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BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	
)	
vs.)	DOCKET NO. UG-101644
)	
PUGET SOUND ENERGY, INC.,)	VOLUME II
)	
Respondent.)	PAGES 30 - 58
-----)	

A settlement hearing in the above matter was held on Tuesday, March 1, 2011, at 9:30 a.m., at 1300 South Evergreen Park Drive Southwest, Olympia, Washington, before Administrative Law Judge DENNIS MOSS, Chairman JEFF GOLTZ, Commissioner PATRICK OSHIE and Commissioner PHILIP JONES.

The parties were present as follows:

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, by ROBERT D. CEDARBAUM, Assistant Attorney General, 1400 South Evergreen Park Drive Southwest, Olympia, Washington 98504; Telephone 360-664-1188

PUBLIC COUNSEL, by SIMON J. FFITCH, Senior Assistant Attorney General, 800 Fifth Avenue, Suite 2000, Seattle, Washington 98104; Telephone 206-389-2055

PUGET SOUND ENERGY, by SHEREE STROM CARSON, Attorney at Law, Perkins Coie, 10885 Northeast Fourth Street, Suite 700, Bellevue, Washington 98004; Telephone 425-635-1422

Tami Lynn Vondran, CCR No. 2157

Court Reporter

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1 The parties were present as follows: (continued)

2 NORTHWEST INDUSTRIAL GAS USERS, by CHAD M. STOKES,
3 Attorney at Law, Cable Huston Law Firm, 1001 Southwest Fifth
4 Avenue, Suite 2000, Portland, Oregon 97204; Telephone,
5 503-224-3092

6 THE ENERGY PROJECT, by RONALD L. ROSEMAN, Attorney at
7 Law, 2011 14th Avenue East, Seattle, Washington 98112;
8 Telephone 206-324-8792

9 SEATTLE STEAM COMPANY, by ELAINE L. SPENCER, Attorney
10 at Law, Graham & Dunn, Pier 70, 2801 Alaskan Way, No. 300,
11 Seattle, Washington 98121; Telephone 206-624-8300

12 NUCOR STEEL, by DAMON E. XENOPOULOS, (via bridge line)
13 Attorney at Law, Brickfield, Burchette, Ritts & Stone, 1025
14 Thomas Jefferson Street Northwest, West Tower, 8th Floor,
15 Washington D.C. 20007; Telephone 202-342-0800

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2	DWS-1	40		Witness Qualifications
3	SG-1	40		Witness Qualifications
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9	SUSAN MCLAIN, SENIOR VICE PRESIDENT OPERATIONS, PSE			
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15				controls
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18				Municipal, County and Other
19				Requirements
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21	SERVICE, PSE			
22	JKP-1T	40		Prefiled Direct Testimony presenting
23				PSE's pro forma revenue from gas
24				operations, gas COS study and
25				proposed rate spread and rate design

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1	EXHIBIT:	AD:	REJ:	DESCRIPTION
2	JKP-2	40		Witness Qualifications
3	JKP-3	40		Adjustments to Volume (Therms) by
4				Rate Schedule for Test Year ended
5				6/30/2010
6	JKP-4	40		2010 Gas Cost of Service
7				Study-Proposed Test Year Without
8				Gas-Summary
9	JKP-5	40		2010 Gas Cost of Service
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11				Gas-Summary
12	JKP-6	40		Account Detail by Classification and
13				Rate Class
14	JKP-7	40		2010 Gas Cost of Service Study
15				Account Inputs
16	JKP-8	40		2010 Gas Cost of Service Study
17				External Allocators
18	JKP-9	40		2010 Gas Cost of Service Study
19				Allocation of Account 376
20				Distribution Mains
21	JKP-10	40		Allocation of Revenue Deficiency to
22				Rate Classes for Test Year ended
23				6/30/2010
24	JKP-11	40		Comparison of Residential Basic
25				Charges of Gas Distribution Companies

