BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, vs. PUGET SOUND POWER & LIGHT, Respondent.	Cause No. UE-920499

The deposition of COLLEEN E. LYNCH in the above matter was held on August 13, 1992, at 10:45 a.m., at 1300 South Evergreen Park Drive Southwest, Olympia, Washington.

The parties were present as follows:

COMMISSION, Donald Trotter, Assistant Attorney General, 1300 S. Evergreen Park Drive S.W., Olympia, Washington 98504.

WICFUR, Mark Trinchero, Attorney at Law, 2300 First Interstate Tower, 300 S.W. Fifth Avenue, Portland, Oregon 97201.

PUGET POWER, James Van Nostrand, Attorney at Law, One Bellevue Center, Suite 1800, Bellevue, Washington 98004.

BELLINGHAM COLD STORAGE, TRIDENT SEAFOODS, et al., Carol S. Arnold, Attorney at Law, 5400 - 701 Fifth Avenue, Seattle, Washington 98104.

PUBLIC, Charles F. Adams, Assistant Attorney General, 900 Fourth Avenue, Suite 2000, TB-14, Seattle, Washington 98164.

Marilyn Johnson, RPR
Court Reporter

ORIGINAL

I N D E X

EXHIBIT	MARKED	ADMITTED
(NO EXHIBITS MARKED.)		

Whereupon,

COLLEEN E. LYNCH,

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

E X A M I N A T I O N

BY MR. TROTTER:

Q. Thank you. You just gave us your name. You're employed by Puget Sound Power & Light Company as the manager of pricing, is that correct?

A. That's correct.

Q. How long have you been manager of pricing?

A. I've been manager of pricing for four years.

Q. Have you ever presented testimony to the Commission before?

A. Not to this Commission.

Q. But to other Commissions?

A. To California and to Montana.

Q. And in what capacity did you give testimony there, in those locations?

A. Regarding the subject of cost of service for both electric and water utilities.

Q. Could you name the utilities?

A. I was working for Pacific Power & Light in Portland.

Q. Oh, I see. Were you here for the questions of Mr. Knutsen?

A. Yes.

Q. You understand the process here today?

A. Yes.

Q. Since the time your testimony was first submitted to the Commission, there were several changes made to it that were filed around August 3rd, is that correct?

A. That's correct.

Q. And so the questions that I ask you today will be based on the revised version unless for some reason I state otherwise. Is that understood?

A. Okay.

Q. Your responsibility in this case is to present and defend the company's proposed cost of service studies?

A. That's correct.

Q. And on page two of your testimony, Exhibit T-2, you refer to -- on line 20, you refer to the National Association of Regulatory Utility Commissioners or NARUC, draft electric utility cost allocation manual of February 1991, is that correct?

A. Yes.

Q. And in various points of your testimony, for example, on page seven to eight, you have quoted excerpts from that same manual, is that right?

A. That's right.

Q. And do you consider that manual to be authoritative?

A. I consider that manual to be a good representation of the types of issues facing the cost of service analyst.

Q. So you do not accept any judgments in that manual as to appropriate costing or are you just accepting it as what you said?

A. I believe that it presents guidelines. I believe that it presents certain considerations that should be made when you're making cost of service decisions. I don't necessarily believe that it is all encompassing when you are deciding upon one issue versus another. I think it lays out well, in a rather broad sense, the issues that are facing cost of service decisions.

Q. Is there anything in that manual that strikes you as being incorrect?

A. Not as being incorrect, no.

Q. Are you aware that the staff of this

Commission has corresponded with the primary author of that manual who has registered certain concerns regarding certain aspects of that manual?

A. Yes.

Q. And those concerns were in the area of customer related cost, is that correct?

A. That's correct.

Q. On page 14 of your testimony, you indicate or refer to here that the company has adopted the peak credit method, do you see that?

A. Yes.

Q. And one of the reasons you give there is because that method was endorsed by the collaborative group, and you cite concept number six from one of Mr. Hoff's exhibits from the -- which I believe is a report from the collaborative group, is that correct?

A. That's correct.

Q. You give two other reasons, one, it's been used by the company for the past ten years at least, and it's considered reasonable by the company's system planners. When you state that the collaborative group endorsed the peak credit method, am I correct that the collaborative group endorsed the method in general but did not come to any agreement on the exact particulars and how that method would actually be implemented, is

that correct?

A. That's correct. The collaborative endorsed or agreed to the use of the peak credit method as an appropriate way or means to classify production plant, but did not endorse a particular calculation or manner of making that characterization or calculation.

