sidran.

11 JUDGE TOREM: Certainly.

12

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

14 BY MR. FFITCH:

15 Q. Ms. Harris, isn't it true that one of the
16 reasons for the requirement in paragraph 10 is that the
17 PCORC represents a single issue rate making mechanism?

18 A. Well, I'm not sure that that was the reason
19 why paragraph 10 was drafted. If I remember the intent
20 of the parties, you have to remember when the PCORC was
21 created, and it was 2001, so the Company was coming off
22 of its five year rate stay out period, and I believe
23 that the parties' intent was that they didn't want to
24 create a regulatory mechanism wherein the Company would
25 not be filing general rate cases. The Company had not

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1 filed a general rate case for some time. So when you're
2 saying single issue rate making, I don't believe that
3 that was what we were trying to get to in paragraph 10.
4 It really -- and I believe it was Public Counsel's
5 position that we wanted to make sure that the Company
6 would come in for general rate review.

7 Q. You would agree, wouldn't you, that the PCORC
8 mechanism is by its nature single issue rate making,
9 would you not?

10 A. Yes, I believe it's proposed that way in the
11 settlement.

12 MR. FFITCH: Thank you, Ms. Harris, no
13 further questions.

14 JUDGE TOREM: Mr. Cedarbaum.

15 MR. CEDARBAUM: Thank you.

16

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

18 BY MR. CEDARBAUM:

19 Q. Ms. Harris, just a quick question on
20 paragraph 10 of the PCA settlement terms, which actually
21 in this record is JHS-8 C, I don't know why there's a C
22 on it but that's the way it was marked. Is it correct
23 in the current case the Company has agreed to the Staff
24 recommendation that there be no overlap between general
25 rate case filings and PCORC filings; is that right?

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1 A. That is correct.

2 Q. And if that recommendation were accepted by
3 the Commission, then implementing paragraph 10 would
4 mean that so you have a PCORC, there's a rate increase
5 from that PCORC, the Company then has to file a general
6 rate case, it could not file a PCORC overlapping that
7 general rate case?

8 A. It could not file a PCORC while the general
9 rate case is in process, that is correct.

10 MR. CEDARBAUM: Thank you.

11 JUDGE TOREM: Any other clarifying questions
12 for this witness?

13 MS. CARSON: I do have a couple.

14

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

16 BY MS. CARSON:

17 Q. Ms. Harris, just to clarify, to date have we
18 had to choose between -- has the Company had to choose
19 between acquiring or not acquiring a resource due to
20 cash flow constraints to your knowledge?

21 A. No, and I guess my point was is we are never
22 -- that is just one of the aspects of all of the things
23 that we're looking at during an acquisition. If I can
24 step back, I think it was the 19th Supplemental Order
25 talks about prudence, which is what we're basically

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1 talking about, prudence as in we have to run a very
2 robust process, the process needs to be transparent, and
3 the process needs to have contemporaneous documentation.
4 And then I believe I think it was the 4th Supplemental
5 Order, you take all of those aspects, all of that
6 analysis together, and then management makes the best
7 decision that it can at that time given all the facts
8 before it, and all the facts that it knows and what it
9 should reasonably know. And I guess my point is, cash
10 flow is one of those facts, and there's many different
11 other facts. I mean there's some that are operational
12 such as transmission or the availability of a resource
13 or the availability of supply, there's all these
14 different facts that we're taking into consideration.
15 So the cash flow, although we're identifying it right
16 here, is just one of those things, as looking at
17 directing acquisitions, one of those things that I'm
18 looking at.

19 Q. Has the PCORC been helpful to the company to
20 be able to avoid that situation where the Company
21 chooses whether or not to acquire a resource because of
22 cash flow issues?

23 A. The PCORC has been -- the PCORC has allowed
24 the company to be very opportunistic. I mean we're
25 focusing in on the PCORC as far as a rate proceeding, I

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1 think if you step back and you look at the acquisitions
2 that we have made because of the PCORC or have been
3 added to the PCORC, you have Fredrickson, which, you
4 know, 50% of Fredrickson is in a fantastic location,
5 both transmission 890, you know, all of its different
6 issues. Hopkins Ridge, which is probably the least cost
7 facility, wind facility in the region, very
8 opportunistic as being one of the front runners there,
9 and then Goldendale, which Commissioner Jones' question,
10 Goldendale was bought in a bankruptcy proceeding at
11 about 30 cents on the dollar. So I think that PCORC has
12 allowed some very opportunistic acquisitions.

13 Q. And just getting back to the accounting
14 petition issue with Goldendale, there's a difference
15 between accounting petitions and PCORC's and GRC's,
16 correct?

17 A. Oh, definitely.

18 Q. Go ahead.

19 A. I mean in a GRC or a PCORC, we're looking for
20 prudence review, and that's what the parties were really
21 trying to address in the creation of the PCORC, and it's
22 actually in the testimony when we proposed the PCORC to
23 the Commission when we were looking for that alignment
24 of adding in to rate base, of plant going into service
25 and rate recovery, we're trying to align the prudence

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1 review. I would take a prudence review and an order on
2 prudence any day over an accounting petition.

3 MS. CARSON: Thank you.

4 JUDGE TOREM: All right, I don't see anybody
5 else leaning forward to ask questions, going once, going
6 twice --

7 MR. FFITCH: Your Honor.

8 JUDGE TOREM: Here it comes.

9 CHAIRMAN SIDRAN: You'll have to be quicker
10 on that count.

11 JUDGE TOREM: Mr. ffitch.

12

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

14 BY MR. FFITCH:

15 Q. Ms. Harris, you can get a prudence review and
16 an order on prudence in a general rate case, can't you?

17 A. Yes.

18 MR. FFITCH: That's all I have, Your Honor.

19 JUDGE TOREM: All right, no tennis match?

20 MS. CARSON: No.

21 JUDGE TOREM: Okay, thank you, Ms. Harris.

22 I will ask Mr. Story to come back.

23 And for this witness, Mr. ffitch, you've
24 allocated 45 minutes, Mr. Van Cleve you have 15 minutes,
25 and Staff has another 5, so it may be that it's waived,

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1 we'll see how things go.