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1	EXHIBIT:	AD:	REJ:	DESCRIPTION
2	JKP-12	40		October 2010 Gas Tariff Increase
3				Estimated Monthly Bill Impacts for
4				Residential (Schedule 23) Customers
5	JKP-13	40		Proposed Natural Gas Tariff Sheets
6	JOHN H. STORY, DIRECTOR, COST AND REGULATION, PSE			
7	JHS-1T	40		Prefiled Direct Testimony re natural
8				gas results of operations (revenue
9				requirement)
10	JHS-2	40		Professional Qualifications
11	JHS-3	40		Income Statement for 12 Months Ended
12				12/31/2008 and 6/30/2010; Balance
13				Sheet; Gas Rate Base; Combined
14				Working Capital; Allocation Methods
15	JHS-4	40		Results of Operations for 12 Months
16				Ended 6/30/2010 - General Rate
17				Increase
18	JHS-5	40		Gas Rate Increase for 12 Months Ended
19				6/30/2010; Pro Forma Cost of Capital;
20				Conversion Factor
21	JHS-6	40		Natural Gas Results of Operations
22				Forecast 12 Months Ended 6/30/2010 vs
23				12/31/2008 -- Unit Cost
24				
25				

0036

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P R O C E E D I N G S

2

(Whereupon, the proceedings went on the

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record at 9:31 a.m.)

4

JUDGE MOSS: Let's go on the record. Good morning

5

everybody. My name is Dennis Moss, I am an administrative

6

law judge with the Washington Utilities & Transportation

7

Commission. We are convened this morning in the docket

8

styled Puget Sound Energy, Inc., or WUTC against Puget Sound

9

Energy, Inc., Docket UG-101644.

10

This is a gas only rate case in which the parties

11

have reached a settlement agreement, and they filed and

12

asked us to consider, asked the Commission to consider, in

13

resolution of the issues in this case.

14

We have a panel of witnesses with us this

15

morning--who have already kindly taken their seats up

16

here--and we'll swear them in in just a moment.

17

As a preliminary matter, however, we'll need to

18

take appearances from counsel. We can do the short form

19

since we had a prehearing and have gotten the long form on

20

the record already.

21

Let's begin with you, Ms. Carson.

22

MS. CARSON: Good morning. Sheree Strom Carson

23

with Perkins Coie representing Puget Sound Energy.

24

JUDGE MOSS: Let's just go around the room.

25

Ms. Spencer.

0037

1 MS. SPENCER: Good morning. Elaine Spencer for
2 Seattle Steam.

3 MR. STOKES: Good morning. Chad Stokes for the
4 Northwest Industrial Gas Users.

5 JUDGE MOSS: Mr. Roseman.

6 MR. ROSEMAN: Good morning. Ronald Roseman
7 representing The Energy Project.

8 MR. FFITCH: Good morning, Judge Moss and
9 Commissioners, Simon ffitich on behalf of the Public Counsel
10 office.

11 MR. CEDARBAUM: Robert Cedarbaum on behalf of
12 Commission staff.

13 JUDGE MOSS: I know we had at least Mr. Xenopoulos
14 who was going to appear by teleconference, I believe. Are
15 you there, Mr. Xenopoulos?

16 Apparently not. Busy in Washington.

17 All right. Anyone else on the bridge line who
18 wishes to enter an appearance this morning?

19 MR. GENT: This is Stan Gent from the Seattle
20 Steam Company.

21 JUDGE MOSS: Yes, thank you.

22 MR. EBERDT: This is Chuck Eberdt from The Energy
23 Project.

24 JUDGE MOSS: All right. And just to be clear,
25 Mr. Gent and Mr. Eberdt are witnesses, and they're part of

0038

1 our panel. And in a moment when we swear the witnesses
2 we'll ask the two of you to take the oath along with those
3 here in the hearing room.