Q. So you're not suggesting that your particular presentation of the peak credit method is necessarily the only possible one that collaborative members would necessarily have to --

A. That's correct. What I'm presenting to you and what Mr. Hoff presents to you is how Puget would prepare and would calculate the peak credit classification factors.

Q. On page three and four of your testimony, you give a summary of your key recommendations. The second one is the peak credit method classifying production plant between demand and energy, and the next page, you state that forward looking relationships should be used in the embedded cost of service study to better signal costs to customers. When you talk about forward looking -- a forward looking embedded cost study, is that somewhere on the spectrum between a traditional embedded cost study and

a marginal embedded cost study?

A. It would be on that spectrum only in that the -- in our use of -- our way of presenting forward looking relationships, we look at -- and this is primarily through our classification factors -- we look at the marginal costs of certain components such as in the ~~pinning~~ PEAK credit, we look at what we'd consider our marginal units, so oftentimes if you're moving on the spectrum I think you -- if you're talking in terms of absolute results between two types of studies, it would be between the spectrum, but it's not doing anything to the revenue requirement which -- you know, it's not an adjustment to the actual revenue requirement which would be the case if you were analyzing a marginal cost based system -- excuse me, revenue requirement.

Q. Would you characterize your methodology or your recommendation here as recommending a marginal cost approach that is reconciled through the revenue requirement, or what advantage does this proposal have over a marginal cost approach?

A. First of all, this has the advantage of again relying on the verification and the -- being able to look at the company's records. It is based on

in terms of the overall revenue requirements or costs that are allocated, based on the approved revenue requirements or the proposed revenue requirements in the case of a general rate case. So then you don't have to do the adjustments which are required when dealing with a marginal cost, in a sense a true marginal cost and forward looking history -- not history, revenue requirement.

It also has the advantage -- we believe its strongest advantage is its ability to signal and to say even though you are using accounting records, you can indicate what the utility is facing in terms of serving the next customer or unit.

Q. But a pure marginal cost study would give that same signal, wouldn't it?

A. That's correct.

Q. So that the -- I guess the primary factor that you believe that this forward looking embedded cost study is superior to marginal cost is simply that it's tied to the books?

A. I believe it gives more parties in a proceeding more level of comfort with the results, yes.

Q. More parties, did you say?

A. More participants in the case feel more

comfortable with dealing with actual results of operations and pro forma adjustments.

Q. In theory is Puget -- does Puget feel that marginal cost studies are more appropriate than in forward looking embedded, but because we want to have that comfort level, we should do it that way, or --

A. I think Puget's very comfortable with the forward looking embedded types of cost service that we study, or that we are presenting here.

Q. Page 11 of your testimony, you indicate that the test period, parenthesis, revenue requirement, close parenthesis, used in your cost of service study was the one used in the last rate case, docket U-892688T, is that correct?

A. That's correct.

Q. And the test period in that case was the 12 months ended September 1988?

A. That's right.

Q. If Puget were to file a new rate case this fall, for example, would it be your intent to rerun your study updated to that filing or would you propose to wait for an order in that case or how would you envision the process, assuming you're entitled to invoke such a process?

A. If we were to file a general rate filing

in November of this year, it is our intent to actually recast the cost of service study that's contained within this case, using those concepts as filed in this case.

Q. On page 12 of your testimony you indicate that your calculation of the peak credit method reflects the particular resources identified in the company's most recent integrated resource plan.

A. That's correct.

Q. Are you referring to the company's third IRP which was presented to the Commission this spring and is the subject of public hearings in May of this year?

A. I'm referring to the 1992-93 IRP. I am not sure if it's the third.

Q. It was the one that was presented at hearings this spring?

A. Yes. Yes.

Q. On page 16 of your testimony, you begin to address the classification of transmission costs in your cost study, and you talk about non-generation related and generation related transmission costs, and on page 17, you indicate that non-generation related transmission costs were classified as 100 percent demand related. Do you see that?

A. Yes.

Q. And the reason is shown in your -- in the question and answer beginning on line 16?

A. That's correct.

Q. Would you agree that there would be incremental cost increases and materials for building transmission lines to handle the larger demand?

A. Going from one size to another?

Q. Yes.

A. Yes.

Q. Would you agree that many costs are common to a transmission line irrespective of its size such as cost permitting, standard size poles, rights-of-way acquisition, things of that nature?

A. Yes.

Q. Then on line 12 of page 17, you indicate that for generation related transmission, you are using the peak credit method?

A. That's correct.

Q. And has this Commission allocated generation related transmission according to that method in the past?

A. Yes. In the cost of service studies that we've filed before this Commission in the past, that is the method that has been used.

