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BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	DOCKET NO. UE-090704
)	and UG-090705
Complainant,)	(Consolidated)
)	
vs.)	Volume VI
)	Pages 271 to 390
PUGET SOUND ENERGY, INC.,)	
)	
Respondent.)	
)	

 PORTIONS DESIGNATED CONFIDENTIAL - REMOVED

A hearing in the above matter was held on
 January 19, 2009, from 1:30 p.m to 4:35 p.m., at 1300
 South Evergreen Park Drive Southwest, Room 206, Olympia,
 Washington, before Administrative Law Judge DENNIS MOSS
 and CHAIRMAN JEFFREY D. GOLTZ and Commissioner PATRICK
 J. OSHIE and Commissioner PHILIP B. JONES.

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

2 JUDGE MOSS: Good afternoon, everyone, I'm
3 happy to report we had a successful public comment
4 hearing over the noon hour for those of you who did not
5 remain with us, and we are now ready to resume our
6 evidentiary proceedings. We have Mr. Garratt on the
7 stand, and I believe we were to the redirect.

8 Before we get into that, I just wanted to
9 notice one matter for the record, and this will be an
10 entry by written notice of possible ex parte contact,
11 and I will just put this in the record for your
12 edification. On January 14th, 2010, Chairman Jeff Goltz
13 gave a presentation at a continuing legal education
14 seminar entitled Buying and Selling Electric Power. I'm
15 just going to paraphrase this. Following his
16 presentation, a Mr. Anthony Jantzer, who's the Manager
17 of the Cascade Irrigation District in Ellensburg,
18 Washington, approached Chairman Goltz and expressed a
19 concern about rates under Schedule 35. Chairman Goltz
20 informed Mr. Jantzer he could not speak about the merits
21 of the matter given the pendency of this case and asked
22 Mr. Jantzer if he had participated in the public hearing
23 phase, which he apparently had not. So Chairman Goltz
24 informed Mr. Jantzer that there was a public hearing
25 today when he could present comments. So this matter

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1 will be noticed. As you know, we follow a very
2 conservative approach on the subject of ex parte contact
3 here. While I don't really think this was a matter of
4 any serious concern to anyone, it's noted for the
5 record, and under our rules parties have the opportunity
6 to respond to it if they wish. So I will file that or
7 see to that being filed later this afternoon. There are
8 copies over there on the policy advisors' table if you
9 want.

10 All right, with that we can get back to our
11 examination of Mr. Garratt, and I believe, as I said,
12 we're to the redirect, Ms. Carson.

13 MS. CARSON: Thank you, Your Honor. On
14 reflection it looks like this may be shorter than we
15 anticipated, so we'll be brief.

16 JUDGE MOSS: On reflection examination often
17 disappears.

18 MS. CARSON: This is very true.

19

20 Whereupon,

21

ROGER GARRATT,

22 having been previously duly sworn, was called as a
23 witness herein and was examined and testified as
24 follows:

25

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

2 BY MS. CARSON:

3 Q. Mr. Garratt, Mr. ffitch questioned you about
4 the quantitative and qualitative analysis of Mint Farm
5 and an alternative PPA. Do you recall that testimony?

6 A. I do.

7 Q. Is this an either/or determination in terms
8 of whether PSE will acquire the alternative PPA as well
9 as Mint Farm?

10 A. No, it's not, as I indicated in my testimony
11 that our decision to acquire Mint Farm was not a
12 rejection of the alternative PPA. And I think it's
13 helpful to really think of those in terms of two
14 separate decisions.

15 So with respect to Mint Farm, we had an
16 opportunity to acquire a relatively new, modern, high
17 efficiency combined cycle project and particularly on
18 the market environments that we describe or that I
19 describe in my testimony on pages 4, 5, and 6, and it's
20 an opportunity that we didn't necessarily see being
21 around for too much longer in that environment. Broadly
22 fits within what we consider to be a strategic and
23 financial evaluation criteria. The Mint Farm had
24 positive economic evaluation and evaluated a positive
25 respect with other criteria. And then again with this

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1 -- in this environment it was we felt critical to take
2 advantage of that and certainly contributed to our
3 long-term need starting in 2011. And I mean as I talked
4 about before, 2011 from a planning perspective,
5 certainly contributed to our operational need from day
6 one.

7 And then with respect to the alternate PPA,
8 we made a decision to put in on the continuing
9 investigation list, and in my rebuttal testimony talk
10 about that. It has to do with some further assessment
11 we wanted to do with respect to wind denigration with --
12 also with respect to compatibility with need because it
13 didn't contribute to our need until once you got beyond
14 2011. And then finally I would say generally speaking
15 because of some strategic and financial reasons that I
16 would refer to my testimony starting on page 24 and 25,
17 that's highly confidential, but because of those
18 strategic and financial reasons, it made sense to put
19 this on the continuing investigation list.

20 MS. CARSON: I have no further questions.

21 JUDGE MOSS: Thank you.

22 Anything further?

23 Apparently not. All right, Mr. Garratt, then
24 we can release you from the stand subject to recall if
25 needed. Thank you very much.

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1 THE WITNESS: You're welcome.

2 JUDGE MOSS: Move on to I believe our next
3 witness is Mr. Elsea.

4 Please raise your right hand.

5 (Witness WILLIAM JAMES ELSEA was sworn.)

6 JUDGE MOSS: Thank you, please be seated.

7

8 Whereupon,

9 WILLIAM JAMES ELSEA,

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

12

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

14 BY MS. CARSON:

15 Q. Mr. Elsea, please state your name and title
16 and spell your name for the court reporter.

17 A. Yes, my name is William James Elsea,
18 W-I-L-L-I-A-M, J-A-M-E-S, Elsea, E-L-S-E-A, and I'm
19 Manager of Financial Analysis for the Resource
20 Acquisition Group.

21 Q. Mr. Elsea, do you have before you what have
22 been marked for identification as Exhibit Numbers
23 WJE-1HCT through WJE-22?

24 A. I do.

25 Q. Do these exhibits constitute your prefiled

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1 direct, supplemental, and rebuttal testimony and related
2 exhibits in this proceeding?

3 A. Yes.

4 Q. Were these exhibits prepared under your
5 supervision and direction?

6 A. Yes.

7 Q. Do you have any corrections to any of the
8 exhibits at this time?

9 A. Actually I do. In my rebuttal testimony,
10 which would be 21, oh, yes, 21, page 18, on line 20,
11 there's a sentence that ends with the word run.

12 Q. What page are you on?

13 A. Oh, excuse me, on page 18, line 20 of the
14 rebuttal, and after the word run I would like to insert,
15 as much as in other seasons of the year.

16 CHAIRMAN GOLTZ: What page, what line?

17 JUDGE MOSS: That's page 18, line 20.

18 CHAIRMAN GOLTZ: Thank you.

19 BY MS. CARSON:

20 Q. With that correction, are your prefiled
21 direct, supplemental, and rebuttal testimony and
22 accompanying exhibits true and correct to the best of
23 your information and belief?

24 A. Yes.

25 MS. CARSON: Thank you.

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1 Your Honor, PSE offers Exhibits WJE-1HCT
2 through WJE-22 into evidence and offers Mr. W. James
3 Elsea for cross-examination.

4 JUDGE MOSS: And hearing no objection, those
5 will be admitted as marked.

6 And I note that there is one exhibit
7 identified by Public Counsel for cross-examination,
8 WJE-23C, is there any objection to that?

9 MS. CARSON: No, Your Honor.

10 JUDGE MOSS: All right, that will be admitted
11 as well.

12 All right, and, Mr. Ffitch, I believe you
13 have cross-examination exclusively for this witness.
14 All right, go ahead.

15 MR. FFITCH: Thank you, Your Honor.

16

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

18 BY MR. FFITCH:

19 Q. Good afternoon Mr. Elsea.

20 A. Good afternoon.

21 Q. You've had a number of things deferred to you
22 as you no doubt noticed?

23 A. I have.

24 Q. So I'm going to go back over a couple
25 questions that were asked earlier, and this will be your

1 chance to show the depth of your knowledge. I guess
2 just first of all to sort of set the stage, you and
3 earlier Public Counsel witnesses, excuse me, earlier
4 Puget Sound Energy witnesses are generally critical of
5 Mr. Norwood for undue reliance on some of the metrics in
6 use for the analysis of the Mint Farm acquisition as
7 compared with other metrics, and specifically the
8 reliance by Mr. Norwood on the portfolio benefit and the
9 benefit ratio standard. Isn't that generally correct?

10 A. Yes, I felt his assessment was incomplete by
11 not looking also at the levelized cost.

12 Q. Right. And so can you first of all start out
13 by providing us with a definition of what portfolio
14 benefit means, what does that measure?

15 A. Yes, and I'm going to refer to Roger
16 Garratt's Exhibit 3, and this is on page 23 of his
17 exhibit, and there's a listing of all of the
18 quantitative metrics that we look at, portfolio benefit,
19 portfolio benefit ratio, levelized cost. We also look
20 at a scenario dispersion as well as a dynamic analysis
21 to look at risk. So let's start with portfolio benefit,
22 which was your specific question.

23 Q. That's my specific question.

24 A. Okay. The portfolio benefit as it says here
25 is the difference in present value cost of the

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1 portfolio, which would be Puget Sound's portfolio, with
2 a new resource added compared with the present value
3 cost of the 2007 integrated resource plan generic
4 portfolio strategy that Mr. Garratt described as our
5 wallpaper with which to compare a resource to. And that
6 measure is a present value, it's a present value of
7 revenue requirements. The costs that we measure are
8 basically the long run incremental cost of our
9 portfolio. So it does include all of our existing
10 fleet. So when we include the variable cost of our
11 existing fleet as well as any of the capital costs and
12 fixed costs and variable costs of any new additions that
13 we would have. So we would have a portfolio of our
14 generics related to the 2007 IRP which we call our base.
15 And if you recall the 2007 IRP had wind, gas, and after
16 doing as much conservation as was cost effective. So
17 we're comparing our portfolio with Mint Farm and
18 comparing that with the generic portfolio without Mint
19 Farm.

20 Q. So is it accurate to say that this measures
21 the total system cost impact on customers of a given
22 generating resource alternative?

23 A. It measures the difference between the
24 portfolio with that cost and without that cost.

25 Q. And in comparison to your generic integrated

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1 resource plan; is that right?

2 A. That's correct.

3 Q. And so, for example, for a portfolio benefit
4 of \$100 Million for a given resource means it's
5 forecasted to be \$100 Million cheaper on a total system
6 cost basis than the generic IRP?

7 A. That's what that metric says, yes.

8 Q. Now another metric that's used is the benefit
9 ratio metric, correct?

10 A. That's correct.

11 Q. And can you just define that, please, what
12 does that measure?

13 A. Sure, I will refer you to that same page 23
14 on RG-3HC. Portfolio benefit ratio is the present value
15 of the portfolio benefit over the life of the new
16 resource divided by the present value of the project
17 revenue requirements. So it starts with the portfolio
18 benefit. That's the numerator. And the denominator is
19 the sum of the costs for that specific resource. So if
20 there's acquisition costs, the acquisition cost. The
21 cost of capital if there's cost of capital. Fixed cost,
22 variable cost as well as end effects in the cost of the
23 individual resource. So the numerator is the portfolio
24 benefit that we described before, and the denominator is
25 the present value of just the costs associated with that

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1 specific resource.

2 Q. So for example if you have a benefit ratio of
3 5, that means that the benefits produced by a resource
4 are 5 times the total cost associated with owning and
5 operating the resource?