2 MR. FFITCH: Your Honor, I wanted to address
3 the cross exhibits for Ms. Harris before we get to
4 Mr. Story.

5 JUDGE TOREM: That was next on my agenda, so
6 let's take a look, these are KJH-10 through 21; is that
7 correct?

8 MR. FFITCH: I believe through 22, Your
9 Honor, unless I'm miscounting.

10 Through 21, Your Honor, correct.

11 JUDGE TOREM: All right, are you offering
12 them for admission at this time?

13 MR. FFITCH: We are, Your Honor.

14 JUDGE TOREM: Ms. Carson.

15 MS. CARSON: Yes, the Company objects to
16 KJH-20, this was not a document that was prepared by
17 Ms. Harris or that she has fully had the opportunity to
18 review, it's a document from another docket, the PSE
19 merger docket, she has no -- there's no foundation been
20 laid for this to be admitted through Ms. Harris, and for
21 these reasons we object.

22 JUDGE TOREM: Okay, any other exhibits that
23 the Company objects to?

24 MS. CARSON: No.

25 JUDGE TOREM: All right, so 10 through 19 and

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1 21 can be admitted at this time.

2 Mr. ffitch can you respond to the objection,
3 please.

4 MR. FFITCH: Yes, thank you, Your Honor.
5 Your Honor, we're offering this under a number of bases.
6 As Ms. Carson has indicated, this has already been
7 marked as an exhibit and admitted in the Puget Sound
8 Energy merger docket. The Bench has ruled very early on
9 in the case that exhibits, discovery rather from both
10 cases could be used interchangeably in either docket,
11 this was produced in discovery in the merger case.
12 Secondly, we believe it's admissible as a part of a
13 record in another Commission proceeding under WAC
14 480-07-490(4), and additionally we think the Commission
15 could take official notice of this as a judicially
16 cognizable fact under 480-07-495(2). We are offering
17 this for the purpose of placing into the PCORC record
18 the assumptions in the merger financial projection, or
19 financial model, excuse me, with respect to the
20 frequency of general rate cases and PCORC's, and that's
21 specifically shown on page 9 of the exhibit. It's
22 essentially mirroring or tracking the exhibit that we
23 did examine Ms. Harris about with respect to the company
24 business model.

25 JUDGE TOREM: When you say page 9 of the

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1 proposed exhibit, that's the hand numbered item?

2 MR. FFITCH: Yes, it is, Your Honor, about
3 halfway down the page under scenario analysis under
4 regulatory assumptions, there is information about
5 projected PCORC and rate case timing.

6 JUDGE TOREM: Ms. Carson.

7 MS. CARSON: Yes, a couple of points. First
8 of all, there are several other pages besides page 9
9 that are being brought in. Again, Ms. Harris has no
10 knowledge of this. The Commission ruled early on that
11 the potential for discovery between cases and exhibits
12 to be used between cases, but it was not an automatic
13 that any exhibit in one case would be allowed in another
14 case. And in this particular case where it wasn't
15 earlier made an exhibit, Public Counsel has had this for
16 several months in the merger docket, and it was not made
17 an exhibit previously, and Ms. Harris has no real
18 working knowledge of this, she did not create it and has
19 not spent any amount of time looking at it. I believe
20 Public Counsel still has an obligation to provide
21 foundation for this document in this case.

22 JUDGE TOREM: Mr. ffitch, any further
23 response?

24 MR. FFITCH: It's not specifically tied to
25 Ms. Harris, Your Honor, we have two company witnesses, I

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1 guess we could have it attached to Mr. Story. We're
2 simply asking the Commission in its consideration of
3 PCORC matters to allow this to be placed in the record
4 of the PCORC case. We think it is relevant, as were the
5 assumptions in the business model, we think it's related
6 to that, and we just wanted the record to be complete.

7 JUDGE TOREM: I read the rule that you cited
8 to as to the permissibility of these exhibits to be
9 introduced from one case to another, it says they may be
10 offered, but doesn't, as Ms. Carson says, indicate they
11 must be accepted. My concern here less than you being
12 able to question Mr. Story and try to get it in here is
13 why this isn't cumulative when taken in conjunction with
14 the examination you've already done with Mr. Markell's
15 testimony, which I think you're saying makes the exact
16 same point. This is from the merger case which has not
17 been decided. This is from the merger case for a
18 business plan going forward for the proposed new
19 ownership of this company, but you've made the same
20 point in Mr. Markell's testimony in that case or this
21 other response to the data request, the Company
22 apparently has some plan for a regulatory proceeding,
23 whether it's PCORC or a general rate case, just about on
24 every year going forward, so why is this not cumulative
25 to what's already been admitted without objection to the

0584

1 Markell exhibit, which I think is 21?

2 MR. FFITCH: Your Honor, our answer to that
3 would be because the Markell exhibit would cover the
4 situation where the Company continues on a stand-alone
5 basis, and the exhibit that we're discussing would cover
6 the situation post transaction if there were to be an
7 approval.

8 JUDGE TOREM: Well, again, that's in a
9 separate case, and the rates here are being determined
10 separately from that. That's why these cases weren't
11 consolidated to begin with, they are separate issues.
12 So if a rate case is brought forward under any new
13 ownership in the future, this could certainly be
14 relevant then, I would concur wholeheartedly, but at
15 this point it's speculation. I will sustain the
16 objection, this one will not be admitted at this time.
17 If you find that you want to examine Mr. Story on it and
18 persuade me otherwise, given a better foundation and
19 context we can take another run at it in a few minutes,
20 but for now it's not admitted as it's marked.

21 MR. FFITCH: Thank you, Your Honor.

22 JUDGE TOREM: All right, Mr. Story has taken
23 his seat, and he's got his microphone ready to go, it's
24 now about 2:25. Mr. ffitich, did you want to lead off
25 again with this witness?

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1 MR. FFITCH: Yes, Your Honor, that would be
2 fine.

3

4 Whereupon,

5

 JOHN H. STORY,

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

8

9

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

10 BY MR. FFITCH:

11 Q. Good afternoon, Mr. Story.

12 A. Hello.

13 Q. In Ms. Lee Smith's testimony on behalf of
14 Public Counsel, she discussed why regulatory lag is not
15 -- we discussed why, excuse me, Ms. Smith discussed why
16 regulatory lag is not as significant with a wind
17 resource acquisition. I'm not going to dwell on that,
18 do you recall that point?

19 A. Yes.

20 Q. And you responded to this in your rebuttal
21 testimony by noting that wind generation requires that
22 other resources must be held in reserve to firm up wind
23 generation and shape the wind generation. Is that a
24 fair summary of your response?

25 A. No.

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1 Q. Okay, well, let's go to page 37 of your
2 rebuttal testimony then.