Q. And has the Commission accepted those in past cases?

A. In a general way, yes.

Q. Turn to your Exhibit 6 which is CEL-5, and on page four you show some comparisons of results of scenarios. On line two, base case scenario, is this Puget's case?

A. Line two represents our proposal, yes.

Q. Okay. And are these typically known as parity ratios?

A. That's correct.

Q. So, for example, for residential under this particular scenario, the residential class is paying 93 percent of its share as Puget views it?

A. Yes.

Q. And does this page and the next page, and recognizing revisions have been made, are these in your opinion correct calculations at this time?

A. In terms of the scenario?

Q. Yes.

A. Yes.

Q. Referring to the issue of customer charges, would I be correct that a high customer charge or basic charge, in other words, a charge that is not related to KWH taken, that that goes further to

insuring that the company will recover those dollars than charges -- a charge that would vary with kilowatt hours sold?

A. I think that's a traditional point of view, that when you are -- when you have a fixed cost or a fixed charge such as a basic charge, those are more quote unquote sure revenues than a charge recovered through any kind of usage which may vary.

Q. And does Puget recognize that principle or that concept as important in determining that there ought to be a flat nonusage sensitive basic charge, and that it ought to be at a level -- more substantial level than a less substantial level?

A. I think in terms of the customer charge, specifically I think Puget's first concern is that it be cost based. I think that in making the rate design decisions, that Mr. Hoff did consider the items that you've mentioned, but in terms of -- you know, any basic charge or customer charge, our first consideration is that it be cost based. In other words, recovering as much of cost as it can.

Q. Say that again. I'm sorry, the last phrase.

A. In other words, recovering as much of the cost as it can.

Q. Doesn't that -- isn't that argument or statement circular in that if you have a basic charge -- however those costs are built into rates -- as long as you recover them, you're going to recover them?

A. As long as you recover them, you recover them? Yeah.

Q. Let me phrase it another way. You said that the basic charge ought to be cost based, but isn't it correct that if those customer costs that you are recovering through the basic charge are recovered some other way, the revenues still flow to the company and it's still recovering its costs?

A. That's true on a system or class level. I believe that on an individual customer level that's not so true.

Q. Why?

A. You may not -- that individual customer may not be experiencing or seeing the full cost or the true costs related to customer if he or some other customer is paying that through some other means.

Q. One of the changes between your original filed testimony and the revised testimony is a decrease in the customer charge from $5.35 to $4.75 for residential?

A. That's correct.

Q. And could you explain what the reason for that was?

A. The reason for that was that there were certain accounts or ID's which in our prefiled Exhibit 6 we had included as -- or we had included 100 percent, when in effect those accounts should have been prorated between being customer related and being demand related.

Q. Is my understanding correct that this had to do with some sort of tax item?

A. That was the second change. There was two changes in our refiling. The first change was that we eliminated some costs which were not treated as -- were treated as 100 percent rather than a prorated amount. The second change was to reflect the tax benefit of interest expense, so we used the after tax rate of return.

Q. And was that after tax rate of return applied consistently throughout your study?

A. That is applied in the development of the customer charge consistently. I think the correct term, I'm sorry, is net of tax rate of return.

Q. Okay. Let me just --

MR. TROTTER: Counsel, if I could just take a moment and discuss with staff for a second if

there is any further inquiries.

(Discussion off the record.)

MR. TROTTER: Thank you. That's all I have.

E X A M I N A T I O N

BY MR. TRINCHERO:

Q. Good morning, Ms. Lynch.

A. Good morning.

Q. Turning to page 19 of your testimony which is marked T-2.

A. Okay.

Q. On lines six through nine.

A. Yes.

Q. You state that to allow the effects of using the minimum system method to continue to be considered, the company has included that method as a scenario. To your knowledge in past rate design proceedings, has it been the company's position that the minimum system method is the appropriate method to use?

A. In our past proceedings we have used the minimum system, yes.

Q. Could you describe for me the factors that the company considered and which persuaded the company

to abandon that method in this proceeding?

A. I think the primary factor which persuaded the company to move from a minimum system approach for classifying distribution plant to the proposed approach using basic customer, was the collaborative process that we had just completed prior to this filing.

In that process it was the company's feeling that more parties, if not all parties, could accept the basic customer method over the minimum system method, and so in the interest of gaining some endorsement, Puget presented in its filing the basic customer method.

Q. Is it your position that the collaborative group indeed endorsed the use of the basic customer method?

A. It's my position that the collaborative group, that more members in the collaborative panel could endorse the basic customer. I guess using the collaborative group as a whole did not endorse this use. This decision, I might add, was also made in combination or consideration of rate design decisions as well, which perhaps Mr. Hoff can talk to you about.

