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BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

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WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,)
)
Complainant)
)
vs.) DOCKET UG-110723
)
PUGET SOUND ENERGY,)
)
Respondent.)

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VOLUME II
Pages 22 - 287
EVIDENTIARY HEARING BEFORE
ADMINISTRATIVE LAW JUDGE GREGORY J. KOPTA

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9:20 a.m.

November 17, 2011

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TAD-2 38 Professional Qualifications of
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TAD-3 38 American Gas Association Report
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TAD-4T 38 Prefiled Rebuttal Testimony of
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TAD-9 38 PSE Response to Public Counsel
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1 JUDGE KOPTA: Let's be on the record, in
2 Document UG-110723, entitled Washington Utilities and
3 Transportation Commission versus Puget Sound Energy,
4 Inc.

5 It's November 17th, 2011. We are here for
6 evidentiary hearings, and our first order of business,
7 let's take appearances, brief appearances for the
8 record, beginning with the company.

9 MS. CARSON: Good morning. Sheree Strom Carson
10 with Perkins Coie representing Puget Sound Energy.

11 MR. BROOKS: Good morning. My name is Tommy
12 Brooks with Cable Huston representing the Northwest
13 Industrial Gas Users.

14 MR. FFITCH: Simon ffitch, Senior Assistant
15 Attorney General, on behalf of Public Counsel.

16 MR. CEDARBAUM: Robert Cedarbaum, representing
17 Commission staff.

18 JUDGE KOPTA: Thank you.

19 Anyone else wanting to make an appearance?

20 Hearing none.

21 We have some preliminary matters that we need to
22 address before we start to take testimony, specifically
23 issues involving exhibits that have been identified as
24 cross-examination exhibits. We are going to take those
25 up at this point to resolve any objections.

0031

1 Ms. Carson, I believe, you have objections to
2 three exhibits that have been designated by other
3 parties as cross-examination exhibits for two of your
4 witnesses. Correct?

5 MS. CARSON: Correct. Those are DAH-6, DAH-26,
6 and JHS-15. Each one of these exhibits was a response
7 from Puget Sound Energy to an informal WUTC staff data
8 request. They were all responded to in May or
9 June before PSE revised its PIP program in response to
10 discussions with stakeholders and parties in this case.

11 So the responses -- and we have not asked for
12 all the cross-exam exhibits that are from this time
13 period to the excluded, but we have selected the three
14 where there are discussions, substantive discussions of
15 the programs where the program has changed, and was
16 changed as filed in July. So because these are no
17 longer an accurate reflection of the program as filed,
18 they should not be admitted into evidence.

19 JUDGE KOPTA: I notice that these are offered by
20 staff and Public Counsel.

21 Staff, Mr. Cedarbaum, do you have a response?

22 MR. CEDARBAUM: Yes, Your Honor. I'm speaking
23 just to DAH-6, which is the staff informal data request
24 that we've designated for Mr. Henderson as a cross
25 exhibit.

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1 I guess I have three responses pointing towards
2 asking the Bench to overrule the objection and allow the
3 exhibit.

4 First of all, it's just a matter of timing. My
5 understanding of the process from some e-mail that you
6 sent around earlier this week was that any matters to be
7 brought during this session, before the evidentiary
8 session should have been notified to you earlier than
9 this morning. This morning was the first time that I
10 heard about a specific objection, so this was somewhat
11 of a surprise.

12 But as to the merits, yes, this was an informal
13 data request proposed to the company before the tariff
14 was amended in July; however, the company, as its usual
15 practice is, is for the company to supplement its
16 responses to data requests. It did not do that in this
17 case when it had a full opportunity to do so, and should
18 have, but did not.

19 Second of all, I think the remedy for this is
20 not to exclude the exhibit, but to just have the witness
21 explain any changes to the data request that are
22 necessary because of the amendment to the tariff filing
23 from July when the bare steel program was removed from
24 the tariff.

25 So that's not a matter of excluding the exhibit.

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1 That's just a matter of redirect on the exhibit. I
2 think that's fair. So we would ask that the exhibit be
3 allowed into evidence.

4 JUDGE KOPTA: Mr. ffitch?

5 MR. FFITCH: Your Honor, first, I would echo the
6 initial time limits objection, and add to that the fact
7 that Ms. Carson was specifically asked yesterday morning
8 whether she was able to stipulate on behalf of the
9 company to exhibits.

10 We were advised after 9 o'clock this morning of
11 these objections, and I find that troubling in terms of
12 both professional courtesy and the process that the
13 bench had set up. I'm literally still trying to look
14 through and examine the specific exhibits that have been
15 listed by company counsel to, you know, figure out how
16 to respond. So the first objection is to timeliness.