4 Any other counsel who wish to enter appearances?

5 All right. Do we have any other witnesses on the
6 bridge line? I think there were three.

7 MR. HIGGINS: Yes, Judge Moss. This is Kevin
8 Higgins for Nucor Steel Seattle.

9 JUDGE MOSS: Yes. Thank you, Mr. Higgins. I
10 thought there were three on the bridge line, so that would
11 account for the third. Very good.

12 I inquired of the parties prior to -- or actually
13 I acquired of Mr. Cedarbaum, I should say, before we
14 commenced this morning. And he tells me that neither
15 counsel nor the panelists have any preliminary statement
16 prepared unless the Bench wishes to have some sort of
17 summary. So then we'll swear the witnesses and proceed to
18 the opportunity for the Bench to inquire of them.

19 So I'll ask those here in the room, and those of
20 you on the phone, to please rise and raise your right hand.

21 (John H. Story, Janet Phelps, Thomas
22 Schooley, Mary Kimball, Donald W. Schoenbeck,
23 Stan Gent, Charles M. Eberdt, Kevin C.
24 Higgins sworn on oath.)

25 JUDGE MOSS: Thank you very much. Be seated, of

0039

1 course.

2 I should mention the exhibit list that I
3 distributed this morning and I should have -- I neglected, I
4 should have checked with Ms. Carson or perhaps
5 Mr. Cedarbaum. Did the parties intend to stipulate into the
6 record, not only clearly the joint testimony and the
7 settlement agreement itself, which I have marked as Exhibit
8 Joint-2, but also the prefiled direct testimony by
9 Mr. Story, Ms. McLain and Ms. Phelps.

10 MS. CARSON: The parties did agree to that.

11 JUDGE MOSS: I thought that would be the case. So
12 I have included all of those exhibits on the exhibit list
13 that I will provide a copy of to the court reporter at the
14 conclusion of things after I update it.

15 You all will please note that there is a Bench
16 Request No. 1 indicated there which is for the public
17 comment exhibit. Mr. ffitch, will you be handling that for
18 us?

19 MR. FFITCH: Yes, Your Honor.

20 JUDGE MOSS: All right. I'm going to allow for
21 written comments to be received, I think, through the end of
22 the week. So if you could provide that early next week that
23 would be most helpful.

24 MR. FFITCH: We will do that, Your Honor, thank
25 you.

0040

1 JUDGE MOSS: Thank you very much. As far as Bench
2 Exhibit 2 that you see identified there, it is an undate to
3 -- request I should say at this point, a bench request for
4 an update to Exhibit JKP-12, Ms. Phelps' exhibit, showing
5 the rate impacts on residential customers. So we would like
6 to see that updated in accordance with what the settlement
7 agreement provides.

8 MS. PHELPS: Okay.

9 JUDGE MOSS: We appreciate that, Ms. Phelps. If
10 you can provide that to us hopefully by the end of the week.
11 If not, early next week.

12 All right. With that, of course, I will also ask
13 that the parties let me know if there are any errors on the
14 exhibit list. I think I got everything, but it's always
15 possible to miss something.

16 With the parties' stipulation then the exhibits
17 indicated on the list--which I will not bother to separately
18 identify orally this morning--will be admitted as marked.

19 (All exhibits admitted.)

20 JUDGE MOSS: With that I believe we can go to the
21 panelists with questions from the Bench.

22 Anyone wish to begin?

23 COMMISSIONER JONES: No.

24 COMMISSIONER OSHIE: This may be a short hearing,
25 Judge, I have no questions.

0041

1 CHAIRMAN GOLTZ: Well, then I hate to have
2 everyone show up here and leave, so let me just ask a few.

3

4 JOHN H. STORY, JANET PHELPS, THOMAS SCHOOLEY,
5 MARY KIMBALL, DONALD W. SCHOENBECK, STAN GENT,
6 CHARLES M. EBERDT and KEVIN C. HIGGINS,

7 having been first duly sworn on oath

8 testified as follows:

9

10 CROSS-EXAMINATION

11 BY CHAIRMAN GOLTZ:

12 Q. On page 12 of the joint testimony there's a
13 reference to significant investment in its distribution
14 network. And I gather--and this is probably for
15 Mr. Story--that that derives what is, I guess, a fairly
16 significant increase in rate base?