Q. So regarding the theoretical underpinnings for using one method as opposed to the others, I

should address those questions to Mr. Hoff?

A. As far as the theoretical? No, I can answer those.

Q. Okay. You said the primary reason, going back to your answer to the first question, primary reason was because of indications that you got through the collaborative process. What other factors did the company consider?

A. Well, I think we had to realistically look at past Commission decisions, and it's my understanding and review of past Commission decisions did not accept our use of the minimum system study.

Q. I am going to refer you to a response to -- that you gave to WICFUR, data request number 302. Do you have those responses with you?

A. Yes, I do.

Q. Thank you.

A. 302?

Q. Yes.

A. Okay.

Q. This is a rather technical question. In the third -- I guess it's the second full paragraph of your response on that page, you state that "accounts 369 and 370 were classified as 100 percent customer related in this scenario." Could you explain why that

is?

A. Well, I think that what this scenario is attempting to do was to hold the classification method in the company's proposal constant, and that was a treatment of those two ID's as being customer related, and shift or reclassify the other distribution accounts which are generally subject to a minimum system type of factor between -- away from what our proposal shows as being 100 percent demand related to the categories of either customer related or demand related.

Q. Thank you. Returning to your earlier responses, going to move away from the company's position and ask you as a cost of service analyst whether in your opinion the minimum system analysis is an appropriate method of determining customer charges.

A. Of determining customer charge?

Q. Well, I'm sorry. Of determining the classification of the distribution accounts.

A. Well, as I've stated, I believe that there is merit in looking at the minimum system results. Frankly, as that has been the recommendation of the company in the past, as our studies in the past have been based on minimum system, I believe there's merit. You know, that suggests again that we felt that there

was merit to using this method. I continue to believe that there are certain situations -- well, excuse me. I continue to believe that the minimum system approach is correct by itself, but may be somewhat tempered through other considerations.

Q. Thank you. I'm going to turn your attention now to your response to WICFUR data request number 303.

A. Okay.

Q. In that response you provided the annualized estimated conservation savings through the period ending September 1988. Would you please describe for me just briefly how you developed the estimate of conservation savings?

A. These estimates were derived from information prepared by our -- I'll say the conservation department, but I know that they have another name right now, but I can't think of it -- so the conservation department, and it is more or less an estimated savings by program, at the time that the measures are installed, so it's an estimate of the kilowatt hour savings by measure or program type.

Q. And what data forms the basis for making that estimate?

A. I guess I could provide that. I really

couldn't talk very much about that right now.

Q. Thank you. Given the fact that the -- could we go off the record for a moment?

(Discussion off the record.)

BY MR. TRINCHERO:

Q. I'd like to formally request as a deposition request that you provide an explanation of the data that is used in formulating the estimate of the conservation savings.

MR. TROTTER: Shall we call that deposition request 1?

MR. TRINCHERO: Or I -- yes, I guess. Are we going to allocate ourselves 300 numbers again?

MR. TROTTER: No, just 1 will be fine.

MR. TRINCHERO: Okay.

A. You want an explanation of how the calculations of estimated kilowatt hour savings were developed?

BY MR. TRINCHERO:

Q. Or a description of the data that is used to --

A. Yes.

(Deposition Request No. 1.)

Q. All right. Thank you. Turning your attention to your response to WICFUR data request 305,

under the heading of fuel cost?

A. Yes.

Q. You state that the "1991 gas prices for the combined cycle combustion turbine are based upon a Puget Power estimate of the price for a long-term contract." Would you describe for me how you derived that estimate?

A. Mr. Hoff in his testimony goes into the details on the calculation, and would be able to address those items.

Q. Thank you. One final set of questions. If you could turn to your response to WICFUR data request number 309, in the last paragraph on that page, you refer to the modified basic customer method?

A. Yes.

Q. And in the last sentence you say that "This method would be appropriate if the utility installed a new meter service and line transformer for each new customer addition regardless of the overall usage level or connected load." How likely is that hypothetical to occur?

A. It would be dependent on the -- I would say the area that the new construction or the new development is going to be located. I think that obviously, in some of our areas, we wouldn't be

required to put in a new transformer for that new customer addition.

Q. I have no further questions. Thank you.

E X A M I N A T I O N

BY MS. ARNOLD:

Q. I have a few questions, Ms. Lynch, and some of these might be more appropriately addressed to Mr. Hoff, but I trust you'll tell me if that's the case. At page 13 of your testimony, you discuss the classification of production costs. Are winter and summer production costs classified separately?