6 A. Yes. And let me give you a couple of
7 clarifications. So back on portfolio benefit, if all
8 else equal, a larger -- if everything else was equal
9 about two projects and one was twice the size of
10 another, I would expect the portfolio benefit to be
11 twice the size of the smaller one. Now on the portfolio
12 benefit ratio, the ratio is affected by obviously by the
13 denominator, and I described the denominator as
14 including all the costs, fixed costs, capital costs,
15 variable O&M, as well as fuel. So in our board book, we
16 try to describe the complexity of these measures and
17 describe -- and I also put it in my rebuttal testimony
18 where a larger -- a portfolio benefit of a larger plant
19 might be larger, and a portfolio benefit ratio might be
20 driven up because a plant doesn't run as much, hence has
21 lower fuel cost, so its ratio grows relative to another
22 plant that would run more. So each of these metrics has
23 to be used. It doesn't -- each metric tells a story,
24 but it doesn't tell the whole story, so we have to look
25 at all of them.

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1 Q. And do I understand correctly that the
2 portfolio benefit metric considers all of the costs of
3 the resource or portfolio?

4 A. Because we're comparing our portfolio with a
5 resource and our portfolio without the resource, all the
6 costs of the individual resource are in there. But as
7 Mr. Garratt described, this is a -- the levelized cost
8 is a -- it's a separate calculation from the portfolio
9 benefit. And the levelized cost is the next one on this
10 sheet if you would like me to go through that definition
11 as well.

12 Q. Sure, why don't you define levelized cost?

13 A. So levelized cost is expressed in dollars per
14 megawatt hour, and it's the average annual cost per
15 megawatt hour produced over the life of a new resource.
16 So what we do there is we take the denominator from the
17 portfolio benefit ratio, which was the total cost of
18 that resource, and we levelize that out over time, so
19 mortgage payment, and divide it by the annual generation
20 so that we're getting a dollar cost per megawatt hour
21 that's a levelized dollar per megawatt hour over the
22 life of the asset.

23 Q. Okay. And does that include capital costs in
24 that calculation?

25 A. Describe what you mean by capital costs.

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1 Q. Cost of capital for the facility.

2 A. Yes, it does.

3 Q. Financing cost?

4 A. Yes.

5 Q. Operation and maintenance cost, fuel and fuel
6 transportation cost?

7 A. If it -- if the plant is a plant that uses
8 fuel, it does, yes.

9 Q. Okay. And, I'm sorry, I didn't hear your
10 answer on operation and maintenance cost?

11 A. Yes.

12 Q. Fixed and variable power purchase agreement
13 cost, is that included?

14 A. In the levelized cost?

15 Q. Right. If there's applicable fixed and
16 variable power purchase agreement cost?

17 A. If it was a PPA, yes, that would be included.

18 Q. And transmission cost?

19 A. Yes.

20 Q. Ancillary services cost?

21 A. Yes.

22 Q. Integration costs also?

23 A. For wind, yes.

24 Q. Are transmission system upgrades included?

25 A. Yes. When -- if we have a resource that is

0292

1 in an area where the transmission system requires
2 upgrades, we include that in our fixed transmission
3 costs as well.

4 Q. And the cost to rebalance a debt equity ratio
5 for imputed debt and consolidated debt, would that be
6 included also?

7 A. Yes.

8 Q. All right.

9 Cost of credit facilities, that's also
10 included?

11 A. If appropriate, yes.

12 Q. Any transaction costs and other management
13 costs would be included also?

14 A. Yes.

15 Q. Environmental compliance including capital
16 improvements, capacity limitations and restrictions,
17 would they also be included?

18 A. We try to do it all.

19 Q. Okay.

20 And renewable energy credits if they apply?

21 A. Yes.

22 MR. FFITCH: If I can just have a minute,
23 Your Honor, I'm trying to synchronize from earlier
24 questions and see what's left for Mr. Elsea here.

25 JUDGE MOSS: All right.

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1 MR. FFITCH: I think those are all the
2 questions I have, Your Honor.

3 JUDGE MOSS: Thank you.

4 Anything from the Bench for Mr. Elsea?
5 Commissioner Jones.

6

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

8 BY COMMISSIONER JONES:

9 Q. Mr. Elsea, thank you for your tutorial on
10 benefit ratios and portfolio ratios, that's been useful.
11 One specific question, what discount rate do you use in
12 your calculations for levelized costs over 20 years?

13 A. We're using the allowed rate of return from
14 the last, which is 8.25%.

15 Q. So you're using --

16 A. I need to correct myself. For the analysis
17 that was used in this first RFP, I think that was 8.4%.
18 I mean we try to true it up to the rate of return, so I
19 think the models in my phase 2 are 8.4%.

20 Q. And it's -- therefore it's a nominal --

21 A. That's correct.

22 Q. It's a nominal value, it's not a real value.
23 When I think of discount rates traditionally used for
24 cash flow analysis over a long period of time obviously,
25 you go to the treasury rate or some other fixed rate on

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1 a fixed income security, but you're applying the overall
2 rate of return from the last rate case, nominal, nominal
3 numbers?

4 A. That's correct. And the reason we use that
5 is our forecasts are all in nominal numbers. We don't
6 do our forecasts net of inflation and then do that
7 discount.

8 COMMISSIONER JONES: That's all I have,
9 Judge.

10 JUDGE MOSS: All right.

11 Anything from the company?

12 MS. CARSON: No.

13 JUDGE MOSS: All right, thank you, Mr. Elsea,
14 I'm sure you found that mercifully brief. We thank you
15 for being here and giving your testimony, and you may
16 step down subject to recall if needed.

17 I believe our next witness is Mr. Markell.

18 MS. CARSON: Your Honor, we do have a couple
19 of issues on Markell cross-exam exhibits, I don't know
20 if you want to take them up now.

21 JUDGE MOSS: All right.

22 MS. CARSON: EMM-11, we submitted a revised
23 version.

24 JUDGE MOSS: Okay.

25 MS. CARSON: Of that, and we've shared it

0295

1 with counsel, and it's my understanding that there is no
2 objection to that.

3 JUDGE MOSS: Okay.

4 MR. FFITCH: If Ms. Carson could just remind
5 us what the additions were on that.

6 MS. CARSON: That is Public Counsel, PSE's
7 response to Public Counsel DR 145, and we supplemented
8 it with PSE's response to Public Counsel Data Request
9 139, which is referenced in the response.

10 MR. FFITCH: Yes, that's correct, Your Honor,
11 and we have no objection to that.

12 MS. CARSON: The company then has objections
13 to two of the proposed cross-exam exhibits, and they are
14 EMM-9 and EMM-12C.

15 JUDGE MOSS: All right, can we most usefully
16 take those up now, Mr. ffitich, or when you get to your
17 questions?

18 MR. FFITCH: I think we should address that
19 right now, Your Honor.

20 JUDGE MOSS: All right, let's go ahead then,
21 what are the objections?

22 MS. CARSON: Your Honor, these are PSE's
23 responses to data requests. They focus exclusively on
24 the equity levels at PSE's parent companies and do not
25 pertain to the operating company itself. And because of

1 the, as ruled on in the order in the merger case,
2 because of the extensive ring fencing separating the
3 operating company from the company's parent companies up
4 above and protecting customers from risks up above, we
5 object to this on the grounds of relevancy.

6 JUDGE MOSS: Mr. ffitch.

7 MR. FFITCH: Thank you, Your Honor. We
8 clearly disagree with the company on this point, and I
9 would like to make a couple of observations in response.
10 First of all, Puget's revenue increases in this case are
11 requested based on a higher return on equity and higher
12 equity ratios, and Mr. Markell and others testify about
13 the financial soundness of the company, and the issue
14 that we think needs to be presented to the Commission is
15 to look at the dividends, the consolidated income
16 statements, which include information through
17 consolidation from Puget Sound Energy and balance sheets
18 and to understand the relationship between the corporate
19 financial structure and Puget Sound Energy's cash flow
20 needs and be able to compare those to the impact of the
21 external capital markets.

22 I think one thing that's really important I
23 would submit to keep in mind in this case is that this
24 is the very first case after the sale of Puget Sound
25 Energy to private equity investors. The settlement

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1 agreement and the Commission's order approving the sale
2 includes some very important conditions to which Puget
3 and its holding company and investors have agreed to.
4 One of those, Your Honor, is condition 24, which is that
5 Puget Holdings and Puget Sound Energy will not advocate
6 for a higher cost of debt or equity capital as compared
7 to the cost of debt or equity capital that would have
8 adhered absent the sale. So we would submit that in
9 order to make that determination, it's critical to be
10 able to look at the information contained in these
11 exhibits, which does provide some insight into the
12 financial situation of the corporate entities
13 immediately above Puget Sound Energy in the corporate
14 structure.

15 In addition, the settlement agreement and
16 ultimately the Commission's order in both condition or
17 commitment 19 and condition 27 or commitment 27
18 specifically provide that Puget Sound Energy will
19 provide Commission Staff and Public Counsel access to
20 books and records including those of Puget Holdings or
21 any affiliate or subsidiary company required to be
22 accessed to verify or examine transactions with PSE or
23 that result in costs that may be allocable to PSE. So
24 we think that applies, Your Honor. In fact the
25 provision goes on to say that the proposed transaction

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1 and resulting corporate structure will not be used by
2 Puget Sound Energy as a basis to oppose requests for
3 such books and records made by the Commission or by
4 Commission Staff or Public Counsel. So on that basis as
5 well, Your Honor, we think it's inappropriate for Puget
6 Sound Energy to now be asserting that there's a barrier
7 for this Commission to look at in this proceeding
8 financial information about the corporate entities
9 immediately above Puget Sound Energy in the ownership
10 structure. The commitments clearly allow access to this
11 information, it's clearly relevant to the setting of
12 Puget Sound Energy's return on equity and capital
13 structure in this case, and we think it's informative
14 for the Commission.

15 My concern here is that we understand we have
16 a difference of opinion with Puget Sound Energy about
17 the import of this information. We believe that debate
18 should be fully submitted to the Commission with all the
19 information, and then the Commission can decide in this
20 case of first impression whether it makes a difference,
21 whether it has an impact on Puget Sound Energy's cost of
22 capital. And we don't think it's appropriate for the
23 company to seek to foreclose a priori the Commission
24 even looking at that information or considering that
25 issue.

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1 JUDGE MOSS: I don't think I need to hear a
2 great deal more about this, but, Ms. Carson, I will give
3 you the last opportunity.

4 MS. CARSON: Well, the Commission ruled in
5 the merger case that -- the Commission rejected the
6 consolidated equity argument that Public Counsel is
7 making now and that the equity level at the operating
8 company should be determined based on looking at the
9 parent company, so this is just more of the same
10 argument that the Commission has heard and rejected. In
11 terms of commitments in the merger case, there are
12 commitments setting forth when dividends can and can't
13 be made, and there's no allegation that dividends are
14 made in violation of those particular commitments in the
15 merger case. PSE is asking for the same ROE in this
16 case as it did in its last case, so there's no evidence
17 to show or reason to think that the change in ownership
18 has anything to do with an increased cost of capital.

19 JUDGE MOSS: All right.

20 MR. FFITCH: Your Honor, if I may just
21 briefly respond.

22 JUDGE MOSS: I really don't need to hear
23 anything more, Mr. ffitich. I'm going to overrule the
24 objection and allow the exhibits into the record, so.
25 It strikes me that we can't rely on the order in the

0300

1 merger proceeding to say there's a blanket prohibition
2 against taking a look at any of the metrics that are
3 pertinent to the parent company. Mr. ffitch can make
4 out whatever argument he makes out. The company will
5 have an opportunity to respond to that. We have reply
6 briefs set in this case. So I think we better hash out
7 -- this is a complex substantive matter better hashed
8 out on brief than in the form of evidentiary objection,
9 so I will just allow that, and we'll see where the
10 evidence takes us.

11 MS. CARSON: Okay, Your Honor, with that
12 ruling, EMM-12C, we also ask that that be supplemented
13 to include a reference to another PSE response to a data
14 request, and that's been shared with counsel, and I
15 don't believe there's any objection to that, so we can
16 provide a revised copy of that.