17 A. (Story) That's correct.

18 Q. Just referring to the testimony of Ms. McLain, I
19 just want to make sure I understand something here. So
20 that's SML-1T at 15 to 16. Ms. McLain there looks ahead to
21 2011 and lists a number of other infrastructure budget
22 items, do you see that?

23 A. (Story) Yes, I do.

24 Q. And I'm safe in assuming that none of those items
25 of her testimony are in the rate base in this current case?

0042

1 A. (Story) No, they're not.

2 Q. Mr. Story, if we could just -- a couple other
3 questions on your Exhibit JHS-3?

4 JUDGE MOSS: While you're finding that, Mr. Story,
5 let me remind the witnesses to please pull the microphones
6 close when they speak so that those on the bridge line can
7 hear and we get a good recording. We do have a new sound
8 system, which I hope is improved over the old one, but I'm
9 afraid it's still necessary to be close to the mics.

10 A. (Story) I have the exhibit.

11 BY CHAIRMAN GOLTZ:

12 Q. Just so I understand, this shows the actual
13 operations--in either the middle column or the left column
14 depending how you count--for the last general rate case; is
15 that correct?

16 A. (Story) That's correct. It's a comparison between
17 the test year for the last case and the test year for this
18 case, and it's unadjusted. It doesn't have any pro forma
19 adjustments.

20 Q. So the overall rate base, which is the next to
21 the -- which is on line 35, that shows an increase of rate
22 base of about \$120 million; is that correct?

23 A. (Story) I'm sorry, which page are you on?

24 Q. Still on JHS-3, the first page.

25 A. (Story) The first page. That's correct. It's

0043

1 about, yeah, 117 million.

2 Q. About half of that is attributable to -- or maybe
3 I'm still leading around. Some of that is attributable to
4 working capital?

5 A. (Story) That's correct.

6 Q. Okay. And some of that -- and probably the rest
7 of it is attributable to this new plant investment?

8 A. (Story) It's mainly new plant investment. Working
9 capital went up about 24 million or 25 million, I believe,
10 between the two cases. But the majority of the increase was
11 on distribution for gas.

12 Q. Then the working capital amount over on your
13 testimony on page 5, JHS-1T, I thought on lines 8 and 9 that
14 the working capital addition was almost 77 million; or am I
15 missing something?

16 A. (Story) That's the total amount of working
17 capital. The change between the two cases was about -- it's
18 in the mid 20s.

19 Q. Okay. This is then for Mr. Schooley. Am I
20 correct that for purposes of settlement the Commission staff
21 doesn't agree with all of those rate base additions?

22 A. (Schooley) If we were to go to a litigated case we
23 would probably have adjustments to the working capital
24 portion of that. We're not contesting the actual increases
25 in plant itself.

0044

1 Q. Okay. Another question then for Mr. Story. On
2 line 29 of your exhibit JHS-3 it lists federal income taxes
3 as a negative?

4 A. (Story) Right. When you're looking at taxes you
5 have to look at both current taxes and the deferred taxes
6 together, so it's a net positive between those two. What
7 happens a lot of times with a utility that has a lot of
8 construction, your current taxes are deferred and you're
9 going to be paying them later. So it's the net between the
10 two you have to look at as to your tax liability.

11 Q. Okay. So the net is a negative or is that -- you
12 have to net the negative with the positive?

13 A. (Story) Net the negative with the positive right
14 below it. It's line 29 and 30 should be looked at together.

15 Q. I understand. So actually during then the test
16 year 2000, ending January -- pardon me, June 30, 2010, to
17 determine the amount of income taxes that you paid you would
18 subtract 48,000 -- 48,545,000 -- I'm sorry, subtract
19 35,657,000 from 48,545,000?