3 JUDGE TOREM: Mr. ffitch, do you have the
4 exhibit number?

5 MR. FFITCH: I do, Your Honor, JHS-14.

6 JUDGE TOREM: And which page are we going to?

7 MR. FFITCH: Page 37, Your Honor.

8 BY MR. FFITCH:

9 Q. We're going to lines 18 through 20, do you
10 have that --

11 A. Yes.

12 Q. -- Mr. Story?

13 A. Yes.

14 Q. All right, there you state that Ms. Smith
15 ignores that wind generation is intermittent or
16 non-firm, requiring other resources to be held in
17 reserve to firm and shape the wind generation to
18 approximate a firm source of generation, correct?

19 A. That's correct, but that's not the point of
20 the paragraph.

21 Q. Well, if you just hang with me, I'll ask my
22 question. I'm not trying to be controversial here, I'm
23 just trying to get you to recall what you actually
24 testified to in that particular section of your
25 testimony.

0587

1 A. I know what I actually testified to, thank
2 you.

3 Q. Are you denying that your testimony is as
4 stated on lines 18 through 20?

5 A. What I'm stating here is that she did ignore
6 that, but even if she were right, the real question is
7 what happens when you bring in a resource that has a
8 high variable cost like a CT, the second part of the
9 question and answer.

10 Q. Well, you know, I could just sit back and let
11 you testify, Mr. Story, but I don't think I'm going to
12 do that. And if you could just allow me to ask my
13 questions and don't anticipate where you think they
14 might be going, we'll probably get through here pretty
15 quickly.

16 A. Mm-hm.

17 Q. Aren't you saying in this section of your
18 testimony that the impact of wind, a wind resource, as
19 far as Puget Sound Energy is concerned is that Puget
20 gets energy for the cost of wind integration in effect?

21 A. Yes, and it can take different costs.
22 However, that's not the point of the answer.

23 Q. All right, well, your testimony is on file.

24 A. Yes.

25 Q. It's available for everyone to read.

0588

1 A. Yes.

2 Q. And so I think we can just let it stand at
3 that.

4 Doesn't the Company also get production tax
5 credits as a result of energy produced by wind?

6 A. Yes, and it passes them back to the customer.

7 Q. And it also gets some benefit from
8 depreciation once the wind resource is put into the rate
9 base, correct, or into rates?

10 A. I believe you mean deferred taxes.

11 Q. Correct.

12 A. Accelerated tax, yes, and that's given back
13 to the customer also.

14 Q. All right. When does the customer get that
15 back?

16 A. As soon as it's built in to rates,
17 technically the day it happens.

18 Q. In the next PCORC, in the next general rate
19 case?

20 A. That's when it would be reflected in rates,
21 but being old school, I'm of the school that says when
22 you have a rate base and you compare it to your current
23 earnings, that's what's in the earnings that you have
24 earning capability on.

25 Q. Can you please turn to Exhibit JHS-23, which

0589

1 is a response to Public Counsel Data Request 817, do you
2 have that?

3 A. Yes, I do.

4 Q. And in that response, you indicate the
5 Company did not add additional generation to firm up the
6 Hopkins Ridge wind project, correct?

7 A. That's correct.

8 Q. And in the same response, you state that
9 existing hydro resources were the best way to provide
10 for day ahead integration of Hopkins Ridge. I believe
11 that's down right at the actually very end of the
12 answer.

13 A. That's correct.

14 Q. Can you explain the difference between
15 firming up a wind resource and energy imbalance
16 integration?

17 A. No.

18 Q. When the Company added the Wild Horse wind
19 project, did it immediately also add additional
20 generation to firm up the wind resource?

21 A. No, it did not, it used the hydro if you're
22 talking about Hopkins Ridge. Or wait, let me back up
23 just a second. Hopkins Ridge was actually backed up by
24 BPA. Wild Horse, we backed up Wild Horse with hydro.

25 Q. Let's go to your testimony at page 38, this

0590

1 will be your rebuttal, and it's JHS-14 T, page 38, line
2 11, really lines 11 through 16.

3 A. Yes.

4 Q. Do you have that?

5 A. Yes.

6 Q. And here you're disagreeing with Ms. Smith's
7 analysis of an alternative rate path that might exist
8 without PCORC's, correct?

9 A. That's correct.

10 Q. And you take issue with some of her analysis,
11 you don't provide your own alternative analysis here of
12 when Puget would have filed rate cases if it did not
13 have the PCORC available to it, do you?

14 A. No, I did not.

15 Q. Have you done an analysis like that?

16 A. I don't think it's possible. You're actually
17 basically asking to unring the bell, you know, it's --
18 you have rates coming in, you don't know what would have
19 happened if you didn't have those rates coming in
20 because cash had to come from somewhere else just using
21 what's been talked about around here quite a bit.
22 Trying to undo all of that and then say we're now in
23 this environment and what would we have done back then
24 if we hadn't done this is a very difficult analysis to
25 do.

0591

1 Q. Let's stay with this passage here and look at
2 line 16. You argue there that it's highly unlikely that
3 actual allowed power costs would equal the power costs
4 built in to rates during the period right after a rate
5 order; isn't that essentially your point here?

6 A. No, any time during a PCA period is my point.
7 What happens when you build in a power cost rate into
8 your general rates is that you put it in on a flat
9 basis. So when you go out into the next year, you're
10 billing that rate on a flat basis. That's not actually
11 following the shape of the power cost that generated
12 that rate.

13 Q. That's not your testimony, is it though, that
14 there is no possibility that right after a general rate
15 case order in a period of months, short period of months
16 after the rate case order that revenue might be higher
17 than the amount that's built in to rates?

18 A. Could you rephrase that, I'm not following
19 the question.

20 Q. Is it possible that right after a general
21 rate case order results in new rates that revenue may be
22 higher than the costs built in to rates?

23 A. That's possible.

24 Q. It is possible that could occur at any time
25 the rates are in effect until the rates are reset,

0592

1 correct?

2 A. If your load was up, could be, yes.

3 Q. Puget currently has four mechanisms to change
4 electric rates, isn't that correct, at least four?

5 A. No.

6 Q. Well, there's the general rate case, correct?

7 A. Right.

8 Q. And then there's the power cost only rate
9 case?

10 A. Right.

11 Q. And the Company retains the right to request
12 interim rate relief, correct?

13 A. Oh, okay, I wasn't counting interim rate
14 relief if you included that.

15 Q. Right.

16 A. I believe in Ms. Smith's Testimony, she used
17 a PCA compliance filing as one of the ways to change
18 rates, and that's not a possibility, no.

19 Q. Well, you are anticipating my question. Is
20 it your testimony that the PCA is not a mechanism that
21 allows for a rate change?