17 JUDGE MOSS: All right, and do we have that
18 now?

19 MS. CARSON: And I guess one other comment on
20 that particular cross-exam exhibit is that that's more
21 appropriately directed towards Don Gaines, Mr. Gaines,
22 who will be on I believe on Thursday.

23 JUDGE MOSS: All right, and I'm sure
24 Mr. Markell will tell us that when we get to that point.

25 CHAIRMAN GOLTZ: Is this substituting then

0301

1 for 12C?

2 JUDGE MOSS: This is a part of 12C, it's
3 supplemented.

4 MS. CARSON: It's substituting for 12C. It's
5 been supplemented from what was originally provided.

6 JUDGE MOSS: Oh, I see.

7 MS. CARSON: Sorry for the confusion.

8 JUDGE MOSS: All right, thank you.

9 And you previously have handed up to me the
10 revised EMM-11, which I'm going to distribute up here
11 now too, so our notebooks will all be open to the
12 appropriate place.

13 Give us a minute, Mr. Markell, we will be
14 right with you.

15 If you will please rise and raise your right
16 hand.

17 (Witness ERIC M. MARKELL was sworn.)

18 JUDGE MOSS: Thank you, please be seated.

19 We sort of put the cart before the horse a
20 little bit on the exhibits here, but go ahead,
21 Ms. Carson.

22

23 Whereupon,

24

ERIC M. MARKELL,

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

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1 herein and was examined and testified as follows:

2

3 DIRECT EXAMINATION

4 BY MS. CARSON:

5 Q. Mr. Markell, please state your name and title
6 and spell your name for the court reporter.

7 A. Eric Markell, Executive Vice President and
8 Chief Financial Officer, E-R-I-C, M-A-R-K-E-L-L.

9 Q. Mr. Markell, do you have before you what have
10 been marked for identification as Exhibit Numbers
11 EMM-1CT through EMM-7C?

12 A. I do.

13 Q. Do these exhibits constitute your prefiled
14 direct and rebuttal testimony and related exhibits in
15 this proceeding?

16 A. They do.

17 Q. Were these exhibits prepared under your
18 supervision and direction?

19 A. They were.

20 Q. Do you have any corrections to any of your
21 exhibits at this time?

22 A. I do not.

23 Q. Are your prefiled direct and rebuttal
24 testimony and accompanying exhibits true and correct to
25 the best of your information and belief?

0303

1 A. They are.

2 MS. CARSON: Your Honor, PSE offers Exhibits
3 EMM-1CT through EMM-7C into evidence and offers Mr. Eric
4 M. Markell for cross-examination.

5 JUDGE MOSS: And hearing no objection, those
6 will be admitted as marked.

7 We've already dealt with Exhibit EMM-9 and
8 EMM-12C, any objection to the remaining Public Counsel
9 cross exhibits?

10 MS. CARSON: No, Your Honor.

11 JUDGE MOSS: Those are marked EMM-8 through
12 EMM-14 and they will also be admitted as marked, and of
13 course I previously ruled the others would be admitted.

14 All right, Mr. Markell is available for
15 cross-examination, and I believe that would be, well, we
16 have Staff has indicated 15 minutes, would you care to
17 go first, Mr. Cedarbaum?

18 MR. CEDARBAUM: Your Honor, over the weekend
19 I reflected on my estimate and reduced it to zero now.

20 JUDGE MOSS: Then let's move on.

21 Mr. ffitch.

22 MR. FFITCH: Thank you, Your Honor.

23 JUDGE MOSS: Did you reduce yours, 60
24 minutes?

25 MR. FFITCH: I don't know, Your Honor.

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1 JUDGE MOSS: Okay.

2 MR. FFITCH: As we mentioned, we will need to
3 request a confidential session.

4 JUDGE MOSS: All right, you can hold that to
5 the end I trust.

6 MR. FFITCH: Yes, Your Honor.

7 JUDGE MOSS: All right, we'll talk about that
8 when we get to it.

9

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

11 BY MR. FFITCH:

12 Q. Good afternoon, Mr. Markell.

13 A. Hello, Mr. ffitich.

14 Q. And you are the Chief Financial Officer of
15 Puget Sound Energy; is that correct?

16 A. Yes, sir.

17 Q. How long have you held that position?

18 A. Since May of 2007.

19 Q. And can you just briefly describe what your
20 duties are in that position?

21 A. I oversee the financial accounting and
22 reporting functions, the tax functions, treasury
23 functions, and the regulatory affairs functions.

24 Q. So you're ultimately responsible for those
25 functions within the company in your capacity as Chief

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1 Financial Officer?

2 A. I am.

3 Q. Can you please turn to your cross-examination
4 Exhibit EMM-11. That's a response to Data Request 145.
5 Do you have that?

6 A. I do.

7 Q. And in that data request we asked you or we
8 asked Puget to explain why following Puget's purchase by
9 the Macquarie Investor Consortium the company has any
10 concerns regarding its ability to fund its capital
11 budget plans, correct, that was the question?

12 A. That was your question, sir.

13 Q. And you responded in multiple parts, but in
14 part A your response was that your testimony does not
15 state that the company has any concerns regarding its
16 ability to fund its capital budget plans. Isn't that
17 what your response says in the first sentence?

18 A. It does.

19 Q. And so is it your testimony, Mr. Markell,
20 that Puget does not have any concerns regarding its
21 ability to fund its capital budget plans?

22 A. That is our testimony, and I would note that
23 as part of that answer, I mean I think there was some
24 confusion about whether or not Puget Sound Energy on a
25 going forward basis would be required to issue public

0306

1 debt to fund its short-term debt and its maturing debt,
2 and the nature of our, I'm not sure I would use the word
3 concern, but we are focused on maintaining a financial
4 strength that allows us to enter the public markets to
5 refund maturing debt and raise the new debt at the PSE
6 level that we need to fund our capital program, and that
7 runs to issues such as having a solid credit rating and
8 so forth.

9 Q. Okay. So you go on in this data response to
10 list four areas that your testimony does address,
11 correct, also in part A?

12 A. Yes.

13 Q. And one of those areas you list is, quote,
14 Puget's significant capital budget program, correct?

15 A. Yes.

16 Q. If you are not concerned about the ability of
17 Puget Sound Energy to fund its capital budget program,
18 why is the size of the CapX budget such a big factor in
19 your testimony?

20 A. It runs to the issue of having to raise lots
21 of debt on attractive interest terms and other terms to
22 help fund that. When you say we have no concerns, you
23 know, I assume you mean access. We are confident we can
24 access these markets. It's a question of accessing
25 those markets in the best terms possible, and that runs

0307

1 to the other factors in this, which is issues about
2 maintaining and sustaining credit ratings, improving our
3 earned returns, and so forth.

4 Q. All right. And in fact one of the subjects
5 you list in this DR as part of your testimony is PSE's
6 inability to earn its authorized rate of return,
7 correct?

8 A. Correct.

9 Q. And you provide an exhibit in your own
10 testimony to show what you represent to be the amount by
11 which Puget has underearned its allowed return, correct?

12 A. Yes, that's correct.

13 Q. Is it unusual in your experience,
14 Mr. Markell, when electric utilities are in a building
15 phase as Puget is for those companies to earn a return
16 less than what is allowed by the regulator?

17 A. I would say it's not unusual.

18 MR. FFITCH: May I have a moment, Your Honor,
19 I want to see if we're getting into the confidential
20 material right now.

21 BY MR. FFITCH:

22 Q. And you made -- you presented this
23 information about inability to earn authorized rate of
24 return to bond rating agencies also, haven't you?

25 A. We haven't made a recent presentation. I

0308

1 would have to review, Mr. Ffitch, what was last
2 presented in terms of actual earnings.

3 Q. Do you recall in August 2009 Puget Sound
4 Energy made a presentation to Standard and Poor's?

5 A. We did, but I don't believe that that
6 included a projection of financial earnings. Perhaps it
7 did, but I don't recall that.

8 Q. You don't recall?

9 A. I don't recall.

10 MR. FFITCH: Your Honor, our situation here
11 is that we have a copy of the confidential presentation
12 to Standard and Poor's. The response, this was attached
13 to a response from Mr. Gaines, and so it's been
14 designated as Cross Exhibit DEG-22, and I guess, you
15 know, I'm happy to go forward with this witness with
16 that exhibit unless there's an objection from counsel.

17 MS. CARSON: Well, Mr. Markell would need to
18 look at the exhibit and say whether or not he's able to
19 respond.

20 JUDGE MOSS: Why don't you show it to him now
21 while we're looking at it up here as well, what is it
22 DEG-26?

23 MR. FFITCH: DEG-22C, Your Honor.

24 JUDGE MOSS: Is this the area where you're
25 thinking we need to go into confidential session?

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1 MR. FFITCH: It is a confidential exhibit,
2 Your Honor, and I'm looking at page 43 to the S&P
3 report.

4 JUDGE MOSS: Is the entire page there
5 confidential, Ms. Carson? I can't tell, I don't see any
6 shading on there.

7 MR. FFITCH: Your Honor --

8 JUDGE MOSS: Hang on a minute.

9 All right, Mr. ffitch, I'm ready to listen to
10 you.

11 MR. FFITCH: Your Honor, I was going to say
12 that we could examine about this without actually
13 discussing confidential contents other than talking
14 about headings and pages.

15 JUDGE MOSS: That's fine, if we can do that
16 without disclosing anything confidential, yeah, that's
17 fine if we can do that. That would be my preference,
18 Mr. ffitch.

19 BY MR. FFITCH:

20 Q. First of all, could you please turn to page 4
21 of the exhibit, Mr. Markell. This is Exhibit DEG-22 to
22 orient us.

23 JUDGE MOSS: I'm going to interrupt you for
24 just a minute, Mr. ffitch. It is not often that we have
25 people in the hearing room who are not familiar with our

0310

1 process and so forth, but today we do, and so I want to
2 take just a moment to say something about this matter of
3 confidential exhibits. Because of the sensitive nature
4 of some of the information that we as a Commission have
5 to deal with in making decisions concerning a company's
6 rates or other financial matters, we have to look at
7 data that is commercially sensitive and that could harm
8 the company and arguably its rate payers if it were
9 subject to public scrutiny. We evaluate that carefully
10 when information is filed under a cloak of
11 confidentiality, which is allowed I might add by statute
12 and by our rules and subject to protective orders that
13 we enter in these proceedings. That's what we're
14 talking about now. Mr. ffitch for Public Counsel wants
15 to ask some questions about some data that's been filed
16 that is commercially sensitive, or at least that claim
17 at least has been made and not challenged. And so
18 that's what we're doing here, and what we're going to
19 try to do is continue without having to close the
20 hearing room to people who are not entitled to view the
21 confidential information. So Mr. ffitch is going to
22 make a conscientious effort to do that, but it may be a
23 little difficult for some of you to follow when he does
24 do that, so that's what's going on here.

25 So with that, Mr. ffitch, please go ahead.

0311

1 MR. FFITCH: Thank you, Your Honor.

2 BY MR. FFITCH:

3 Q. And, Mr. Markell, in the contents there on
4 page 4 we see reference to financial performance is one
5 of the areas discussed in this presentation, correct?

6 A. Correct.

7 Q. And again this is a presentation made by
8 Puget Sound Energy to Standard and Poor's in August
9 2009?

10 A. It seems to be.

11 Q. And if you go now to page 43 of the exhibit,
12 the heading is historic regulatory lag and earned ROE,
13 so do you now recall that you or someone from Puget
14 presented to Standard & Poor's essentially the same
15 analysis you present in your testimony?

16 A. I do.

17 Q. All right. Following this presentation in
18 August, Mr. Markell, did Standard & Poor's place Puget
19 Sound Energy on ratings watch with negative
20 implications?