A. No, they are not.

Q. On page 16, you discuss transmission costs. Are winter and summer transmission costs classified separately?

A. Are they classified separately?

Q. Yes.

A. No.

Q. And would your answer be the same for the distribution costs?

A. That's correct.

Q. Does your cost of study reflect seasonal differences in costs anyplace?

A. Those kinds of seasonal differentiations

that we are talking about can be inferred from the allocation methods that are used in the cost of service study. For example, on the production plant, the allocation methods are using the contribution of each class to the top 200 hours of system load. Our system load tends to be in the wintertime, and so that you may call those costs allocated in that manner, winter or peak related.

The same kind of thing can be -- same kind of inference can be made on the distribution system.

Q. Are the levels of the rates in the proposed rate design in cases where there's seasonal rate differentials cost based? Let me start that question over again. Are the seasonal differentiation in the rates themselves in the proposed tariff cost based?

A. Yes. I believe that -- this is one where Mr. Hoff can more fully describe, but I know that they are cost based. I know that he relied on some information from the proposed cost of service study.

Q. And what information was that?

A. That information was looking at the allocation to each class of demand related costs by functional category. I believe he also used other information to make other seasonality decisions.

Q. Do you know what those other -- what that other data that he based the seasonality decisions on were?

A. Again, he can go into more further detail, but I believe he looked at the differences in marginal costs, but I think he should -- could do -- could more fully answer that question.

Q. Okay. Thank you very much.

E X A M I N A T I O N

BY MR. TROTTER:

Q. Just one follow-up. You were asked some questions on -- excuse me.

MR. TROTTER: Chuck is next.

MR. ADAMS: Yeah, go ahead.

BY MR. TROTTER:

Q. While we're on the follow-up from WICFUR's counsel, you were talking about the minimum system and basic customer charge method. You're talking about the collaborative process and certain rate design issues. Are those the responsibility of Mr. Hoff or can you further elucidate on what you meant by rate design issues?

A. The rate design issue that I was referring to, and which Mr. Hoff can add further detail, is the

basic charge calculation for the residential class, and the first step of their energy rate, and he can provide more information on those.

Q. Thank you. Sorry.

E X A M I N A T I O N

BY MR. ADAMS:

Q. No problem. Ms. Lynch, Chuck Adams, public counsel. First off, you make a reference at page seven of your testimony, line five, where you're talking about the most contested classification issues, and you say under one, whether the predominance method should be used.

A. Okay.

Q. Is there some reference in the professional literature or some other basis for the predominance method that you described there?

A. I know that my use of this term came from reviewing some information that I received at a conference regarding rate design and cost of service, and although the term predominance method may not have been used exactly, I believe that in the NARUC manual, they discuss coming up with something that in my estimation is approximate to the predominance method, so specifically it came from information at

professional conferences.

Q. And specifically the NARUC conference?

A. No, it was not NARUC. I don't have the cite, but I could provide it to you.

Q. Could you just informally provide that to us?

A. Sure.

Q. Would you turn to what's been marked Exhibit 3, page seven, and looking specifically at the top three customer classes, that is, residential, water heat, space heat and lights and appliances, and then going across the page to the class load factor column, do you see that?

A. Yes.

Q. And you'll notice there for water heat it shows a load factor of .62, space heat 467 and lights and appliances 565. Do you see those numbers?

A. Yes.

Q. This exhibit shows water heat customers having higher load factors than lights and appliances which appears to us to be in conflict with past load research that Puget has provided for, as an example, that provided in the interclass cost of service study presented in 892688. Would you tell us what has changed, why those numbers are different here than in

past research?

A. What's changed here is moving from 12 hours, which was 12 coincident peak hours, which was the basis in U-892688-T, to 200 hours, which is the basis for these numbers shown on page seven.

Q. So basically the -- if you will, the underlying statistics of usage are the same, but it's using a different measuring period, is that what you're saying?

A. These numbers are derived looking at the contribution to peak over multiple number of hours, and in the '89 case it was 12 hours, and in this case it was 200 hours, and the result of adding 200 hours in that calculation for the water heat group tended to lower their average contribution during that period, and holding energy the same, that tended to improve the load factor that would be presented on a page like this, so it is the definition of the peak period.

Q. The actual usage of customers hasn't changed, it's the way it's being measured, then?

A. It's the addition or consideration of additional hours of peak usage, yes.

Q. But I mean that the underlying customer per usage is remaining the same, is it not?

A. That's right.

Q. Okay. Going back to your testimony at page nine, line 15, you indicate that a substation may be directly assignable. Do you see that?