22 A. There is a mechanism in the PCA to change
23 your rate, which is the surcharge. If there is a
24 over/under recovery or an estimated \$30 Million
25 deviation from normal power costs, you could do a

0593

1 surcharge.

2 Q. All right. And that's part of the purpose of
3 the PCA is to allow for a surcharge in cases where power
4 costs reach that level?

5 A. Right, but Ms. Smith pointed to one of the
6 compliance filings, a compliance filing is not a way to
7 change rates.

8 Q. In response to a question from Chairman
9 Sidran earlier, Mr. Story, you stated the Company
10 recently has been over-collecting I believe is your
11 term; do you recall that?

12 A. Yes.

13 Q. And you stated the customers are getting
14 money back?

15 A. They are getting a reserve built up that
16 would go back to them, yes.

17 Q. Okay. But the customers actually haven't
18 received any money back in their bills as a result of
19 the current state of the PCA deferrals, correct?

20 A. It has not reached \$30 Million, that is
21 correct.

22 Q. So there's been no rate decrease or refund on
23 customer bills?

24 A. There has been neither a rate increase or a
25 decrease because of the surcharge.

0594

1 Q. And isn't the situation actually that the
2 customers have in effect overpaid, and the Company is
3 keeping under the deadbands that are in place the
4 over-collection of power costs that you are referring
5 to?

6 A. I think that's -- from your point of view
7 that might be right. That's the way the PCA was
8 defined, you're going to sometimes not recover your
9 costs, power costs, sometimes you will over-recover your
10 power costs. Like Mr. Mills was saying earlier, over
11 time you expect that to level, be level, you know, equal
12 out.

13 MR. FFITCH: Okay, thank you, Mr. Story.

14 I don't have any further questions, Your
15 Honor.

16 JUDGE TOREM: Mr. Van Cleve.

17 MR. VAN CLEVE: Thank you.

18

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

20 BY MR. VAN CLEVE:

21 Q. Mr. Story, if you could refer to Exhibit
22 JHS-27 and 28.

23 A. I'm sorry, is that one of the data requests?

24 Q. These are the two cross exhibits which are
25 the quarterly PCA reports.

0595

1 A. Okay, I've got them, yes.

2 Q. And these are reports that you file on a
3 quarterly basis; is that correct?

4 A. That's correct.

5 Q. I would like you to look at the, well, let me
6 ask you this.

7 When did the PCA first come into existence?

8 A. June of 2002.

9 Q. And if you take these two exhibits together,
10 JHS-28 and 27, does it provide an accounting of the PCA
11 basically from its inception until June of '08?

12 A. I have a really difficult time reading the
13 numbers on these that printed out, but I believe that's
14 correct with -- I would just say it's a summary of the
15 accounting though, it's not the actual accounting.

16 Q. Okay, if we could look at JHS-27, and just
17 focusing on the year 2007, if you could just kind of
18 walk through and explain these columns about exactly
19 what these numbers mean and how this works.

20 JUDGE TOREM: Excuse me, what page are you
21 on?

22 Q. I'm sorry, I'm on page 2 of 5 in JHS-27, it's
23 the very fine print.

24 A. I believe that only goes up through 2005.

25 Q. I think 27 goes through 2008.

0596

1 A. I must have these marked wrong, JHS-28 is the
2 one I have that goes through 2008.

3 JUDGE TOREM: Just so we're equally confused
4 here, it appears to me that JHS-27 has a cover letter
5 the first page, that's dated August 14th, and that
6 JHS-28 has a cover letter dated November 15th, both of
7 those signed by you, Mr. Story.

8 THE WITNESS: Yes.

9 JUDGE TOREM: Mr. Van Cleve, is that how you
10 intended them to be marked, Mr. Van Cleve?

11 MR. VAN CLEVE: That marking is fine, I
12 actually had intended it the other way.

13 JUDGE TOREM: Okay, I think the one that
14 you're referring to that had the S-27 that went through
15 June of 2008 in the first column under PCA here is the
16 August 14th letter.

17 MR. VAN CLEVE: August 14th, 2008.

18 JUDGE TOREM: And Mr. Story's letter of
19 November that only goes in July of 2002 to September of
20 2005, that's the one we're going to mark as JHS-28,
21 that's the order you handed them to me this morning, and
22 it appears to be what we're looking at. So 27, page 2
23 runs through 2008.

24 Okay, can you remind us what you're asking
25 Mr. Story to do with this page.

0597

1 BY MR. VAN CLEVE:

2 Q. Okay, JHS-27, page 2, to go through the
3 operation of the PCA in calendar year 2007 and explain
4 what each of them for the columns is.

5 A. Okay. Actually this report on the actual
6 column is the actual for the PCA, and then there's in
7 the second column under the actual box is the cumulative
8 impact. But you can see at the end of June '06, that
9 cumulative balance no longer carries forward on these
10 reports. That was the end of the \$40 Million cap, so
11 this was no longer kept on a cumulative basis. It was
12 changed over to track the cumulative within the PCA
13 period, so you see the actuals as calculated under the
14 PCA and the cumulative for the PCA period. Then you see
15 the baseline cost, which is the baseline rate times the
16 load for that given period. You would -- same thing, it
17 calculates it each month on a cumulative basis. After
18 you get after June of '06, it tracks it by each PCA
19 period. Then you just have the difference between those
20 two columns. We allocate a piece of the PCA, the power
21 costs, to the wholesale customers, and then that gives
22 us the end balance for the sharing in the next column.
23 You then apply that against the bands. This is actually
24 a summary of what's happening under Schedule B under the
25 PCA, so you see whether you're within that \$20 Million

0598

1 band, \$40 Million band, \$120 Million band, and you
2 allocate between the customer and the Company based on
3 that calculation as to what is cumulative within that
4 period.

5 Q. So for this period, power costs were \$26.5
6 Million, actuals were lower than the baseline, right?

7 A. I'm sorry, which period are you looking at?

8 Q. 2007. That's after the wholesale adjustment,
9 but that's what -- under end balance for sharing at the
10 bottom of the right column, the 26.5, the fact that
11 that's a negative, that means that the actuals are less
12 than the baseline by that amount?

13 A. You get a negative when the baseline is
14 greater than the actuals.

15 Q. Right, so --

16 A. So that means that you have dollars that you
17 collected that you can share. A negative means you're
18 going to share those dollars. A charge is a, you know,
19 with no credit on it, is a cost that you will -- that
20 has not been covered by your rates.