21 A. I don't recall, and I think Mr. Gaines would
22 be your best witness as to what's going on with rating
23 agencies in the time in which they changed or did not
24 change ratings.

25 Q. Wouldn't you be aware of whether your company

0312

1 was on ratings watch with negative implications as the
2 Chief Financial Officer?

3 A. I would, but you're asking me about a
4 specific date when they made a change.

5 Q. Has Standard & Poor's at any time since
6 August 2009 put the company on ratings watch with
7 negative implications?

8 A. No. In fact, I think they've removed us from
9 a general corporate rating and upgraded us as I recall
10 to BBB flat from BBB minus.

11 Q. All right. And can you go back to the table
12 of contents page again, please, page 4. And are you
13 there?

14 A. I am.

15 Q. Can you see that the first section of the
16 presentation, the very first section is entitled
17 ownership structure, correct?

18 A. Correct.

19 Q. And can you tell us why that's the very first
20 piece of information you provide to the rating agencies?

21 A. Rating agencies are interested about our new
22 ownership structure.

23 Q. Why is that?

24 A. They like to have up-to-date documentation
25 on, you know, who is owning the company.

0313

1 Q. It's true, is it not, that none of the
2 corporations that now reside above Puget Sound Energy
3 generate any revenues?

4 A. I think that's true with the exception of
5 perhaps some very minor interest income.

6 Q. And because of that fact, the revenues
7 generated by Puget Sound Energy have to fund the
8 operating expenses of all of the corporations in the
9 Puget Holdings structure; isn't that correct?

10 A. Correct.

11 Q. Will you please turn to Cross Exhibit EMM-10.

12 A. Are we done with this exhibit, Mr. ffitch?

13 Q. Yes, we are, thank you.

14 JUDGE MOSS: Mr. Markell, I'm having a little
15 trouble hearing you. Perhaps if you can speak a bit
16 more closely to the mike. The microphones don't seem to
17 be picking up as well today as they often do. Thank
18 you.

19 THE WITNESS: Sure.

20 BY MR. FFITCH:

21 Q. Okay, are you at EMM-10?

22 A. I am.

23 Q. And in that DR we asked you about the impact
24 of dividend policy on the financial soundness of the
25 firm, correct?

0314

1 A. Correct.

2 Q. Now in your direct testimony you had
3 discussed Puget's reduction of dividend payments a few
4 years ago in helping to increase earnings to reinvest in
5 the business. We asked why that strengthened the
6 company's financial position in this DR, and in response
7 you note that Puget's dividend payout was nearly 100% of
8 earnings after dividends were reduced, the company was
9 able to retain earnings, retain more earnings, and that
10 was an important element that improved the financial
11 position of the company. Is that a fair summary?

12 A. Yes.

13 Q. And retained earnings are what's left of the
14 company's net income after dividends are paid, correct?

15 A. Yes.

16 Q. And those retained earnings can be reinvested
17 in the company then?

18 A. They are, when they're retained they're
19 reinvested in the business.

20 Q. All right. So if reducing dividends
21 increases earnings retained in the firm, it stands to
22 reason I assume that increasing dividends reduces
23 retained earnings?

24 A. Correct.

25 Q. Both Puget Sound Energy and Puget Energy

0315

1 increased dividends after the merger; isn't that so?

2 A. Compared to what period?

3 Q. Before the merger, prior to February 5th,
4 2009.

5 A. Well, before the merger. It would have to be
6 for a period. We declare dividends typically on about a
7 quarterly basis as public companies. If you're asking
8 about an annual run rate of a dividend, I'm not sure
9 what your question is.

10 Q. Well, how about if we, and we're going to
11 look at some documents, but first quarter 2008 to first
12 quarter 2009, comparing those two periods, did Puget
13 Sound Energy and Puget Energy increase dividends after
14 the merger?

15 A. Yes.

16 Q. Now I'm going to ask you to turn to your
17 Exhibit EMM-8, which is a cross exhibit also. That's a
18 response to Public Counsel 136. Do you have that?

19 A. I do.

20 Q. And in that data request we asked why Puget's
21 March, Puget Sound Energy's March 31, 2009, dividend was
22 \$68 Million, approximately \$20 Million higher than the
23 quarterly dividend issued a year earlier, correct?

24 A. Correct.

25 Q. That was the question?

0316

1 A. Correct.

2 Q. And in response A you indicated that \$31.2
3 Million of that dividend was used to pay interest
4 expenses at Puget Energy, and \$4.3 Million was used to
5 pay merger related expenses, which you state are not
6 being sought for recovery in rates, correct?

7 A. Correct.

8 Q. Now if I can get you to turn to Exhibit 9,
9 EMM-9, cross exhibit, and Puget Energy -- are you there
10 at the exhibit?

11 A. I am.

12 Q. Okay. Puget Energy also raised its dividend
13 immediately following the merger doubling it from the
14 prior year premerger; isn't that correct?

15 A. Again are you asking about annual run rates
16 or for a particular quarter?

17 Q. First quarter.

18 A. That's correct for the first quarter.

19 Q. And in this data request we asked why the
20 dividend was raised from \$32.4 Million in first quarter
21 of 2008 when Puget Sound Energy was a public company and
22 Puget Energy, raised from \$32.4 Million to \$68.6 Million
23 in March 31st, 2009, and your response was that part of
24 that went to the shareholders of the predecessor, public
25 Puget, and \$30.4 Million was paid to Equico, correct?

0317

1 A. Correct.

2 Q. And Equico is one of the corporate entities
3 in the chain of ownership above Puget, part of the Puget
4 Holding family of companies, correct?

5 A. That's correct.

6 Q. And then you go on to say in that response
7 that, and I'm looking at response B on page 2 of the
8 exhibit, you go on to say in that response that Equico
9 then made a dividend payment to Puget Intermediate
10 Holdings related to interest payments; is that right?

11 A. Correct.

12 JUDGE MOSS: Mr. Ffitch, I'm having a
13 difficult time following you here. There's really no
14 point in having the witness simply confirm things that
15 are already in these exhibits, so do you have questions
16 about these exhibits, or do you just want the witness to
17 confirm what's already been said here? Because you can
18 refer to these in your brief without having to have it
19 in the record, the transcript as well.

20 MR. FFITCH: I apologize, Your Honor, we're
21 going to connect this up.

22 JUDGE MOSS: Are you laying foundation for
23 something else?

24 MR. FFITCH: Yes, Your Honor.

25 JUDGE MOSS: All right.

0318

1 MR. FFITCH: I'm going to pause for a moment
2 and see if again I'm getting into confidential material.

3 I'm going to ask the witness, Your Honor, to
4 turn to an exhibit that's been marked MJS-22C, which is
5 a response to Public Counsel 380, and that is
6 confidential. We have one question on that exhibit
7 which is on non-confidential material, and then we would
8 have to request a confidential session for the remainder
9 of the questions which would cover that exhibit and a
10 couple of other --

11 JUDGE MOSS: Is that Mr. Stranik's?

12 MR. FFITCH: It is marked for I believe
13 Stranik and Markell, Your Honor. Let me just check
14 that.

15 JUDGE MOSS: MJS what?

16 MR. FFITCH: 22C.

17 MS. CARSON: I note that this is an exhibit,
18 a data request response that was prepared by
19 Mr. Stranik, not by Mr. Markell.

20 JUDGE MOSS: Mr. Markell, are you familiar
21 with the exhibit, do you know what he's talking about?

22 THE WITNESS: I have not seen it before.

23 JUDGE MOSS: You've never seen it before, all
24 right.

25 Well, Mr. ffitich, it doesn't seem to me

0319

1 profitable to ask this witness questions about it. Why
2 don't you save those questions for Mr. Stranik? The
3 witness says he's not seen it before, so.

4 MR. FFITCH: Your Honor, these are the
5 financial statements of the companies for which
6 Mr. Markell is the Chief Financial Officer.

7 MS. CARSON: Mr. Markell is not the Chief
8 Financial Officer for all the parent companies.

9 JUDGE MOSS: I see.

10 MR. FFITCH: So is Mr. Stranik, we would
11 inquire of the company whether Mr. Stranik is the Chief
12 Financial Officer of these other companies?

13 MS. CARSON: I believe he is the one who
14 prepared this document.

15 JUDGE MOSS: So he would be the one to ask
16 questions about this document, is that what we're saying
17 here?

18 MS. CARSON: That's correct.

19 JUDGE MOSS: And you have designated cross
20 for Mr. Stranik, Mr. ffitch, so it seems to me maybe the
21 best way to proceed would be to have these questions for
22 Mr. Stranik when he's on the stand. And then if he
23 says, oh, Mr. Markell would be the one to answer these,
24 we'll have Mr. Markell back. You may notice that I've
25 been releasing all the witnesses subject to recall if

0320

1 needed, and that's one reason I do that is because
2 sometimes these things get a little confused through no
3 one's fault, but how about proceeding in that way since
4 the witness says he's unfamiliar.

5 MR. FFITCH: That's fine, Your Honor.

6 JUDGE MOSS: In the meantime, he'll probably
7 study the exhibit.

8 MR. FFITCH: Can we confer for a moment, we
9 do have some other exhibits that were designated for
10 Mr. Markell that are confidential, so.

11 JUDGE MOSS: All right.

12 MS. CARSON: Your Honor, I stand corrected,
13 Mr. Markell is the CFO of all the companies. He is not
14 the one who prepared this detailed financial statement.

15 JUDGE MOSS: I see.

16 MR. FFITCH: Is that on the record?

17 JUDGE MOSS: Yes.

18 MR. FFITCH: Your Honor, this is a rather
19 unconventional request, but we had expected to be able
20 to ask Mr. Markell about the exhibit that apparently
21 Mr. Stranik is going to get to talk about, so what we
22 would like to ask is that we be able to call Mr. Markell
23 back and not continue the examination at this point,
24 that we need to sort of go to the Stranik document first
25 and then follow up with Mr. Markell if we can.

0321

1 JUDGE MOSS: If needed. All right, well,
2 that seems like a reasonable thing to me to do. It is a
3 little unconventional, but Mr. Markell I know will be
4 here for the duration in any event, or he usually is.

5 THE WITNESS: I would rather be nowhere else.

6 JUDGE MOSS: I think we probably -- I would
7 suggest we defer questions from the Bench unless there
8 are some now, so why don't we do that. Why don't we let
9 Mr. Markell step down for the time being, and we'll
10 release him subject to recall.

11 Mr. Stokes.

12 MR. STOKES: Your Honor, I do have cross for
13 Mr. Markell.

14 JUDGE MOSS: All right.

15 MR. STOKES: May we be allowed to cross him
16 before he --

17 JUDGE MOSS: I imagine yours is fairly brief,
18 isn't it?

19 MR. STOKES: I would think 8 minutes
20 probably.

21 JUDGE MOSS: All right, well, why don't we
22 get that out of the way, and you may not want to
23 participate in all phases, or you may, but I will go
24 ahead and let you do that.

25 Mr. Markell, if you will bear with us.

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1 MR. STOKES: Thank you, your Honor.

2

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

4 BY MR. STOKES:

5 Q. Good afternoon.

6 A. Good afternoon.

7 Q. I would like you to turn to your Exhibit
8 EMM-6C, which is in your words the whole picture of
9 overall company results, and I believe I can ask the
10 questions without referring to any confidential matter.
11 Let me know when you're ready.

12 A. I'm ready.

13 Q. Is it correct to characterize column G as the
14 12 months ending as of 9-30-2009?

15 A. Yes.

16 Q. And is it correct that column H on that same
17 exhibit is calendar year 2009 update forecast from
18 column G?

19 A. Appears to be, yes.

20 Q. And now I'm going to refer to Exhibit EMM-7C,
21 and is it correct that the column H on Exhibit EMM-6C is
22 the same as column A of EMM-7C as the 2009 budget 4 year
23 prospective forecast?