A. Yes.

Q. If this is done, is the customer also assigned a pro rata share of all allocated substation costs?

A. The -- what happens in this case is the class in which that customer which has the dedicated substation, that class receives that allocation of plant investment as well as the associated revenues, and the class in whole gets an allocation of the other nondirectly assignable substation costs, so yes.

Q. Turning to page 12 of your testimony, line four, the reference to federal income taxes.

A. Okay.

Q. It states the federal income tax expenses are allocated based on allocated rate base, correct?

A. That's correct.

Q. Is the company's support of this approach contingent upon the Commission determining that all classes should provide the same rate of return?

A. That issue was raised in the collaborative, and it was noted that this allocation is acceptable if there is an equalized rate of return

across the classes.

Q. What if there isn't a -- the same rate of return applied as -- what would the company's position be?

A. If there is not the same rate of return applied across the classes?

Q. Yes.

A. I think in that instance, we would look at all possible allocation factors, or may even consider an actual calculation of taxes for this class.

Q. So is it your position that the income tax should follow whatever rate of return is adopted by the Commission, the calculation?

A. Rate of return at the system level?

Q. No, on a class basis.

A. On a class basis. I think that the -- if you are allocating federal income tax expense, then it should follow income, the allocation of net income, operating income, which in a sense -- which is a result of the assignment of rate of return across classes.

Q. Referring now to your identification, CEL-4, I guess it's Exhibit No. 5, pages one and two, would you explain what discount was used and if it is not the net of tax cost of capital, explain why

that discount rate that you used was used?

A. I think Mr. Hoff can describe that.

Q. So at this point you don't know what discount rate --

A. I can tell you that -- I wouldn't be able to tell you, right.

Q. Turn if you would, then, to Exhibit 3, page four.

A. Page four meaning summary two?

Q. Hold on a second. I think I gave you a mis-cite. Sorry. Exhibit 5, page four. Pardon me. Exhibit 5, page two.

MS. ARNOLD: Is that CEL-6?

MR. ADAMS: No, CEL-4.

THE WITNESS: Exhibit 5, page two? Okay.

BY MR. ADAMS:

Q. Right. Are you assuming that 100 percent of the fuel used by the peaker unit is oil, or is part of it gas and part of it oil?

A. In the calculation of the peak credit method for the peaking unit, that's assuming 100 percent is oil.

Q. Does that implicitly assume that Puget's interruptible gas supply to its combustion turbines would be curtailed for all 200 hours of the on-peak

period?

A. Could you repeat that?

Q. Yes. As I understood your question, you said that you assumed 100 percent peak usage of oil.

A. We assumed for the simple cycle combustion turbine which was our peaking unit, during the critical period, during the 200 hours, we assumed 100 percent oil fuel.

Q. Okay. Now, following up on that statement, does that implicitly assume that Puget's interruptible gas supply to its combustion turbines would be curtailed for all 200 hours of the on peak period?

A. For purposes of running the combustion turbine, yes. For purposes of running the simple cycle combustion turbine, the peaking unit, yes.

Q. Would you not agree that gas would be cheaper than oil?

A. Gas may be cheaper than oil, but at the time when these peaks occur, gas may not be available for these hours of operation.

Q. And that's because of your interruptible gas supply for those units?

A. I imagine that's -- yes.

Q. Ms. Lynch, I gathered an essential amount

of uncertainty in your response. I'm not sure. Could I ask for a data request on this particular issue to see how this works out?

A. Is your request in -- is it regarding the assumptions made in developing the classification factor? Or is it specifically regarding any combustion turbines we may have and their associated fuel contracts?

Q. As a first part response, the questions were intended to determine how you would apply the classification factor here.

A. Then my answer is that it was assuming that for the combustion turbine, that those fuels, natural gas fuels, would and probably -- could and probably would be interrupted during the critical period, for purposes of the classification calculation.

Q. Are you not assuming that they would definitely be interrupted for all 200 hours?

A. Seeing as how they're not included in the 200 hours, yes.

Q. Is there -- is this in fact the way the company would expect to run those turbines during that 200 hours, that is, not using any gas but only oil? Not asking you now about how you've classified it, but

in fact the actual way the company would program to run its turbines.

A. Right. I would expect that if during those 200 hours gas was available, and if gas is in fact the least cost or the lower cost fuel, I would expect that we would use that fuel type in a plant that could use both.

Q. You have used, I gather, in terms of your modeling, 200 actual hours in a given year, is that not correct?

A. We used the top 200 in the test period, yes.

Q. Could you please provide then a listing of the 200 hours showing the date and hour for each and the interruptions of gas, that is, where they actually occurred in that 200 hours?