21 Q. And it's --

22 A. So --

23 Q. Go ahead.

24 A. I really can't make out the numbers in '07 on
25 this thing, and the sheet I have is actually a

0599

1 cumulative type all the way through, so you're saying in
2 the end balance for sharing in December '07?

3 Q. Is 26.594.

4 A. I think I can make that out, yes.

5 Q. And then under the operation of the bands,
6 approximately \$23 Million is allocated to the Company
7 and \$3 Million is allocated to the customers?

8 A. That's correct.

9 Q. Okay, I would like to ask you now about the
10 final cross exhibit that's been marked JHS-29.

11 JUDGE TOREM: Mr. Van Cleve, this is the one
12 you provided me earlier today?

13 MR. VAN CLEVE: Correct.

14 JUDGE TOREM: And it's titled PSE rate
15 changes?

16 MR. VAN CLEVE: Yes.

17 JUDGE TOREM: Mr. Story, do you have a copy
18 of that one?

19 THE WITNESS: I thought I did, but I do not
20 appear to.

21 JUDGE TOREM: All right, it's being handed to
22 you I think.

23 THE WITNESS: Thank you.

24 BY MR. VAN CLEVE:

25 Q. Have you had an opportunity to review this

0600

1 exhibit, Mr. Story?

2 A. Yes, I have.

3 Q. And you mentioned earlier that there was a
4 flat base PCA power cost, correct?

5 A. I'm sorry?

6 Q. I think you mentioned that the base power
7 costs that fed into the PCA was a flat number for the
8 year?

9 A. Yes, this baseline rate is a flat number
10 throughout the year on the PCA calculation, yes.

11 Q. And are these baseline rates accurate?

12 A. They're what was allowed in each of these
13 proceedings, yes.

14 Q. And for this proceeding, what would the --
15 what is the proposed baseline rate?

16 A. It's \$62.84.1.

17 MR. VAN CLEVE: Your Honor, I would offer
18 JHS-27, 28, and 29.

19 JUDGE TOREM: Ms. Carson.

20 MS. CARSON: We have no objection to those
21 exhibits.

22 JUDGE TOREM: All right, then they'll be
23 admitted, 27, 28, and 29.

24 MR. FFITCH: Your Honor, we would also offer
25 the cross exhibits for Mr. Story that we had identified,

0601

1 which are --

2 JUDGE TOREM: Those are JHS-20 through 26,
3 and for clarification 22 you indicated a revision to
4 this morning.

5 MR. FFITCH: That's correct, Your Honor, and
6 that was provided to the Bench earlier and to counsel.

7 JUDGE TOREM: I will provide the revised
8 copies to the Commissioners now for JHS-22 and
9 substitute, that changed it from 6 pages to an 8-page
10 more complete response; is that correct?

11 MR. FFITCH: Correct, Your Honor, that was
12 necessitated by a corrected response received from Puget
13 Sound Energy over the weekend. They corrected the
14 earlier response, so we made a revised exhibit.

15 JUDGE TOREM: All right, Ms. Carson, as to
16 the Public Counsel cross exhibits?

17 MS. CARSON: We have no objection with the
18 update of JHS-22, we have no objections to any of these
19 Public Counsel cross exhibits.

20 JUDGE TOREM: All right, then JHS-20 through
21 26, including the revisions to 22, are admitted.

22 Now looking to other projected questions,
23 Mr. ffitich and Mr. Van Cleve, were there any other
24 questions for this witness?

25 MR. VAN CLEVE: No, Your Honor.

0602

1 MR. FFITCH: No, Your Honor.

2 JUDGE TOREM: Mr. Cedarbaum.

3 MR. CEDARBAUM: None.

4 JUDGE TOREM: All right, then, Ms. Carson, do
5 you have any redirect?

6 MS. CARSON: Yes, just a couple questions.

7

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

9 BY MS. CARSON:

10 Q. Mr. Story, you testified that there has been
11 an over-collection in the PCA recently, has there ever
12 been an under-collection under the PCA?

13 A. Yes, the first two or three years were
14 under-collected. That's what I was talking about this
15 morning when I was talking about the Company had
16 absorbed \$40 Million of power costs, and actually \$25
17 Million had been allocated to the customer in addition
18 to that, and during the process of this reversal, that
19 \$25 Million has been wiped out on the customers, and
20 they're actually now incurring the benefit, and the \$40
21 Million under-recovery has been wiped out on the
22 Company, and it's accruing the benefit.

23 Q. And do you have any information about what is
24 causing the over-recovery or over-collecting as you
25 called it at this point in time?

0603

1 A. Yes, in each PCA we give a brief description
2 as to what has caused the under, or PCA compliance, I'm
3 sorry, filing, we give a brief description as to what is
4 causing an over or under-collection during that time
5 period, and I would refer people to those to get a
6 summary of that particular period. But for the most
7 part, the water has been higher in the last two years.
8 We're I think at about 106% at Coulee, and temperatures
9 have been higher than normal.

10 Q. We have no guarantee that will continue, do
11 we?

12 A. No.

13 MS. CARSON: I have no further questions.

14 JUDGE TOREM: Does that raise any recross?

15 MR. FFITCH: No, Your Honor.

16 JUDGE TOREM: All right, thank you, I think
17 we've taken care of the exhibits for this witness.

18 Commissioners, anything else?

19 Commissioner Oshie.

20 COMMISSIONER OSHIE: Yes, thank you, Judge.

21

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

23 BY COMMISSIONER OSHIE:

24 Q. Mr. Story, I think I want -- I just want to
25 clarify what I understand your testimony to be with

0604

1 regard to the PCA balance.

2 A. Yes.

3 Q. And it looks like from your Exhibit 27, and
4 I'm referring to what's been marked page 2 of 5, maybe
5 I'll just start with a general question. You can get
6 there first, excuse me.

7 A. I'm there, yes.

8 Q. Okay. And if I look -- and I have trouble
9 reading these small numbers too, and if I would have
10 thought, I would have brought a magnifying glass in here
11 with me. I suppose if I take my glasses off and move
12 them around down there, I might be able to see them more
13 clearly, but I'm not going to do that right now. So if
14 I look at the first column or the first group of
15 columns, the columns at the top, I believe that date is
16 June 2006 is what it ends, and if I go all the way over
17 to the right, the right-hand column, and I believe
18 that's the cumulative impact, it looks like it's a
19 positive balance of \$6 Million some; are you with me?