20 A. (Story) Except for the word "paid." They're not
21 paid, they're deferred. And that means they're going to be
22 paid later. It will be under normalization rules. There
23 will be a turnaround sooner or later, and at that time the
24 Company will pay the taxes.

25 Q. Then I had a question at your testimony at page 17

0045

1 on line 7 through 9. In effect you're talking about
2 negative depreciation?

3 A. (Story) Actually, we're talking about the balance
4 sheet in this response. The deferred, or the net of the
5 asset and the accumulated depreciation would become negative
6 instead of being an asset on the books, which means it's an
7 over-depreciated condition. So it's the cumulated taxes
8 offset against the plant value.

9 Q. I guess I'm not quite sure. Are you saying the
10 depreciation -- the appreciated amount goes negative on that
11 then?

12 A. (Story) No. You always take depreciation against
13 your gross book value. So that's what goes to the expense
14 part of the income statement. And we're talking about the
15 balance sheet here.

16 Normally what you would have is you would have,
17 say, you had \$100 worth of assets and you had \$80 worth of
18 accumulated depreciation, you would have a net balance of
19 \$20 on your books. What we're getting to here is we would
20 actually have a negative, you know, one or \$2 on the asset
21 side of the books because the accumulated depreciation has
22 grown too high. It's over-depreciated.

23 Q. How can the depreciation grow by more than what
24 the asset value originally was?

25 A. (Story) There's several different reasons for

0046

1 that. On some assets you have negative salvage. It's going
2 to cost you money to remove it. So you would expect a
3 negative value when you look at it when it's retired.

4 So like, you know, if you're doing a pole, it
5 costs you a certain amount of money and you have no salvage
6 with a pole. It costs you several hundred dollars to take
7 the pole out. That's built into your depreciation rate.

8 Q. Okay.

9 A. (Story) So you could have negative depreciation in
10 that circumstance. With water heaters it's not a condition
11 you would normally expect that to happen. So what we're
12 trying to do is get the balance down to -- based on the life
13 of the water heaters that are remaining what should be the
14 value on the books.

15 Q. So is the water heater -- the water heater rental
16 program, hasn't that been phasing out for a long, long time?

17 A. (Story) It's not phasing out. I mean there's no
18 plan to phase it out. We have seen a significant reduction
19 in number of customers between -- over the last several
20 years. I don't have the number -- I have the number with me
21 but not handy. We still have in the tens of thousands of
22 water heaters out there.

23 A. (Phelps) It's about 45,000.

24 CHAIRMAN GOLTZ: Okay. I have no further
25 questions. Thank you.

0047

1 MR. XENOPOULOS: Your Honor, this is Damon
2 Xenopoulos, if I might interrupt at this stage?

3 JUDGE MOSS: All right. That's fine,
4 Mr. Xenopoulos, we'll take that as you entering your
5 appearance.

6 MR. XENOPOULOS: Thank you, Your Honor. I
7 apologize, I couldn't get in. I have no idea why.

8 JUDGE MOSS: Okay. Thank you.
9 Commissioner Oshie.

10 COMMISSIONER OSHIE: Thank you, Judge. I guess I
11 do have a question. I thought the Chair may get to it, but
12 he didn't.

13

14 CROSS-EXAMINATION

15 BY COMMISSIONER OSHIE:

16 Q. When the Company filed its case there was a
17 representation that this was a 2.3 percent rate increase.
18 And, you know, based on some of the information we received
19 now it seems much higher than that. At least it seems to be
20 our understanding that the 2.3 percent was calculated when
21 you looked at total cost of the gas utility, meaning not
22 only its fixed cost, infrastructure cost, but also its gas
23 cost which is recovered through the PGA. Is that an issue
24 here at all, I mean that we need to address? I think we've
25 done our -- some analysis on our side. And it appears that

0048

1 this is not really -- wasn't really a 2.3 percent increase
2 but perhaps a 4.7 percent requested increase if we remove
3 the purchased gas cost from the calculation?