A. Let's see if I understand it correctly. During the 200 hours that we've used in our allocation, you would like to know if there were any gas interruptions.

Q. We want a list of the 200 hours showing the date and hour of each and where the interruptions occur.

A. And the interruptions are on the gas availability, right, that you're asking about?

Q. Yes. The assumption that I had was that they're all running on oil -- they run on gas unless they were interrupted, your classification methodology, you assume, they were all interrupted. We want to see what the actual two hours would look like for your base period.

A. The reason I'm hesitating is that I'm thinking whether or not there were actually interruptions, whether or not during the test period there were interruptions that you're talking about, but I can provide to you that information.

Q. Right. The information will show those interruptions if they occurred, correct?

A. Yes.

Q. Thank you.

MR. TROTTER: Would that be deposition request two?

MR. ADAMS: Yes.

(Deposition Request No. 2.)

BY MR. ADAMS:

Q. Got a couple of questions that -- excuse me. Go ahead and look it up. I'm not sure frankly between you and Mr. Hoff which was the appropriate person, so let me ask them to you and you can defer if you so choose. When computing the peak credit factor,

is it correct that you divided the cost of a peaking resource located inside the service territory by the cost of a base load or combined cycle resource also located inside the service territory?

A. I would say yes in that the cost basis are from units included in our resource plan, so they would be -- I would assume that those would be in our service territory.

Q. Do you then apply the fraction to the company's peaking and base load resources which are located both inside and outside the service territory?

A. The same factor is applied to all production resources regardless of the location.

Q. The two types of peaking resources you considered were simple cycle combustion turbines and purchase capacity, correct?

A. The two -- for the purposes of the peak credit calculation, the two types of resources was a combined cycle combustion turbine and a simple cycle combustion turbine. If it helps, you could look at our response to WICFUR, 305, which identifies the two units that we used in our calculation.

Q. Okay. Ms. Lynch, in Mr. Hoff's testimony at page 11 of his testimony, he talks about an alternative measure of capacity costs and discusses

peaking power purchase contracts. Did you not use that in your analysis, then?

A. We have used -- he I believe used that -- or referred to that in his testimony, but in the cost of service testimony, it is the two plants that -- the two type of plant that I just mentioned.

Q. Is it correct that you used 100 percent of the costs of the simple cycle combustion plant -- combustion turbine in determining your capacity costs?

A. In effect we used 50 percent of those costs, 50 percent of the capital and fixed costs in developing those -- in developing the peak credit classification.

Q. What's the other 50 percent come from?

A. I'm not understanding --

Q. In effect by using a 50 percent factor that you used, are you not taking into effect, then, the alternative measures that Mr. Hoff discusses?

A. In using the 50 percent, we're taking into account or attempting to take into account the other benefits that are available to the system from having a combustion -- a simple cycle combustion turbine on, and those are the benefits that Mr. Hoff discusses.

Q. Did you consider demand side peaking resources as well as supply side resources?

A. In determining the classification factor?

Q. Yes.

A. No, we did not. We relied on the resources identified from our power planning professionals for identifying the peaking units.

Q. What about the cost of securing interruptibility rights as an alternative to supply side peaking resources?

A. I would, you know, expect that in making their decision that this best represented the cost of peak to Puget, that the simple cycle best represented the cost of peak to Puget. They considered, you know, all alternative resources, and they decided that these of the simple cycle best represented the decision that we ~~placed~~ FACED. alh

Q. Moving to another area, in preparing the cost of service studies, did you give any consideration to the differential growth rates of different customer classes?

A. No, we did not.

Q. Are you familiar with an approach used by Seattle City Light several years ago assigning the cost of growth to all classes at marginal cost so the growing classes are not subsidized by more stable classes?

A. I'm familiar with that, and in fact, I have heard it referred to as the growth shares process, so, yes, I am familiar with that process.

Q. Did you give any consideration to its use in your --

A. Not for this filing, no.

Q. Okay. Are there any specific reasons you have why you didn't use it in this filing?

A. Well, the specific reason why we did, it's more -- for the decision of using our -- or for the decision of how to treat production plant, we relied on the discussions that we had within the collaborative process to determine the appropriate method. We did not go beyond that type of decision -- or that type of research or investigation into other methods.

Q. Would you agree that the commercial class, basically schedule 24, has been and is expected to continue to be the fastest growing of Puget's customer classes?

A. Yes.

Q. Would you agree that as part of the collaborative on the issue of allocating any costs of growth, that there was no, if you will, unanimous collaborative statement on that position?