20 A. Yes, I've got a sheet that I can actually
21 read the numbers, it is \$6 Million.

22 Q. Okay, I will report this to my optometrist as
23 well, maybe bump it up a bit here, the reading glasses.

24 So as I understand that, that would be moneys
25 that are beyond the \$20 Million deadband, within the \$10

0605

1 Million that follow, and \$6 Million that the rate payers
2 have -- that the Company's under-recovered, and those
3 would be the \$6 Million approximately is due and owing
4 the company under the operation of the PCA?

5 A. Yes, and that includes interest also.

6 Q. And there's a carrying charge, and that
7 carrying charge as I understand it is the weighted cost
8 of debt, or is it the weighted cost of equity and debt?
9 I'm sure you have an answer, and I will let you go ahead
10 and give it.

11 A. I believe it's the FERC rate.

12 Q. It's the FERC rate, and what is the FERC rate
13 in round numbers?

14 A. It's a rate published in the Wall Street
15 Journal, and I do not know what the current rate is.
16 It's been as high as 7%, but it normally ranges 4% to
17 5%, 6% range.

18 Q. So it's a range that's established?

19 A. Yep, and it changes over time.

20 Q. And the FERC rate is based on some kind of
21 average short-term cost of debt, or do you understand
22 that --

23 A. I believe so, but I'm not positive.

24 Q. Okay, thank you, Mr. Story.

25 Now I want to -- now let's go all the way to

0606

1 the bottom of the page in that same column, and there's
2 a negative number of approximately \$4 Million, and as I
3 understand that at least for 2008 the Company has
4 over-recovered by that amount shown on the column?

5 A. That's correct.

6 Q. Okay. Now is the \$6 Million in June '06
7 netted against the \$4 Million in June '08?

8 A. Not on this particular sheet, but the --

9 Q. In the workings of the PCA?

10 A. In the workings of the PCA it would be, yes.

11 Q. Okay.

12 A. So the -- not being able to read these
13 numbers, I'm not really sure when that balance was wiped
14 out, but currently we show the customer being owed about
15 \$6 Million.

16 Q. Okay. So what I was concerned about was that
17 there would be an amount owed the Company under the PCA
18 at any particular time, but that I thought the way that
19 it worked, and I think this explains it, was that that
20 amount owed the Company would just carry forward until
21 it reached \$10 Million, and then there would be a
22 surcharge that the Company could request from the
23 Commission, and that surcharge would then be devoted to
24 amortizing that, you know, the \$10 Million balance.

25 A. It's actually \$30 Million.

0607

1 Q. Well, 20 plus the 10, yeah, excuse me.

2 A. No --

3 Q. \$30 Million total?

4 A. I believe it's in about paragraph 4 of the
5 settlement agreement, it's \$30 Million in the account
6 owed to or from the customer creates the surcharge.

7 Q. I see. But I thought the Company ate the
8 first 20, but the Company eats the first 40?

9 A. No. The Company does eat the first 20,
10 that's in the bands. But then once you've put it aside
11 into the account for collection or refund to the
12 customer, that's a whole separate accounting, and it
13 just tracks. And, you know, at the end of the PCA
14 period, whatever balance is in there for that PCA period
15 goes into the bank if you would. And whenever the
16 cumulative balance becomes \$30 Million on that, we
17 either ask for a refund or a surcharge.

18 Q. I see. And so if there is an amount owed the
19 customers, the FERC rate is applied to that amount owing
20 as well as a carrying charge?

21 A. That's correct.

22 COMMISSIONER OSHIE: All right, thank you, I
23 think I understand it better.

24 JUDGE TOREM: Other questions from the
25 Commissioners?

0608

1 Did Commissioner Oshie's questions raise any
2 questions for counsel?

3 Okay, thank you, Mr. Story.

4 Counsel, it appears we have four additional
5 witnesses left, and cross-exam on them has only been
6 allotted for 10 minutes each from Staff and 10 minutes
7 each from Mr. Van Cleve from ICNU. Do you know at this
8 time for any of these witnesses, Mr. Cedarbaum, if
9 Commission Staff still wishes to cross-examine
10 Ms. Smith?

11 MR. CEDARBAUM: We do not, nor
12 Mr. Schoenbeck.

13 JUDGE TOREM: So you're waiving
14 cross-examination on those two?

15 MR. CEDARBAUM: Yes.

16 JUDGE TOREM: Are there other counsel that
17 had not anticipated questions up to this point for
18 Ms. Smith or Mr. Schoenbeck?

19 Commissioners, did you have any questions for
20 these two witnesses that you were hoping to ask after
21 Mr. Cedarbaum enlightened us?

22 None, so we won't need Ms. Smith or
23 Mr. Schoenbeck this afternoon.

24 Mr. Parvinen and Mr. Martin have each been
25 scheduled for questions from you, Mr. Van Cleve, do you

0609

1 still wish to cross-examine either of those Commission
2 Staff witnesses?

3 MR. VAN CLEVE: Your Honor, I have a couple
4 of brief questions for Mr. Parvinen, and I have no
5 questions for Mr. Martin.

6 JUDGE TOREM: All right, so we have
7 essentially Mr. Parvinen left unless, Commission Staff,
8 there's anyone else wishing to ask Mr. Martin questions.
9 I see none from the Commissioners, and I don't see any
10 other hands going up around the room, so we have the one
11 witness left.

12 Chairman, it's almost 3:00, shall we take a
13 break or shall we press on?

14 CHAIRMAN SIDRAN: Let's finish.

15 JUDGE TOREM: All right, so I will ask
16 Mr. Parvinen to come forward. I know you were here this
17 morning, and you've already been sworn.

18 And when Mr. Van Cleve has completed his
19 questions and any other questions that counsel or
20 Commissioners may have for this witness, that will
21 conclude presentations we had scheduled today. We'll
22 just need to discuss very quickly what we want to do
23 about the briefing schedule on the PCORC matter as per
24 the notice that was issued some time ago indicating
25 unless you tell us otherwise the deadline for briefs

0610

1 will still be September 26th, so keeping that in mind,
2 Mr. Van Cleve.

3

4 Whereupon,

5

MICHAEL P. PARVINEN,

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

8

9

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

10 BY MR. VAN CLEVE:

11 Q. Good afternoon, Mr. Parvinen.

12 A. Good afternoon.

13 Q. If you could refer to your direct testimony,
14 which is Exhibit MPT-1 T.

15 A. Okay.

16 Q. At page 6, and if you could look at the
17 sentence lines 14 to line 17 where you say that the
18 various deadbands and rate recovery trigger were
19 established to identify a level of risk that the Company
20 could and should absorb; is that correct?