4 A. (Story) It would be different and higher if you
5 remove the gas cost. It is based on total cost to the
6 customer, the 2.3.

7 Q. Is that the way we calculate, you know, when we
8 apply our rule? I mean, do we calculate it based on, at
9 least for the gas company, we include the purchased gas
10 costs which are recovered through another mechanism? I mean
11 it would seem to me that a more accurate way of dealing with
12 it would be to just look at what the actual rate case is
13 about, which is, you know, the infrastructure and costs
14 according to gas utility, but not the gas, as that's
15 recovered through the PGA?

16 A. (Schooley) As Staff has read the rule there's no
17 differentiation between the types of expenses so it would be
18 based on the total included gas.

19 Q. But gas is not part of this case, is it?

20 A. (Schooley) No, it isn't. This is based on what's
21 considered the margin or the portion of non-gas costs of the
22 total.

23 Q. Well, does that strike Staff as being a bit
24 inaccurate then to consider this to be just a two point, at
25 least as filed, a 2.3 percent rate increase when it was

0049

1 actually much higher?

2 A. (Schooley) It depends on how you look at it.
3 You're asking somewhat of a legal question, but there's also
4 what the customer would see on their bill, and their total
5 bill would be including the gas. And this increase would be
6 as -- the settlement would be about 1.8 percent, so, yeah.

7 A. (Story) I might just add, traditionally it has
8 always been filed with this kind of percentage indicated on
9 gas cases.

10 Q. This is a bit of an unusual situation, isn't it,
11 Mr. Story?

12 A. (Story) It's under the -- I think we filed one of
13 these under the electrical before. It's not the usual type
14 of filing, no.

15 Q. Well, I guess we'll have to address this in some
16 way. And if it's -- we'll have to -- one thing maybe I
17 would like to know is if Staff understood the actual, you
18 know, what the actual rate increase less gas costs would
19 have been when it made its presentation at the open meeting
20 in which this matter was suspended?

21 A. (Schooley) Yes, we did.

22 Q. Maybe I missed it in the memo, but was it
23 addressed then in the memo to explain to the Commission the
24 actual rate increase or was that not included?

25 A. (Schooley) I don't recall what was in the memo

0050

1 actually.

2 Q. I don't recall it being in the memo. I don't
3 recall it being discussed or explained at the time this
4 presentation was made. So, all right. Thank you.

5 COMMISSIONER JONES: Judge.

6 JUDGE MOSS: Commissioner Jones.

7 COMMISSIONER JONES: We may go to about a half an
8 hour on this, I do have some questions.

9

10 CROSS-EXAMINATION

11 BY COMMISSIONER JONES:

12 Q. Mr. Story, let's go back to page 17 of JHS-1 of
13 your testimony. This relates to what the Chairman was
14 asking you about on rental depreciates for water heaters.

15 A. (Story) Yes.

16 Q. So on lines 14 through 16 you talk about the
17 under-depreciation for a number of years. And then in 2001
18 significantly higher rental depreciation rates were agreed
19 to. Could you -- since I wasn't here at the time, can you
20 explain to me what sort of depreciation rate was agreed to
21 at that time, and why we're faced with this kind of unusual
22 situation of maybe a negative balance going into 2011?

23 A. (Story) Yes. Actually, it goes back before 2001
24 and prior to when Puget Power and Washington Natural Gas
25 merged. Under the original depreciation set for water

0051

1 heaters they included pipes and the flumes for the water
2 heaters as part of the look at the asset. And those had
3 very long lives. So when you took that total asset set as a
4 piece of equipment the life of the depreciation was up
5 around 25 to 30 years.

6 Water heaters themselves last anywhere between
7 eight to 12 years, and generally you'll see a depreciation
8 rate that is about 10 years.

