

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	DOCKETS UE-072300 and
)	UG-072301 (Consolidated)
Complainant,)	
)	
vs.)	Volume V
)	Pages 364 to 623
PUGET SOUND ENERGY, INC.,)	
)	
Respondent.)	
)	

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

The parties were present as follows:

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

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THE PUBLIC, by SIMON FITCH, Assistant Attorney General, 800 Fifth Avenue, Suite 2000, Seattle, Washington 98104-3188, Telephone (206) 389-2055, Fax (206) 464-6451, E-Mail simonf@atg.wa.gov.

Joan E. Kinn, CCR, RPR

Court Reporter

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~~ **HELP**
 3 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

1 individual customer prorata or if it would go to the
2 ~~help~~ **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

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^d 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

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~~ ^{WECC} 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

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^d 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

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

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~~ Integrated 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~~ Integrated Resource 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.

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 ~~IRP~~^{RFP} 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.

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 ~~guess~~^{gets} 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

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~~ **EMC**

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.

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~~ ^{colder} 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. FITCH: 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