21 A. That's correct.

22 Q. Now the second band of the PCA from 20 to 40
23 million is a 50/50 sharing, right?

24 A. That's correct.

25 Q. And if the Company can use the PCORC

0611

1 mechanism to continually reset the baseline and avoid
2 that second band, isn't it not taking its share of the
3 risk that it could and should absorb?

4 A. I'm not exactly sure I understand your
5 question, could you just go ahead and repeat that.

6 Q. Okay. I'm really focused on the second band
7 where the Company bears half of the power costs.

8 A. Right.

9 Q. The excess power costs. And if it can use
10 the PCORC to continually reset the baseline to avoid
11 that band, isn't it avoiding its share of the risk that
12 it should be absorbing?

13 A. Well, I guess if the Company were filing
14 PCORC's to mitigate the risk, it would be in the first
15 band primarily, since that's where they absorb 100%.
16 But if they -- I mean I guess if you're resetting the
17 band -- if you're resetting the base, then you're
18 resetting -- you're resetting that risk measurement that
19 you're measuring the risk against so that it would be
20 harder to get into that second band.

21 Q. And don't you think that distorts the
22 operation of the PCA if the band can be reset so often
23 that you never get in to outside the first band?

24 A. I guess in general that's the direction that
25 one of the topics of my testimony was, that by filing

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1 the constant rate cases and PCORC's and resetting the
2 baseline that there's less of a chance of getting in to
3 the second and third bands of the PCA. It would take
4 more of the extraordinary circumstances, and that's what
5 the PCA is designed to do is to account for the
6 extraordinary circumstances.

7 Q. Okay, I have a different question. If the
8 Company's trying to decide between filing a PCORC and a
9 general rate case, and all else being equal capital
10 costs have declined since the last rate case, wouldn't
11 they be incented to select the PCORC rather than the
12 general rate case?

13 A. All else being equal, I would say yes. And I
14 guess on top of that, part of the design of the PCORC is
15 that they be required to file a general shortly after to
16 take into account the rest of the system. If power
17 costs were changing and resources changing, then the
18 Company could file a PCORC instead of a general but
19 would be required to file a general within three months
20 after the PCORC.

21 Q. But is it really fair to let the Company pick
22 and choose between a PCORC or a general rate case based
23 on which costs are going up and which aren't?

24 A. From a theoretical standpoint, if that were
25 the choices that we're giving, then the mechanism would

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1 not be applicable, the Company should in that case be
2 reviewing its overall costs in deciding whether or not
3 it needs to file a general.

4 MR. VAN CLEVE: That's all I have.

5 JUDGE TOREM: Mr. Cedarbaum.

6 MR. CEDARBAUM: No questions.

7 JUDGE TOREM: Any other cross-examination
8 questions from the Commission?

9 Seeing nothing else, thank you, Mr. Parvinen.

10 I think we can turn to the matter then of
11 post hearing briefs. Is there anyone indicating that we
12 need a different due date for briefs than September 26?

13 MS. CARSON: That works for the Company.

14 JUDGE TOREM: All right, and I'm going to
15 reflect that the Commissioners are going to get the
16 briefs whenever you file them, so they're departing now,
17 and we'll just handle the rest of this in their absence.

18 So the Company is fine with the 26th, anybody
19 else advocating for a different date?

20 MR. FFITCH: Well, Your Honor, we have a
21 brief due two days before that in the sale case, so --

22 JUDGE TOREM: As do I think a majority of the
23 parties here.

24 MR. FFITCH: Yeah, it was the we including
25 everybody.

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1 JUDGE TOREM: Okay.

2 MR. FFITCH: That's my only thought is that
3 do we want to give ourselves a little bit more breathing
4 room than that as a group. Putting it into early the
5 following week, perhaps that would, you know, I guess I
6 would request that. I think it's not impossible to file
7 it on the 26th, but it's not at all optimal.

8 MR. CEDARBAUM: Staff is ready to proceed on
9 the 26th, but if the Commission wishes to delay that by
10 a few days, we're not going to oppose that either. I
11 would note that it seems to me in this situation the
12 Commission could issue an order on the PCORC, could
13 issue an order on all the settlements so that we know
14 what rates will be going into effect by November 1, and
15 the PCORC issue could be addressed in a separate order
16 if that works better with a briefing schedule that we
17 might revise. But as to the briefing schedule, again,
18 Staff is ready to go forward on the 26th but does not
19 object to a short delay to that.

20 MS. CARSON: We're ready to go forward on the
21 26th. If there is some sort of a bifurcated briefing or
22 orders I should say, then it would be our preference to
23 have like a rebuttal, a reply opportunity on the PCORC
24 brief. We're not really advocating that. We're happy
25 to stick with the 26th and have one order come out

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1 before November 1 that addresses all of these issues.
2 If there's going to be some sort of bifurcating orders,
3 then we would like the opportunity for reply.

4 JUDGE TOREM: I haven't heard anything from
5 the Commissioners in preparing for this hearing that
6 would lead me to believe they have any wish to bifurcate
7 the settlements from the discussion this afternoon and
8 Mr. Mills' testimony this morning on the PCORC issues,
9 so I think we'll leave that alone.

10 And why don't we leave the date, Mr. ffitch,
11 where it is. There is really the one issue in the PCORC
12 to focus on, and I recognize that the deadline is there
13 for these other two briefs in the same week, but I'm not
14 hearing anything that compels me to think it has to be.
15 What I'm more worried about is the Commissioners having
16 sufficient time for the deadline in as much as
17 Mr. Cedarbaum has said we want to know what the rates
18 are going into effect on November 1 and have the order
19 out in sufficient time. Let's leave the briefs where
20 they are. I think the testimony today and the
21 cross-examination was informative and gives the
22 Commissioners a chance shortly to start looking at what
23 they're hoping to see in your briefs when they come in
24 on the 26th, and then with scheduling in between for the
25 PacifiCorp case, I believe there's a public hearing the

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1 night of the 25th, I recognize it's busy, but it doesn't
2 get any easier on this side of the Bench with the Avista
3 rate case and its preparation coming right behind and
4 the writing that needs to get done. So I know how tight
5 their calendar is, I'm looking at it right now, and it
6 may not seem like a whole lot to move it over to the
7 next week, but it is a couple working days that they
8 don't have to be digesting the materials, and where we
9 have a scheduled debriefing with them, I'm not sure that
10 we have room to move that, so we're going to leave the
11 dates where they are on the 26th.