9 What happened with the -- right after the merger I
10 think there was a -- I'm pretty sure there was an accounting
11 petition. I wasn't in rates at the time, so this is sort of
12 hearsay. There was an accounting petition that separated
13 the pipes and flumes from the water heaters, and those
14 became an amortization type item. It's part of the
15 equipment, but it remains with the house. Whether you
16 remove the water heater or not, it's required for the water
17 heater. So those were removed and amortized over a certain
18 time period, I believe it was five years. I'm not quite
19 positive on that.

20 When the water heaters -- when we came in in 2001
21 and looked at the water heater by itself and the burners it
22 was pretty obvious that as the other assets had been
23 separated away that they had been under-depreciated because
24 of the long 25-year depreciation rate. At that time we set
25 the depreciation rates based on about a 20-year life, but we

0052

1 agreed to keep the depreciation at a minimum of \$8 million.
2 So no matter what the depreciation rate times the asset was
3 we were going to amortize 8 million and some change per
4 year. And we did that for about six years, seven years.

5 And at this point in time I believe Karl in the
6 last case recommended that--Karl Karsmar, two cases
7 ago--recommended that that rate be maintained to get the
8 balances down. And when we looked at it when we were
9 putting together this tariff it was pretty obvious that we
10 would go negative. So we had the depreciation person come
11 in that we had in the same, you know, for the last
12 depreciation study. They took a look at it and came up with
13 a new rate that we're recommending.

14 Q. What is the new rate roughly?

15 A. (Story) It goes down to 2.55 on commercial water
16 heaters, that's 2.55 percent. On residential it's 5.52,
17 which equates to about a 10-year life. And the first one
18 was about a 12-year under the depreciation. And then on
19 burners it's about 1.37 percent. And it's dropping down
20 from -- commercial water heaters were at 21.8 percent and
21 19.31 percent for residential water heaters, and the
22 conversion burners were at 14.51. So it's a significant
23 drop.

24 Q. Okay. That's a good answer, thank you. I
25 understand it now.

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1 Mr. Schooley, could you go to page 11 of your
2 testimony on Joint-1T?

3 A. (Schooley) Yes.

4 Q. I just want to make sure. I think Commissioner
5 Oshie asked a few questions on this difference between
6 percentage increases to natural gas revenues versus margin.
7 And you quote on line 8, "4.76 percent increase on margin."
8 Could you just explain, is the purchased gas cost the only
9 cost that's coming out? Or just explain to me how you came
10 up with the 4.76 percent increase, quote, on margin.

11 A. (Schooley) Yes, that is the 4.76 percent without
12 gas, and the only difference is the purchased gas portion of
13 the rates. So this is the amount of increase on which the
14 Company earns its profits. The gas itself has no profit
15 involved.

16 Q. So just to have a complete record on this, could
17 you go to JHS-6, Mr. Story's Exhibit 6, do you have that?

18 A. (Schooley) I don't.

19 Q. Could you get it?

20 A. (Schooley) Okay.

21 Q. So just so I understand it accurately from an
22 accounting standpoint, so if I look at the 6-30-2010 column,
23 are you there?

24 A. (Schooley) Yes.

25 Q. And we have total operating revenues, and down at

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1 the bottom we have a revenue deficiency net of tax of 15.3
2 million. So by margin what you take is that \$629 million of
3 purchased gas out of the equation, is that all you did to
4 derive that 4.76 percent margin number?

5 A. (Schooley) Basically if you look up on line 5 is
6 the total operating revenues of \$1 billion less the \$630
7 million of gas revenues. It says, gas costs, but gas costs
8 equal gas revenues. So you only have 400 million in
9 operating revenues that the Company earns its return from.

10 Q. So I'm doing commissioner's math here. I get
11 roughly 430 million. That's what you call the margin?

12 A. (Schooley) Yes.

13 Q. Okay. So 430 million margin. And then you take
14 the revenue deficiency compared to that?

15 A. (Schooley) Correct.

16 Q. Okay, fine. I get it now.

17 Just finally, turn to page 10 of your testimony.
18 You talk about some possible areas of disagreement during
19 discussions that led to the settlement agreement?