24 MS. CARSON: I didn't quite follow that,
25 could we have that part repeated.

0323

1 Q. Let me ask it again.

2 Is it correct that column --

3 A. The answer is yes.

4 Q. The answer is yes, but the question was --

5 JUDGE MOSS: You'll talk to counsel later,

6 Mr. Markell.

7 Q. -- Column H on EMM-6C is the same as column A

8 on EMM-7C?

9 A. Yes.

10 Q. Okay. On Exhibit EMM-6C, the results for

11 2008 column F were known in early 2009, correct?

12 A. Yes.

13 Q. Roughly what month?

14 A. Typically the very end of February.

15 Q. End of February, okay. And in light of the

16 results in column F, did Puget reevaluate its budgets

17 for 2009?

18 A. I'm trying to recall when the budgets were

19 adopted for 2009. I would say we had a pretty good view

20 on how 2008 would turn out when we ultimately adopted

21 2009 budgets.

22 Q. Okay. But in light of the results of column

23 F, did you reevaluate any budget?

24 A. Well, I'm not sure what you mean by

25 reevaluate. The budget considerations, you know, take

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1 into account a lot of things including how you're doing
2 and how you think you're going to do. Where we were
3 with 2008 results was, you know, part of those
4 deliberations.

5 Q. Okay. Well, the same question for column G,
6 did Puget reevaluate its budgets for 2009 for the last
7 quarter of 2009?

8 A. Would you repeat that question?

9 Q. Yes.

10 In light of the results in column G, did
11 Puget reevaluate its budgets for 2009?

12 A. After receiving the results for the what, the
13 9 months ended September 2009?

14 Q. Correct.

15 A. Which would have been available the second
16 week of October 2009, you're asking what did we do with
17 that data for the last 7 weeks of the year?

18 Q. Yes.

19 A. I don't know that we made any major changes
20 as a result of where we were after 10 1/2 months.

21 Q. Okay.

22 Turning to page 3 of your rebuttal testimony,
23 you state that PSE is keenly aware of the economic
24 challenges faced by its customers on line 17.

25 A. Direct or rebuttal, sir?

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1 Q. Rebuttal.

2 JUDGE MOSS: That's 5T?

3 MR. STOKES: Yes, Your Honor.

4 JUDGE MOSS: What page?

5 MR. STOKES: Page 3.

6 JUDGE MOSS: Thank you.

7 BY MR. STOKES:

8 Q. What do you mean by the economic challenges
9 faced by your customers?

10 A. Well, we for example are aware that the
11 State's community banking system is in fairly dire
12 straits. We read public reports that a third of those
13 banks are under the control of the FDIC and many are
14 being liquidated.

15 Q. Would you also include in that the high rates
16 of unemployment?

17 A. Certainly.

18 Q. And the high number of company and personal
19 bankruptcy filings?

20 A. I would -- I don't have that data, but I
21 assume that --

22 Q. Okay.

23 A. -- both corporate and personal bankruptcy
24 filings are up in this kind of environment.

25 Q. Right. And forecloses at a record high?

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1 A. I don't know that in the state, but I
2 wouldn't be surprised.

3 Q. Would you agree with me that a great number
4 of companies, and I'm talking about companies other than
5 regulated companies for the moment, have experienced
6 earning hits and have had to lay off employees?

7 A. Yes.

8 Q. Has PSE had to let any employees go in light
9 of current economic conditions?

10 A. We have not.

11 Q. Okay. Is PSE planning to reduce its work
12 force?

13 A. We adjust the work force overall, I don't
14 know that we have any plans to reduce aggregate head
15 count if that's the question. There are parts of the
16 business change all the time, I'm not sure. You're
17 asking about aggregate head count?

18 Q. Yes.

19 A. I don't think we have any plans at the moment
20 to reduce aggregate head count.

21 Q. Okay. Has PSE restricted overtime in light
22 of current economic conditions?

23 A. I believe Mr. Valdman testified that he's
24 taken a number of measures to reduce overtime, so I
25 guess the answer to that would be yes.

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1 Q. Has PSE lowered any employee benefits as a
2 result of current economic conditions?

3 A. We have, and I believe Mr. Hunt offers a
4 variety of testimony to that effect.

5 Q. Have you reduced wages or cut any benefits
6 that were incurred in the 2008 test year I guess to be
7 more specific?

8 A. With respect to management personnel, we have
9 not reduced wages, and we contractually do not have that
10 right with represented personnel.

11 Q. Okay. Did PSE restrict any travel in 2009?

12 A. Yes, we've tried to be very diligent about
13 reducing travel.

14 Q. Have you postponed any construction project
15 in 2009 in the natural gas system?

16 A. That would be best answered by Mr. Valdman,
17 I'm not close to the -- there are literally hundreds of
18 construction projects in that business, and I wouldn't
19 know which ones are deferred or not.

20 Q. Have you postponed the timing of any
21 maintenance projects in the last year in the gas system?

22 A. Again you would have to direct that to the
23 operations people.

24 Q. Have you increased competitive bidding for
25 expenditures in light of the current economic

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1 conditions?

2 A. We always try to competitively bid both our
3 services and our materials, and I think there's a DR
4 response to Public Counsel, I think it was a fair amount
5 of descriptive material that was provided in response to
6 witness Norwood's rebuttal testimony, I think it's
7 called Public Counsel DR 434.

8 Q. I guess the question is, have you increased
9 competitive bidding? I mean you've always done
10 competitive bidding, but have you --

11 A. I don't have a benchmark --

12 Q. Okay.

13 A. -- against which to answer that question.

14 Q. Okay.

15 Turning back to Exhibit EMM-6C, would you
16 agree that reductions in operating expenditures could
17 have made line 25 smaller at any year listed on Exhibit
18 EMM-6C?

19 A. And what page are you on?

20 Q. I believe there's only one page.

21 A. Reduced operating expenses in any one period
22 obviously improves earnings.

23 MR. STOKES: Okay, thank you, I've got
24 nothing further.

25 JUDGE MOSS: All right, very good.

0329

1 Anything from the Bench on that line?

2 All right.

3 Any redirect on that line?

4 MS. CARSON: Yes, I do have some redirect. I
5 also wanted to let you know that Mr. Stranik is
6 available here in the courtroom and is available to be
7 put on now, and Mr. Markell could then continue his
8 examination, if that works.

9 JUDGE MOSS: That will work, because
10 Mr. Markell is the last designated witness for today,
11 and it's only 10 minutes to 3:00, so we were going to
12 have to have another witness anyway, and Mr. Stranik's
13 availability is convenient, and we will call him next.
14 It might be useful if you have redirect on Mr. Stokes'
15 line to go ahead and do that now, and then we'll take it
16 one step at a time so to speak.

17

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

19 BY MS. CARSON:

20 Q. Mr. Markell, you've been asked questions
21 about what the company has done to mitigate cost
22 increases for customers during these difficult economic
23 times. Is there any other information that you can
24 share in terms of what the company has done to limit
25 cost increases?

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1 A. Well, as I just made reference to, we
2 provided a fairly lengthy description of core activities
3 with cost management to Mr. Norwood's DR 434. I think
4 that is a pretty key document to get a sense of how we
5 approached that issue. Mr. Hunt and others have
6 described and will describe what we're doing with
7 respect to trying to manage our benefit costs. We've
8 already described what we've done with regard to
9 freezing officers salaries and so forth. Cost reduction
10 is important, and, you know, as I mentioned in my direct
11 filing, we've been very focused on obtaining additional
12 revenues that we can credit to our customers that are
13 very significant relative to the entirety of our revenue
14 request in this case. Obviously the Commission has set
15 that deliberation to another proceeding, but I can tell
16 you that personally I have devoted a great deal of time
17 to obtaining those revenues to mitigate costs to the
18 customers.

19 MS. CARSON: Thank you, I have no further
20 questions.

21 JUDGE MOSS: All right, let me ask if this
22 Public Counsel Data Request 434 response to that is
23 anywhere in the record to your knowledge?

24 MS. CARSON: It is. It is actually JRD-8,
25 it's Mr. Dittmer's exhibit, and we had submitted a

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1 revised version because it was missing a page.

2 JUDGE MOSS: Okay.

3 MS. CARSON: And I was talking to Mr. Ffitch
4 about that, and we talked about maybe just making the
5 supplemented document a cross-examination exhibit for
6 Mr. Dittmer, so that will be in the record in its
7 entirety.

8 JUDGE MOSS: Okay.

9 MR. FFITCH: Yes, Your Honor. We
10 intentionally did not submit the final page of the
11 response because it was not germane to Mr. Dittmer's
12 testimony. His testimony states that it's not included.
13 It's a highly confidential page, and we did not want to
14 add that unnecessary complexity to his exhibits.
15 However, we have no objection to this being placed in at
16 the company's request. I believe our suggestion was
17 that it be just made a separate cross exhibit for
18 Mr. Dittmer rather than get into the business of
19 substituting it into his testimonial exhibit.

20 JUDGE MOSS: All right, that's fine. A
21 record of this length, I don't think one more piece of
22 paper is going to burden us too much, so we'll do it
23 that way. I just wanted to make sure since Mr. Markell
24 referred to it a couple times it was in there somewhere.
25 All right, that's fine.

0332

1 Is that it?

2 All right, Mr. Markell, we're going to
3 release you subject to recall. We're going to have
4 Mr. Stranik. And, Mr. ffitch, are you going to be able
5 to follow in the pattern that we have been following
6 here and ask your questions of Mr. Stranik without
7 disclosing confidential information?

8 MR. FFITCH: I don't believe so, Your Honor.
9 This was going to get us into the area where we would
10 request a confidential session. I would like to request
11 a brief recess of 10 minutes to just organize the
12 cross-examination in view of what's happened so far just
13 to make sure we can be efficient as we go from Stranik
14 back to Markell. I think that will actually aid the
15 process if I could have a couple minutes with my
16 witness, Mr. Hill.

17 JUDGE MOSS: Yeah, we need to take a recess
18 anyway. I don't even have Mr. Stranik's testimony in
19 the hearing room. So we will take I think a 15 minute
20 recess until 10 after the hour. I will go ahead and it
21 appears that Mr. ffitch is going to request that we take
22 our hearing into closed session. We occasionally have
23 to do this in our proceedings, as I discussed earlier.
24 While we're reluctant to do it, if it is imperative that
25 we do so, then we will. So I just want to alert those

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1 of you who are members of the public for example or
2 people who are representatives of parties here who have
3 not signed the necessary confidentiality agreements that
4 if we close the hearing room, you will have to leave.
5 And, you know, we can send somebody out to get you back
6 when we go off the confidential session, but that is the
7 inconvenience to which we unfortunately might place you.
8 So just with that alert, we'll go into recess until 10
9 after the hour.

10 MR. CEDARBAUM: Your Honor, just before we
11 close, will this be the entirety of Mr. Stranik's cross
12 or just the Public Counsel piece left over from
13 Mr. Markell?

14 JUDGE MOSS: Who else has designated cross
15 for him? You I take it.

16 MR. CEDARBAUM: Well, I --

17 JUDGE MOSS: No, you have not.

18 MR. CEDARBAUM: I actually hadn't, but in
19 discussion with counsel over the weekend I learned that
20 a cross exhibit designated for Mr. Story, which is
21 JHS-28C, is more appropriate for Mr. Stranik, so I could
22 ask my questions now.

23 JUDGE MOSS: And also, Mr. Furuta, you have
24 indicated, so I assume you are prepared with your
25 cross-examination?

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1 MR. FURUTA: I can be, Your Honor.