12 Now for clarity, we have three requests that
13 were made this morning from the Bench, they are going to
14 turn out to be Bench Requests 5, 6, and 7 in this case,
15 and Bench Request 5 was dealing with the low income
16 financial figures and we're going to mark that as Bench
17 Exhibit 6 and make it part of the record when it comes
18 in. Bench Request 6 was requesting those updated
19 revenue models. We didn't set a due date I don't
20 believe for Bench Request 5 on the low income items, but
21 I think we said it may be a week, but we can set it the
22 same date as Bench Request 6, that will be due on the
23 8th, so early next week, and that's the same date that
24 the witnesses indicated they could have their revenue
25 models in for Bench Request 6. Bench Request 7 was

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1 regarding Mr. Mills' Exhibit 17 and the dates regarding
2 the Aurora model, those are going to be due on the 12th,
3 a week from Friday, to allow time for those numbers to
4 be ferreted out, but it may simply be a confirmation,
5 Ms. Carson, as to what's in Exhibit DEM-17, the revised
6 copy, that those are correct or not, so it may just be
7 that you submit a copy with these are correct or these
8 are updated as follows, and that will become Bench
9 Exhibit 8.

10 MS. CARSON: Okay.

11 JUDGE TOREM: And those are the only
12 outstanding items from this morning that I have left.

13 Counsel, anything else before we close the
14 hearing?

15 MR. FFITCH: Your Honor, there's the matter
16 of the public comment exhibit.

17 JUDGE TOREM: All right, and the public
18 comment exhibit, I don't know what you did last week in
19 the sales case, if anything, on that item, what was
20 resolved then. I know we talked after the public
21 hearing in that case last Tuesday as to a question of
22 how to submit that as a joint exhibit.

23 MR. FFITCH: I think we're facing essentially
24 the same logistical challenge as we are in the merger
25 case, and we are talking with the Commission's Consumer

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1 Affairs Division. I had asked for a prediction of when
2 the matters -- when the public comments could be made
3 available for filing an exhibit, and I haven't been
4 provided with that yet.

5 JUDGE TOREM: I think we set that evening,
6 September 5th, as the deadline, so public comment may
7 still be coming in, although I would imagine few and far
8 between, between now and Friday, so sometime next week
9 they will have the ability to know how much is in and at
10 least close the entry doors.

11 MR. FFITCH: Right. And once that's in, Your
12 Honor, we propose to offer the comments electronically
13 on a disk.

14 JUDGE TOREM: And you had explained to me
15 that that would make it easier for all parties to have a
16 searchable and more functional exhibit than a stack of
17 paper that might be quite high.

18 MR. FFITCH: That's correct, Your Honor. The
19 folks who are working on this are saying that if we do
20 it in hard copy there's thousands of pages that would
21 have to be produced and duplicated. So I think what we
22 would plan to do is provide for the record whatever has
23 been filed by the public in a hard copy form, one copy
24 of that would go into the Commission record, and then a
25 complete copy of everything, which include a hard copy

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1 and electronically filed E-mail comments, would be
2 prepared on a disk, and there would be a cover sheet as
3 we typically do which would tally the numbers that had
4 been provided. And there are also some written comments
5 that are provided at public comment hearings, and those
6 have been gathered as well, and those are being included
7 in the exhibit.

8 JUDGE TOREM: Are you planning to put on that
9 disk also the four different transcripts, or those will
10 be separately available?

11 MR. FFITCH: Traditionally, Your Honor, those
12 are just treated as part of the transcript and not
13 included in the exhibit.

14 JUDGE TOREM: So the disk will contain
15 everything but the transcripts and searchable by all
16 parties. Does any party have an objection to formatting
17 the exhibit as Mr. ffitch has indicated?

18 MS. CARSON: No.

19 JUDGE TOREM: All right, seeing none, we'll
20 try it, Mr. ffitch, and we'll assign an appropriate
21 exhibit number once it comes in.

22 Are any of the parties planning on referring
23 to this exhibit prior to filing their brief? I'm sure
24 that, Mr. ffitch, you are, and so I'm hoping that this
25 can be accomplished within a week before the briefs are

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1 submitted.

2 MR. FFITCH: Yes, Your Honor, we had planned
3 to have it be available to everybody for that purpose
4 well in advance of that date.

5 JUDGE TOREM: Given the September 5th close
6 in the comment period, let's assume that sometime late
7 next week all of it can be made available to you, what
8 was the timetable, because that gives you the week of
9 the 15th through the 19th to get it formatted.

10 MR. FFITCH: Your Honor, I guess I would ask
11 that we set a date of the 12th, the comment coming in,
12 the deadline has been set for the public comment exhibit
13 in the sale case is the 10th, and then we could have the
14 two more days would be a week after the record closes to
15 get this one ready, I'm sure that would be enough time.

16 JUDGE TOREM: Ms. Carson.

17 MS. CARSON: Yeah, one comment on that. The
18 record, as I recall the record was held open in the
19 merger case because of the settlement and because of the
20 additional public hearing on the settlement, but that
21 was just on the merger settlement, so I'm not sure that
22 there's any reason -- and I can't recall what the
23 original date was to close the record for the general
24 rate case, but I'm not sure that there's a reason to
25 hold it open any longer for the general rate case.

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1 JUDGE TOREM: Well, Ms. Carson, I think the
2 confusion is when we held the three original public
3 hearings, they were consolidated hearings. And even
4 when we had the hearing on the night of the 26th, we had
5 one or two people here to comment about rates. And it
6 seems obvious to us what the comments were, and the
7 original closing date would have been, I think it was
8 just tossed out in June because I think I tossed it out,
9 was the end of August, roughly the end of July for the
10 merger case and then roughly the end of August. So what
11 we've essentially done last Tuesday is add an extra five
12 days to the rate case as well. I think that's how the
13 public took that. Certainly the press that's come out
14 since hasn't really distinguished between the Commission
15 will take comments until September 5th, and so I'm
16 hesitant to have Mr. ffitich put something together
17 separately. I think the public comment exhibit may be
18 very close to the same depending on how things are
19 segregated out. I thought you were going to tell me if
20 he's filing one on the 10th, he should file the other on
21 the 10th as well. But is anybody going to be prejudiced
22 if we have them sorted out, make sure he's got them
23 segregated correctly at the previously established
24 deadline of Wednesday the 10th in the sales case and
25 then this one filed two days later on the 12th?

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1 All right, seeing none, then it is almost
2 3:20, and we'll close the evidentiary hearing at that
3 time.

4 (Hearing adjourned at 3:20 p.m.)

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