20 A. (Schooley) Yes.

21 Q. I'm not going to ask any leading questions that
22 would get at litigation positions here, but I just want to
23 understand these bullet points.

24 I think I understand bullet point one, cost of
25 debt.

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1 Bullet point two is investor supplied working
2 capital, which you just mentioned.

3 Bullet three I don't understand. Could you
4 clarify what this, "from a tax accounting method change,"
5 method is? Would that be the repairs deduction issue?

6 A. (Schooley) Yes, it is. That was an issue that was
7 deferred from the prior general rate case.

8 Q. Got it. Bullet four, Company staffing levels. I
9 think I get that.

10 And what is bullet five, miscellaneous expenses?
11 A little more specifics on that charge to utility accounts.

12 A. (Schooley) There were some minor items of what may
13 have been considered below the line expenses that we may
14 have proposed removing.

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

17 JUDGE MOSS: Thank you. Anything else?

18 From a process perspective I have a question that
19 concerns the proposal to match the -- I think it's the -- is
20 it balancing of the transportation tariff? Where is that?
21 With Northwest Natural? What provision is that in the
22 settlement agreement?

23 MR. CEDARBAUM: It's paragraph 9 on page 4.

24 JUDGE MOSS: Thank you. "PSE agrees to modify its
25 transportation tariff provisions to mirror Northwest

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1 Pipeline's monthly balancing and related penalty provisions.
2 Such modification will take place in a separate filing."

3 From a process perspective I'm not sure what the
4 parties are contemplating here. Assuming for the moment,
5 for the sake of argument and discussion, that the Commission
6 approves this settlement agreement, what happens next with
7 respect to the provision? You all file it and all support
8 it and the Commission considers it and decides it? Or what?
9 Are you asking for preapproval here? What's the status of
10 this?

11 I notice with respect, by contrast, to the
12 low-income adjustment what it says, if memory serves, is
13 that the parties agree to support a like increase in the
14 low-income funding relative to the rate increase. Well,
15 that's fine for the parties to all support something. The
16 Commission of course still decides it.

17 But here it seems to contemplate something
18 slightly different. And I want to know if that's just a
19 matter of the wording or what is contemplated? And perhaps
20 it's a legal question for Mr. Cedarbaum.

21 MR. CEDARBAUM: I think what the parties
22 anticipated was that the Company would make a separate
23 filing which would be given a separate docket number and
24 placed on a Commission open meeting agenda in due course.

25 JUDGE MOSS: Okay.

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1 MR. CEDARBAUM: And the Commission would then
2 address it. I think the parties also agree to support it,
3 but I'm not sure about that. So it could be -- if that's
4 the case it could be a consenting item.

5 JUDGE MOSS: Okay.

6 MR. CEDARBAUM: That's the process that I believe
7 we were anticipating.

8 JUDGE MOSS: All right. So would not be part of a
9 compliance filing in this docket?

10 MR. CEDARBAUM: No.

11 JUDGE MOSS: All right. That clarifies it for me.
12 Thank you very much. With that I believe that's all I have.
13 So if there's nothing further from the Bench?

14 There does not appear to be.

15 I thank you all very much for being here today and
16 presenting this material, particularly our witnesses who
17 have helped to form our record.

18 With that we will be off the record. Thank you.

19 (Whereupon, the proceedings went off
20 the record at 10:02 a.m.)

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C E R T I F I C A T E

I, TAMI LYNN VONDRAN, a Certified Court Reporter,
do hereby certify that I reported in machine shorthand the
foregoing proceedings in the above-entitled cause; that the
foregoing transcript was prepared under my personal
supervision and constitutes a true record of the testimony
of the said witness.

I further certify that I am not an attorney or
counsel of any parties, nor a relative or employee of any
attorney or counsel connected with the action, nor
financially interested in the action.

DATED at Edgewood, Washington this 14th day of
March, 2011.

Tami Lynn Vondran, CCR
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