2 JUDGE MOSS: All right.

3 MS. CARSON: Your Honor, it's PSE's request
4 that we could limit this to the particular exhibit at
5 issue and then continue on with Mr. Markell, and
6 Mr. Stranik would testify at a later time just to --

7 MR. FFITCH: Your Honor, we would concur in
8 that request. I think that what our hope is that we
9 could segue from these financial exhibits back to
10 Mr. Markell because he wasn't able to address them.

11 JUDGE MOSS: Well, if we need to do that, all
12 right, well, that would be -- why does PSE want to?

13 MR. FREEMAN: Will Mr. Markell's recall be
14 back in open session or closed session?

15 JUDGE MOSS: Do we know?

16 MR. FFITCH: Closed session.

17 JUDGE MOSS: Public Counsel indicates he will
18 request that be a closed session too.

19 MR. FFITCH: We're going to figure that out
20 on the recess, Your Honor.

21 JUDGE MOSS: All right. And you request to
22 have Mr. Stranik on this one subject?

23 MS. CARSON: Right.

24 JUDGE MOSS: Is he not prepared on the
25 balance?

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1 MS. CARSON: Well, I think it just might be a
2 little less confusing if we can just finish up with this
3 subject.

4 JUDGE MOSS: Well, to be sure.

5 MS. CARSON: And I'm not sure that the rest
6 of Mr. Stranik's testimony would need to be done in
7 confidential session.

8 JUDGE MOSS: I hope not.

9 MS. CARSON: As do I.

10 JUDGE MOSS: All right, well, we'll plan to
11 proceed that way unless conditions change materially.

12 All right, let's now make it until 15 minutes
13 after the hour, thank you.

14 (Recess taken.)

15 JUDGE MOSS: All right, let's be back on the
16 record, and we're going to have Mr. Stranik's testimony
17 next, so if you will please rise and raise your right
18 hand.

19 (Witness MICHAEL J. STRANIK was sworn.)

20 JUDGE MOSS: Thank you, please be seated.

21

22 Whereupon,

23 MICHAEL J. STRANIK,
24 having been first duly sworn, was called as a witness
25 herein and was examined and testified as follows:

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

2 BY MS. CARSON:

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

5 A. Michael Stranik, Assistant Controller,
6 Michael, M-I-C-H-A-E-L, Stranik, S-T-R-A-N-I-K.

7 Q. Mr. Stranik, do you have before you what have
8 been marked for identification as Exhibit Numbers MJS-1T
9 through MJS-20?

10 A. Yes, I do.

11 Q. Do these exhibits constitute your prefiled
12 direct, supplemental, and rebuttal testimony and related
13 exhibits in this proceeding?

14 A. Yes.

15 Q. Were these exhibits prepared under your
16 supervision and direction?

17 A. Yes.

18 Q. Do you have any corrections to any of these
19 exhibits at this time?

20 A. No.

21 Q. Are your prefiled direct, supplemental, and
22 rebuttal testimony and accompanying exhibits true and
23 correct to the best of your information and belief?

24 A. Yes.

25 MS. CARSON: Thank you.

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1 Your Honor, PSE offers Exhibits MJS-1T
2 through MJS-20 into evidence and offers Mr. Michael
3 Stranik for cross-examination.

4 JUDGE MOSS: All right, and hearing no
5 objection, those exhibits will be admitted as marked.

6 We have four marked for Public Counsel,
7 MJS-21 through MJS-24, any objection?

8 MS. CARSON: No, Your Honor.

9 JUDGE MOSS: All right, those will also be
10 admitted as well.

11 And, let's see, and I guess we'll go with you
12 first, Mr. Ffitch, although I understand Mr. Furuta may
13 also have a few confidential questions for this witness
14 and we'll take those up at this time. Now you said you
15 had a preliminary question before we go into
16 confidential session, but that after that preliminary
17 question you will want to have us go into confidential
18 session; is that right?

19 MR. FFITCH: Yes, thank you, Your Honor.

20 And I do need to confirm with the company my
21 understanding is that page 7 of Mr. Stranik's Exhibit
22 22C is non-confidential, I need to make sure of that,
23 that would be MJS-22C, that's public?

24 MS. CARSON: That's correct.

25 JUDGE MOSS: Okay.

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1 MR. FFITCH: Your Honor, I have a few
2 questions with regard to that page, and then we would
3 request the confidential session.

4 JUDGE MOSS: Go ahead.

5 MR. FFITCH: Thank you, Your Honor.

6

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

8 BY MR. FFITCH:

9 Q. Good afternoon, Mr. Stranik.

10 A. Good afternoon.

11 Q. I guess we kind of surprised you here by
12 getting you up a little earlier than you were expecting,
13 so hopefully maybe you'll get to go home earlier at the
14 end of the hearing. I would like to ask you to look at
15 your Cross Exhibit 22C, and do you have that there with
16 you?

17 A. Yes, I do.

18 Q. And that is a response to our Data Request
19 380 where we asked the company to provide income
20 statements, balance sheets, and cash flow statements at
21 March 31st and June 30th, 2009, for Puget Energy,
22 Equico, Puget Intermediate, and Puget Holdings, correct?

23 A. That's correct.

24 Q. And so we would like to ask you a few
25 questions about that, and first I'm going to go to page

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1 7 of that exhibit, that's the exhibit pagination, and
2 that's a document headed Puget Energy Inc. consolidated
3 statements of cash flows. Are you there?

4 A. Yes, I am.

5 Q. And we understand that that is a
6 non-confidential document, I believe your counsel has
7 confirmed that, that is correct, it's non-confidential?

8 A. That is correct.

9 Q. And you see there that there's three columns.
10 The one on the far right is for the three months ended
11 March 31st, 2008, the central column is January 1st,
12 2009, through February 5th, 2009, and then the left-hand
13 column is February 6th, 2009, through March 31st, 2009,
14 correct?

15 A. That is correct.

16 Q. And the significance of the February 5th date
17 is that that is the end of Puget's existence as a
18 publicly traded company, correct?

19 A. That is correct.

20 Q. So the column on the left on this page is for
21 the successor company, the Macquarie owned Puget Energy
22 company; is that right?

23 MS. CARSON: Object to the characterization
24 of the company.

25 MR. FFITCH: Your Honor, I will rephrase the

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1 question.

2 BY MR. FFITCH:

3 Q. The column on the left is for the successor
4 company, Puget Energy, from February 6th, 2009, the day
5 after the closure of the sale, through March 31st,
6 correct?

7 A. Yes, it is the successor company.

8 Q. Now if we look down the page, we see a
9 section that's headed net cash used by investing
10 activities, correct?

11 A. That is correct.

12 Q. And under that heading do you see the entry
13 dividends paid?

14 A. The dividends paid is under the financing
15 activities.

16 Q. All right. And next or across from dividends
17 paid if we look across the line, the document shows that
18 for the three months ended March 31st, 2008, publicly
19 traded Puget Energy paid a dividend of \$32.4 Million,
20 right?

21 A. That is correct.

22 Q. And this cash flow statement also indicates
23 for the first part of the year in 2009 before the merger
24 the publicly traded Puget had no cash outflows related
25 to dividends, but following the merger the successor

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1 Puget paid out \$68.6 Million in dividends; is that a
2 correct statement?

3 A. That is a correct statement.

4 Q. Now in Mr. Markell's response to Public
5 Counsel Data Request 137, which is his Exhibit 9, he
6 indicates that in 2009 prior to the merger Puget Energy
7 paid \$38.2 Million to stockholders of the former public
8 Puget; do you recall that?

9 A. Yes, I do.

10 Q. The company's cash flow statement shows that
11 there were zero dividends paid between January 1, 2009,
12 and March 5th, 2009. There were other -- some other
13 cash flow shown on -- other cash flow items shown on
14 that exhibit such as debt issuance, correct, change and
15 short-term debt, but there's no dividends shown for that
16 time period, correct?

17 A. Do you mean January 1st through February 5th?

18 Q. Yes.

19 A. There are no dividends paid as a predecessor
20 company. The dividends paid to the former shareholders
21 is recorded in the successor company because the
22 dividends were paid after February 6.

23 MR. FFITCH: All right.

24 Your Honor, at this point we are going to
25 have to go to the confidential questions.

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1 JUDGE MOSS: All right, well, let me ask then
2 at this time if there is anyone present in the hearing
3 room who is not a signatory to the necessary
4 confidentiality agreements that are part of the
5 protective order in this proceeding that those persons
6 absent themselves from the room. We can have somebody
7 come out into the hallway and let you know when we
8 resume. And of course we'll also go back on the
9 conference bridge line at that point. At this point in
10 time for those of you who are listening in on the
11 telephone, I'm also going to mute the conference bridge
12 line, and so you won't be able to hear us during the
13 confidential session. I will turn that back on when we
14 resume in public session if that occurs today.

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(CONFIDENTIAL SESSION)

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

2 JUDGE MOSS: All right then, nobody left the
3 room at the time we turned this into a confidential
4 session probably because they were forewarned and left,
5 but so we don't need to send anyone out into the hall,
6 but I am going to put the -- I'm putting the telephone
7 system back in play here, so if anyone's still holding
8 on the line we're back in public session, and we will
9 proceed with questions from the Bench before we go to
10 redirect.

11 Commissioner Jones.

12

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

14 BY COMMISSIONER JONES:

15 Q. Mr. Markell, so could you refer to EMM-9,
16 page 2.

17 A. Give me one moment, please.

18 Q. Sure.

19 A. Okay.

20 Q. What I would like to do is just clarify a few
21 terms and try to get a sense, I think I'm getting there,
22 I'm not entirely there, on the flow of these dividends,
23 and not in the aggregate way that you just mentioned in
24 response to questions, but in these categories. First
25 of all, what is a stub, I think in subsection B, page 2,

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1 what is a stub dividend?

2 A. It's the dividend accrued and declared and
3 paid to shareholders of record as of a record date that
4 the board determined that ran from the end of a calendar
5 quarter to that record date. And since we closed the
6 merger transaction on February 6, it would have been the
7 number of days between March 31 and February 6 prorated
8 times the 25 cent per quarter dividend.

9 Q. Okay. So you may have already said this, but
10 I just want to clarify for the record. So let's go to
11 your column right where you have three categories in sub
12 B, you mention regular dividend, stub dividend, and post
13 merger stub dividend. Are you there?

14 A. I am.

15 Q. Okay. So the \$32.4 Million that was paid as
16 a regular dividend was paid to the shareholders of
17 record on January 21st, 2009, meaning these were the
18 previous shareholders of Puget Energy, the publicly
19 listed corporation?

20 A. Correct.

21 Q. The next line, stub dividend, I think you
22 just explained it but just please clarify again, the
23 stub dividend -- and again, these payments, the regular
24 dividend payments were made from Puget?

25 A. Energy.

0367

1 Q. Energy, which was the publicly listed
2 corporation?

3 A. Right.

4 Q. To the shareholders of record?

5 A. Correct.

6 Q. So the next line, stub dividend, \$5.8
7 Million, was that made by Puget Energy to whom?

8 A. To the public shareholders.

9 Q. Of record as of January 21st, 2009?

10 A. Right.

11 Q. Okay. Then the third line, post merger stub
12 dividend, that payment is being made according to the
13 narrative from Puget Energy to Puget Equico LLC and then
14 to Puget Intermediate?

15 A. Correct.

16 Q. Holdings Inc.?

17 A. Correct.

18 Q. So the ultimate receiver of the money, the
19 dividends, is Puget Intermediate Holdings, or is it
20 Puget Holdings?

21 A. It was Puget Intermediate, and I guess I
22 would say the ultimate receiver was the note holders.

23 Q. And the note holders just to clarify are?

24 A. The investment group.

25 Q. The investor consortium?

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1 A. Right.

2 Q. So my question is, why did the money end up
3 with Puget Intermediate Holdings when it's ultimately to
4 the benefit of Puget Holdings and the shareholders in
5 the consortium?