A. On the issue of dealing with expenses due to growth?

Q. Yes.

A. Yes.

Q. I want to talk briefly about transmission. I think that there was some questions to you already on that subject so we'll try to avoid those. To your knowledge, are there economies of scale associated with transmission? For example, is the average cost per kilowatt of larger transmission capacity lower than the average cost per kilowatt for smaller transmission facilities?

A. I know that there are and that in some of the reference material to the integrated resource plan, those economies were mentioned, yes.

Q. Have you reviewed any studies prepared by the company's transmission engineers or others indicating the amount of economies of scale associated with larger facilities?

A. No.

Q. I gather that any economies of scale for transmission did not enter into your reasoning when you selected a cost allocation methodology, is that correct?

A. That's correct. We made the decision on

why -- this we feel is another example of the forward looking nature of our study, why the original project, why that major transmission project was undertaken, and we feel that that primarily is due to a response of anticipated load in the area or on the system, so that was the consideration that we made in making that decision.

Q. In building a transmission facility as an example, a decision, for instance, to put in a 230KV versus say a 115KV would also be based on that anticipated load, would it not?

A. A decision between a 230 and 115?

Q. Yes. As an example.

A. Yes.

Q. The answer was yes?

A. Yes.

Q. Last area, would you describe -- this relates to the calculation of unit costs. Would you describe how the demand energy and customer related costs shown on page 11 of exhibit I think it's 7 were calculated?

A. Okay. These --

MR. TROTTER: Is there a page at Exhibit 7?

BY MR. ADAMS:

Q. Page 11. Looking specifically at the units, total unit cost of service demand related, total unit cost of service energy related, and total unit cost of service customer related, those three summary lines.

A. Okay. These unit costs were derived from the results of applying the various classification and allocation methods I've described in my testimony, and then -- which in effect results in our revenue requirement being identified as being either demand related, energy related or customer related, and then for -- for each class, and then dividing by the units which were used to make the initial allocation, so the units that are behind these unit costs shown on page 11 are shown at the top of page ten. It is those usage characteristics as well as the cost of service items -- specific line items shown on page 11 that result in these unit costs. Our model is able to carry these categories or classifications of costs, and then we divided by the units used to allocate.

Q. Is the sum of the products of the unit costs times the billing determinant for each cost item equal to the revenue requirement as shown in summary two, line 11 of Exhibit 4?

A. If you would take these unit costs on page

11 times the usage characteristics on page ten, you would get to the line -- line six on summary two of CEL-3, page one, so, yes, it comes down to the line that's described as total cost of service.

Q. Fine. Thanks very much. That's all the questions I have.

E X A M I N A T I O N

BY MR. TROTTER:

Q. Could you give me that -- line six of --

A. Line six on page -- it would be page four of the exhibit. It's page one of summary two. Summary two is referenced up in the left-hand column, and there's a line entitled Total Cost of Service.

Q. Is there a schedule in the upper left-hand corner?

A. I was referring to the -- it reads CEL-3 summary two. It's within our Exhibit 3, the Cost of Service Study.

Q. Oh, I see. Just a minute.

A. And it's in line six on that schedule. The schedules are independently -- are independently numbered.

Q. Thank you. I've got it. I have nothing further.

E X A M I N A T I O N

BY MR. TRINCHERO:

Q. I have one follow-up question, actually. Going back to Exhibit 5 on page two, public counsel asked you about the -- one of the assumptions going into your peak credit method, namely, the fact that one half of the capital and fixed O&M for the combustion turbine was used for peak credit costs. Why was only one half of the cost used?

A. Only one half of the capital or fixed cost of the simple cycle combustion turbine was used in recognition of the other benefits that Puget -- the other benefits that the combined -- the combustion turbine provides, such as the ability to -- for hydro firming, the ability to run in hours exceeding 200 hours, those kinds of other features of having that unit on the system.

Q. And, in your opinion, those benefits represent one half of the cost as opposed to say three-quarters of the cost?

A. I would say -- that was the opinion of our power supply professionals, that that -- that one half was a reasonable approximation of those benefits, yes.

Q. And that reasonable approximation was

based on simply professional judgment?

A. I think it was -- it was a combination of professional judgment and looking at the power contracts available -- I think that was earlier referred to the San Diego contract that Mr. Hoff refers to.

Q. Very good. Thank you.

MR. TROTTER: Okay. You're excused.

The reporter needs a break but we're also pretty close to lunch.

(Luncheon recess taken at 11:30 a.m.)

(Deposition concluded at 11:30 a.m.)

C E R T I F I C A T E

As Court Reporter, I hereby certify that the foregoing transcript is true and accurate and contains all the facts, matters, and proceedings of the hearing held on: 8-13-92

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