6 A. Well, the investor loans run from the
7 investor loan entities into Puget Intermediate. They do
8 not run through Puget Holdings. So that interest
9 payment does not first go to Intermediate and then to
10 Holdings. It goes from PSE to PE to Equico to
11 Intermediate and then as interest payments to the
12 investor loans.

13 Q. I see. And the investor loans are primarily
14 -- they primarily reside with Puget Intermediate
15 Holdings?

16 A. They reside entirely with Intermediate.

17 Q. Okay. Now could you refer to sub C, this
18 could be a typo, but in sub C you say \$32.4 Million were
19 related to PE dividends declared to Puget Energy
20 Shareholders with a record date of January 23rd, 2008.
21 Do you mean 2009, or why is it 8 instead of 9?

22 A. It's probably a typo.

23 Q. And then last question, the \$16.2 Million in
24 dividends were paid to PE to cover expenses. Could you
25 clarify again, maybe you don't have it now and you could

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1 provide it to the Bench for the record, but what were
2 the expenses that was covered through this dividend
3 payment, and was this dividend payment made from where
4 to where, from PE to?

5 A. Well, it ultimately would have come first
6 from PSE to PE.

7 Q. Right, to PE.

8 A. And PE to pay merger expenses which were
9 incurred and needed to be recorded at the PE level. So
10 it would have been such things as legal expenses,
11 investment banking expenses, perhaps other allocable
12 overhead expenses.

13 Q. Okay. That's it, I think I'm as clear as
14 could possibly be.

15 A. If I may make one comment about the merger
16 accounting. You know, I deferred to Mr. Stranik earlier
17 because there's only I believe about two people in this
18 country that have had hands-on experience with doing
19 business combination accounting for utility in the post
20 FAS 141r world that we found ourselves in. When we
21 filed our merger application, we fully expected it to
22 have been adjudicated and closed well before 141r had to
23 be adopted. When it dragged into 2009, our world
24 changed a lot and got much more complicated, and we were
25 fortunate to have Mr. Stranik and Mr. Eldridge, who does

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1 not have the privilege to be a witness today, leading
2 that charge, and that was why I deferred earlier to
3 those folks.

4 JUDGE MOSS: Anything further from the Bench?

5 All right. Any redirect, Ms. Carson?

6 MS. CARSON: Yes, Your Honor.

7

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

9 BY MS. CARSON:

10 Q. Mr. Markell, I wanted to clarify the stub
11 dividend that is shown on EMM-9 that Commissioner Jones
12 has just been referring to. In fact, I want to clarify
13 in section B all three of those dividends and what time
14 period they cover and who they're paid to. So starting
15 with the regular dividend, can you explain to me what
16 period that covers and who the regular dividend is paid
17 to?

18 A. It was dividend declared and paid -- well,
19 I'm not sure what -- are you asking me to change my
20 prior answer?

21 COMMISSIONER JONES: Mr. Markell, no.

22 JUDGE MOSS: Don't answer that.

23 A. I'm sure we'll find a way to correct the
24 record if I misstated.

25 BY MS. CARSON:

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1 Q. Was that a payment to public shareholders for
2 the 2-4-2008 time period?

3 MR. FFITCH: Objection, leading.

4 JUDGE MOSS: I will overrule that, we're
5 trying to get some clarification here on some rather
6 fine detail points.

7 A. Subject to check, I would agree with that.

8 BY MS. CARSON:

9 Q. And the stub dividend of \$5.8 Million, do you
10 know who that was paid to?

11 A. Public shareholders.

12 Q. And do you know the time period when that was
13 paid?

14 A. For the stub dividend period.

15 Q. And the stub dividend period I think before
16 you said it was from, perhaps from the date of merger
17 closing through 3-31-09; is that correct? I think
18 that's what you said; is that correct?

19 A. It's correct what I said.

20 Q. Okay, so just to clarify, there are two
21 different stub dividends. One is a post merger stub
22 dividend and the other is a stub dividend. Do you know
23 which one covers the period from the date of closing
24 through the end of March '09, is that the post merger
25 stub dividend?

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1 A. I believe the \$5.8 Million relates to the --
2 I'm sorry, repeat your question.

3 Q. The dividend titled post merger stub
4 dividend, \$30.4 Million, does that dividend cover the
5 period from the close of the merger through March 31,
6 2009?

7 A. I don't believe that has a specific period
8 attached to it.

9 Q. And do you know who that post merger stub
10 dividend was paid to?

11 A. It was paid from Puget Energy up through
12 Puget Equico.

13 Q. And the dividend entitled stub dividend of
14 \$5.8 Million, do you know the time period that that was
15 paid, that that covered? Was it January 20, 2009,
16 through February 5, 2009, does that sound correct?

17 A. January 1st through the 5th of February,
18 2009.

19 Q. So January 1st through February 5th, 2009?

20 A. Right.

21 MS. CARSON: Your Honor, we may want to
22 clarify this. There's some confusion amongst various
23 witnesses as to what time period that covers.

24 JUDGE MOSS: And then we will still have to
25 wait with bated breath to find out how important this is

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1 to have this level of precision with respect to these
2 statements, but if you need to clarify this in some
3 fashion, we certainly would prefer to have a clear
4 record to a confused record, and we'll give you an
5 opportunity to do that, subject of course to further
6 questions from others.

7 BY MS. CARSON:

8 Q. Mr. Markell, you testified that it's not
9 unusual for a company to underrecover in a buildout
10 phase, so does that mean that the level of underrecovery
11 that PSE is currently experiencing is acceptable?

12 A. No, we've provided data, and I think in an
13 exchange with Mr. ffitch agreed that we've been
14 underrecovering for a number of years. We have a
15 schedule I believe that describes that. That
16 underrecovery allowed us to earn or we actually earned
17 just over 900 basis points on our equity, so the
18 underrecovery was arguably between 100 and 200 basis
19 points. In the last few years also described it data we
20 provided that underrecovery has accelerated
21 significantly, and now our actual earnings are about 600
22 basis points, and we have data provided on that. And in
23 one of my rebuttal exhibits I note that even if our
24 rebuttal revenues are granted as we've put forth in the
25 rebuttal case, in the rate year we would still only earn

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1 about 600 basis points of return on the equity. So it
2 isn't that the company isn't prepared to deal with
3 underearnings in a period of growth. We certainly are
4 and have been. But the magnitude of that underearning
5 has accelerated very significantly, and that is what
6 concerns us.

7 MS. CARSON: I have no further questions.

8 JUDGE MOSS: Thank you.

9 With that, Mr. Markell, I believe we can
10 release you subject in this case formality, the
11 formality of being subject to recall, so we'll let you
12 step down.

13 THE WITNESS: Thank you.

14 JUDGE MOSS: Now we still have a bit of time
15 left in our hearing day until 5:00, and we had
16 Mr. Stranik on the stand before, and, Mr. Cedarbaum, I
17 believe you said you had a few questions?

18 MR. CEDARBAUM: Just a very few.

19 JUDGE MOSS: Maybe 5 minutes or something
20 like that?

21 MR. CEDARBAUM: Or less.

22 JUDGE MOSS: Or less.

23 Did other counsel have additional questions
24 for Mr. Stranik? Mr. ffitich, I think you had. How
25 much?

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1 MR. FFITCH: I believe it's about 15 plus.

2 JUDGE MOSS: All right, well, let's try to
3 finish with Mr. Stranik then and let him get a good
4 night's sleep. Why don't you come back, Mr. Stranik,
5 and have a seat. You remain under oath.

6 Why don't you go ahead, Mr. ffitch, and
7 finish up your line, and then we'll hear from
8 Mr. Cedarbaum.

9 I was going to let Mr. ffitch finish up his
10 first unless you guys have a different preference.

11 MR. FFITCH: I'm happy to defer to Staff.
12 Completely different topic, Your Honor.

13 JUDGE MOSS: That's all right, you go ahead,
14 Mr. ffitch, we'll let you finish, and then we'll hear
15 from Mr. Cedarbaum.

16 MR. FFITCH: I need to find my Stranik
17 exhibits, Your Honor, I apologize, moving fast here.

18

19 Whereupon,

20 MICHAEL J. STRANIK,
21 having been previously duly sworn, was called as a
22 witness herein and was examined and testified as
23 follows:

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

2 BY MR. FFITCH:

3 Q. Mr. Stranik, good afternoon again.

4 A. Hello again.

5 Q. I wanted to ask you some questions about the
6 aircraft adjustments in dispute in this case, and we're
7 going to I think eventually get to the response to
8 Public Counsel 557 which has been marked as MJS-23.
9 Just to kind of introduce this topic, Mr. Stranik, In
10 your rebuttal testimony you identify an alleged flaw in
11 Mr. Dittmer's analysis, specifically that he does not
12 price out the loss of productivity experienced by
13 employees who travel by means other than corporate
14 aircraft; is that right?

15 A. That is true.

16 Q. It's true, however, is it not, that neither
17 you nor anyone else at Puget Sound Energy has undertaken
18 any calculations that measure the cost of lost
19 productivity?

20 A. That is true, we have not done any studies.

21 Q. And in fact isn't it the case that Puget
22 Sound Energy has never undertaken any studies to support
23 its decision to own and operate a corporate aircraft?

24 A. I am not aware of any.

25 Q. All right.

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1 MS. CARSON: Judge Moss, if I might just
2 clarify, the MJS-23 exhibit that Mr. ffitch has referred
3 to, we did submit a revised version of that exhibit, so
4 I just want to make sure everybody's on board with that.

5 JUDGE MOSS: When did you do that?

6 MS. CARSON: Was that not -- it should be one
7 that we submitted just today.

8 JUDGE MOSS: Today?

9 MS. CARSON: Yes.

10 JUDGE MOSS: So you did.

11 MR. FFITCH: I don't think this affects our
12 examination, Your Honor.

13 JUDGE MOSS: Please proceed.

14 BY MR. FFITCH:

15 Q. And last week I believe, Mr. Stranik, you
16 filed an errata eliminating some language in your
17 prefiled testimony, correct?

18 A. That is correct.

19 Q. And that was language that claimed that the
20 mileage rate used by Mr. Dittmer to price out the
21 alternative forms of vehicle ground transportation only
22 covered variable costs, correct?

23 A. That is correct.

24 Q. And just to be clear, are you now agreeing
25 that the mileage rate used by Mr. Dittmer does in fact

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1 cover variable as well as fixed costs?

2 A. The federal -- the IRS standard mileage rate
3 is an average of -- for the nation, and so therefore it
4 does cover on average for the nation both fixed and
5 variable.

6 Q. All right. And am I correct that Puget uses
7 the IRS allowance rate to reimburse its employees when
8 they're required to use their personal vehicles for
9 business purposes?

10 A. Yes, the company does reimburse at the IRS
11 standard rate.

12 Q. All right. So the company's not knowingly
13 shortchanging its own employees by paying them the IRS
14 mileage allowance when they're using their personal
15 vehicles, is it?

16 MS. CARSON: Object to the form of the
17 question.

18 JUDGE MOSS: I think the question was just
19 fine, we'll overrule the objection.

20 THE WITNESS: Can you repeat the question?

21 BY MR. FFITCH:

22 Q. To your knowledge, is the company knowingly
23 shortchanging its employees by offering to pay them the
24 IRS mileage rate allowance for use of their personal
25 vehicles?

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1 A. It is up to the employee whether or not they
2 want to use their own vehicles. There's pool cars
3 available to employees as well. When they do use their
4 personal vehicles, they have to -- they need to be
5 looking at whether or not they need to add additional
6 insurance, for instance a rider for conducting business
7 with a personal car.

8 Q. All right. But the company's not
9 intentionally shortchanging them by only paying them the
10 IRS mileage rate for the use of the vehicle if it's
11 appropriate under company policy, right?

12 MS. CARSON: Objection.

13 JUDGE MOSS: Why don't you rephrase the
14 question, Mr. ffitch.

15 MR. FFITCH: I'll just move on, Your Honor.

16 BY MR. FFITCH:

17 Q. In the past to your knowledge when the
18 company has asked its employees to use their personal
19 vehicles for business use and pay them the IRS mileage
20 allowance, does it offer them anything extra above the
21 mileage allowance rate to compensate them for shifting
22 company business obligations or risks onto the
23 individual driving his or her own car?

24 A. The company does not ask employees to
25 personally use their vehicle. It's their option. They

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1 can always go into the -- get the -- a pool car to
2 travel if it's a -- if one's available.

3 Q. Okay.

4 In your rebuttal testimony, you elaborate on
5 the lost time and productivity specifically in the
6 instance of when an employee drives a car to a
7 destination such as Portland versus taking the company
8 aircraft, and I want to talk about that a little bit
9 more. According to your testimony, you consider it to
10 be a 3 hour drive by personal vehicle from the company's
11 headquarters in Bellevue to Portland, correct?

12 A. According to my testimony. The experience I
13 had today would have taken longer.

14 Q. I think we've all been there. And you
15 consider it a 1 hour flight if the company's corporate
16 aircraft is used, right?

17 A. That is correct.

18 Q. Now would you agree with me that if a
19 personal vehicle is driven to Portland to attend company
20 business that all the employee has to do is get in the
21 car and drive?

22 MS. CARSON: Object to the form of the
23 question.

24 Q. Let me try to rephrase that, Mr. Stranik.
25 There's no preparation time needed to arrange the trip.

0381

1 Once the employee is ready to go, they simply get into
2 the vehicle and begin the 3 hour trip, correct?

3 A. Well, it depends, you know. If their car is
4 not full of gas, they will have to stop at a gas
5 station. I don't know what -- how employees keep their
6 vehicles, so I have no idea.

7 Q. All right. When an employee gets to
8 Portland, they don't need alternative ground
9 transportation once they arrive, correct?

10 A. If they're in their own vehicle, no.

11 Q. And if you take a corporate aircraft to
12 Portland, a Puget corporate aircraft, would you agree
13 that some preparation time is required on someone's part
14 to set up and schedule the aircraft?

15 A. All it takes is filling out a form, which
16 takes about less than 5 minutes to do.

17 Q. Aircraft doesn't sit all hours of the day and
18 night immediately ready to fly, does it, fueled with a
19 pilot standing by 24 hours a day?

20 A. I'm not down at the flight hanger, so I have
21 no idea.

22 Q. Aren't there some arrangements that have to
23 be made to utilize the corporate aircraft?

24 A. The pilots are on call to fly.

25 Q. All right. So the pilot needs to come in, do

0382

1 standard equipment checks before the plane takes off,
2 right?

3 MS. CARSON: Objection, foundation.

4 MR. FFITCH: Well, this is the witness, Your
5 Honor, that was tendered and did testify about corporate
6 aircraft adjustment matters and disagreed with
7 Mr. Dittmer's testimony on this fact.

8 JUDGE MOSS: Let's find out if he knows
9 anything about the mechanical preparations to get the
10 airplane ready to fly, we would need some foundation for
11 that. If this witness doesn't know, I think he just
12 indicated for example that he does not put himself
13 around the hanger to see what's going on, so I don't
14 imagine he really knows very much about it.

15 BY MR. FFITCH:

16 Q. Is that correct, Mr. Stranik, do you know
17 anything at all about the preparations required or the
18 operations of a company aircraft?

19 A. No, I do not know.

20 Q. When Puget employees need to travel using the
21 corporate aircraft, they need to drive to the Renton
22 airport, the Renton Regional Airport, to pick up the
23 Puget plane, correct?

24 A. That is correct.

25 Q. That's about 11 miles from Puget Sound

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1 Energy's offices?

2 A. Yes, that's approximately.

3 Q. So you would have to deduct that time from
4 the productive time involved in taking the corporate
5 aircraft to Portland, would you not?

6 A. I guess I don't quite follow the -- where
7 you're going. I mean to get to an airfield, you have to
8 drive to an airfield.

9 Q. All right. Where I'm going is if you compare
10 a 3 hour trip versus -- a 3 hour car trip versus a 1
11 hour air trip and you say there is a 2 hour loss of
12 productive time on the car drive, that's actually an
13 overstatement, is it not, because there is additional
14 employee time required to travel to the airport and
15 otherwise make arrangements, so there's no -- there's
16 actually less than 2 hours of productive time difference
17 between those two alternatives, isn't there?

18 A. There's approximately 2 hours.

19 MR. FFITCH: Those are all the questions I
20 have, Your Honor.

21 Thank you, Mr. Stranik.

22 JUDGE MOSS: Thank you.

23 Mr. Cedarbaum.

24 MR. CEDARBAUM: Thank you, Your Honor.

25

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

2 BY MR. CEDARBAUM:

3 Q. Hello, Mr. Stranik.

4 A. Hello.

5 Q. The questions I have for you actually are --
6 involve what has been marked for identification as
7 Exhibit JHS-28, which was a cross exhibit for Mr. Story.
8 I understand from the company's attorney that it's
9 actually better addressed through you; is that right?

10 A. That's correct.

11 Q. And keeping in mind that this is a
12 confidential exhibit, is it correct to say that this is
13 one of the company's workpapers underlying the wage and
14 salary adjustment?

15 A. It is one of the workpapers.

16 Q. And that would be for gas and electric?

17 A. That is correct.

18 Q. Now on the -- and as it states at the top,
19 the period of time covered by this document, by the
20 workpaper, is the test year; is that right?

21 A. That is correct.

22 Q. Now this does not show, well, let me ask this
23 preliminary question. On this document are amounts for
24 both utility and non-utility operations; is that
25 correct?

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1 A. That is correct. It shows the executive
2 salaries on how they were allocated for the test year.

3 Q. Okay, so we're addressing executive salaries
4 allocated for the test year between utility and
5 non-utility. Can you just run through the document by
6 column and explain which are the utility columns and
7 which are the non-utility columns?

8 A. Okay. I'll first go with what is the utility
9 columns. It will say FERC report direct labor on that
10 line and then go across. Account 107, account 182.3,
11 account 500, 900, and stores. Those are the regulated
12 utility accounts. The 400 and other 1 and 2, that is
13 non-utility.

14 Q. Maybe I didn't understand, what about the 108
15 category?

16 A. There's no labor being allocated there.

17 Q. Right, so there's no numbers in those
18 columns, so.

19 Okay, so that describes which columns are
20 utility and which are non-utility for the allocated
21 amounts of executive salaries during the test year; is
22 that right?

23 A. That is correct.

24 Q. And if we wanted to calculate -- and then the
25 very -- the column on the very end, total, is the total

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1 of all of the utility and non-utility columns?

2 A. That is correct.

3 Q. So if we wanted to calculate a percent of
4 allocated amounts for utility, we would take -- we would
5 add up the amounts at the bottom line and compare it to
6 that total amount. And if we wanted to add up the
7 amounts for non-utility, we would do the same
8 calculation but with respect to the non-utility columns?

9 A. That is correct.

10 Q. Do you know if I were to ask you subject to
11 check to accept a certain percentage as utility versus
12 non-utility, would that be a confidential number?

13 A. No, as long as we're not providing any
14 numbers.

15 Q. Would you accept --

16 A. Percentage is fine.

17 Q. Would you accept subject to check that of the
18 amounts shown on this document, 92.48% involve utility
19 accounts and the remainder involves non-utility
20 accounts?

21 A. Subject to check, yes.

22 Q. Thank you.

23 A. Sounds reasonable.

24 MR. CEDARBAUM: Thank you.

25 Your Honor, I would offer Exhibit JHS-28C.

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1 JUDGE MOSS: Do you want to leave it marked
2 there or mark it for this witness?

3 MR. CEDARBAUM: Well, I think this was the
4 only witness who was going to answer questions about it,
5 so I thought I could just offer it now.

6 JUDGE MOSS: I was just wondering if we
7 should reidentify it with this witness.

8 MR. CEDARBAUM: Oh.

9 JUDGE MOSS: If you don't care, we'll just
10 leave it the way it is.

11 MR. CEDARBAUM: It's your preference, if you
12 would prefer it to be with Mr. Stranik, that's fine.

13 JUDGE MOSS: We'll just admit it as marked
14 then.

15 MS. CARSON: That's fine.

16 JUDGE MOSS: So that's JHS-28C, it's
17 admitted.

18 MR. CEDARBAUM: Those are all my questions,
19 thank you.

20 THE WITNESS: Thank you.

21 JUDGE MOSS: Okay, anything from the Bench
22 for Mr. Stranik before we turn to redirect?

23 No.

24 All right, any redirect, Ms. Carson?

25

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

2 BY MS. CARSON:

3 Q. Mr. Stranik, how long has Puget Sound Energy
4 owned the corporate aircraft?

5 A. The corporate aircraft that we currently own
6 has been in service since 1986. It is a Beachcraft King
7 Air Turboprop.

8 Q. Are there any additional efficiencies that
9 the aircraft provides in terms of the ability to work
10 while traveling?

11 MR. FFITCH: Your Honor, my impression of
12 this cross is that it's well beyond the scope of the --
13 excuse me, of this redirect, beyond the scope of the
14 cross, it's just eliciting direct testimony on matters
15 that weren't discussed in my examination and which are
16 extensively discussed in the prefiled testimony.

17 JUDGE MOSS: This is one of those moments
18 where the judge has to admit he was not listening to the
19 question. So, Ms. Carson, if you will repeat the
20 question, I will consider Mr. ffitch's objection to it.

21 BY MS. CARSON:

22 Q. Does the corporate aircraft provide
23 efficiencies -- well, let me say this. Mr. ffitch asked
24 you questions about productivity and efficiencies
25 relating to traveling by car versus the aircraft. Is

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1 that right, do you recall those questions?

2 A. Yes, I do.

3 Q. Does the corporate aircraft provide
4 efficiencies in terms of work and being able to work
5 while traveling that a private car or PSE owned vehicle
6 doesn't provide?

7 JUDGE MOSS: All right, with that I will
8 sustain Mr. Ffitch's objection. That is in his direct
9 testimony, I don't think we need to pursue it.

10 Anything else?

11 MS. CARSON: That's it.

12 JUDGE MOSS: All right, Mr. Stranik, with
13 that we can release you subject to recall as the other
14 witnesses. Appreciate you being here to testify.

15 We have in our normal hearing day
16 approximately 30 minutes, let me, is the preference of
17 the Commissioners to continue?

18 All right, we'll continue then if we can.

19 Let's see, we have --

20 MR. FFITCH: Your Honor, sorry, I apologize,
21 I interrupted. I was going to request the accommodation
22 of the Bench to recess early. We're progressing at a
23 much faster pace than I had anticipated, and I had
24 looked forward to the chance to confer with Mr. Dittmer
25 before we examined other witnesses tomorrow, and we're

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1 getting into the witnesses for tomorrow, including
2 Mr. Hunt. So I was going to inquire if the Bench was
3 willing to quit early.

4 JUDGE MOSS: I wasn't contemplating that we
5 would call Mr. Dittmer or probably not any witness for
6 whom cross has been designated, but instead we can use
7 up the next few minutes with some questions from the
8 Bench if Mr. Henderson is present.

9 Mr. Henderson is not, I can tell by the
10 grimace.

11 MS. CARSON: Mr. Henderson is not present.

12 JUDGE MOSS: All right, well, with that I'm
13 not going to belabor the point, I think we will simply
14 call it an early day, and see you all here again
15 tomorrow morning at 9:30. We'll be in recess, thank
16 you.

17 (Hearing adjourned at 4:35 p.m.)

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