17 Secondly, I would note that these are ongoing
18 requests. As is typical with our discovery, the company
19 could have supplemented those.

20 Thirdly, I would note that the company had the
21 opportunity to file rebuttal after these were provided,
22 and again it could have addressed any updating that was
23 necessary in rebuttal.

24 And, fourthly, I would agree with Mr. Cedarbaum
25 that the obvious remedy is just to have the witnesses,

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1 you know, comment on what needs to be changed.

2 JUDGE KOPTA: Ms. Carson?

3 MS. CARSON: Yes, I'd like to respond to those
4 three points.

5 First of all, I do not recall seeing any
6 instructions that objections to cross-examination
7 exhibits were due prior to today.

8 We did not receive cross-exam exhibits until
9 Tuesday, so we've only had 48 hours to look through all
10 the cross-exam exhibits, and they were fairly extensive,
11 particularly from Public Counsel.

12 It's not unusual in rate cases, and in past
13 cases we have notified parties the morning of the
14 hearing that we have objections, because it just is very
15 time consuming in the way the schedule is compacted.
16 There's no ample opportunity before the hearing day to
17 have reviewed all the cross-exam exhibits and notify
18 parties.

19 In regard to Mr. ffitch's allegation that I
20 didn't tell parties that there were objections, that may
21 not have gone to Mr. ffitch, but I know that I did send
22 an e-mail to Mr. Cedarbaum saying that we would
23 stipulate to the testimony on prefiled exhibits coming
24 in, but we would have objections to some cross-exam
25 exhibits.

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1 In terms of supplementing these, I think it's
2 important to remember these are informal data requests
3 that were sent by staff under their staff's audit rights
4 back in May and June, before this was an adjudicative
5 proceeding.

6 Frankly, the people at PSE were very surprised
7 to see these as cross-exam exhibits because they weren't
8 thinking of them in the scope of data requests in the
9 adjudicative proceeding, and it did take some time to
10 look at them and consider how to proceed. So they are
11 not the type of data requests that we would normally
12 necessarily think about supplementing when the program
13 has changed. And everybody was aware that the program
14 had changed after these data requests were responded to.

15 MR. FFITCH: Your Honor?

16 JUDGE KOPTA: Yes, Mr. ffitich.

17 MR. FFITCH: May I be heard on one of the
18 specific exhibits? My previous comments were general in
19 nature, and there's one I'd like to address
20 specifically.

21 JUDGE KOPTA: Not at the moment, because I think
22 I'm going to reserve ruling on these three exhibits at
23 this point.

24 I understand the concern in terms of timeliness.
25 My instruction was to try and get an idea of issues that

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1 might be raised that might need a court reporter. That
2 was merely my main objective in trying to get that
3 information, as opposed to anything specific to
4 requiring objections at that point, so I'm not going to
5 hold PSE to what I consider to be a rather vague
6 instruction.

7 I agree that an informal data request is a
8 little bit different animal than a regular data request,
9 but I also agree that, in general, any document that's
10 offered to a witness, as long as it's one that will be
11 involved in the cross-examination itself can be
12 explained by the witness, and at that point if there is
13 a continuing objection we can take it up at that time.

14 So my ruling at this point is to hold off on
15 those objections, hold them in abeyance, not admit those
16 exhibits, wait until they are actually offered and
17 discussed during cross-examination, and if counsel for
18 PSE after the opportunity for redirect continues to
19 object to their admission, then they can take them up at
20 that point.

21 Are there any other objections to the exhibits
22 on the exhibit list that were circulated yesterday?

23 Hearing none.

24 We had also discussed before we went on the
25 record admitting all of the exhibits that have been

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1 identified, with the exception of those two, which
2 objections have been made. Is that still the
3 willingness of the parties to do?

4 MR. CEDARBAUM: It is for staff.

5 MR. FFITCH: Yes, Your Honor.

6 MR. BROOK: It's okay with NWIGU.

7 MS. CARSON: Yes, Your Honor.

8 JUDGE KOPTA: All right. Then we will admit the
9 exhibits that have been identified as follows with one
10 caveat: When witnesses take the stand, they still will
11 have the opportunity to make any corrections that need
12 to be made to these exhibits, even though they have been
13 admitted.

14 So these are admitted subject to any corrections
15 that will be made when the witness actually appears on
16 the stand.

17 So the exhibits are Exhibits TAD-1T through
18 TAD-12; DAH-1T through DAH-5; DAH-7 through DAH-23;
19 DAH-27; DAH-29; and DAH-30; JHS-1T through JHS-14;
20 MV-1T, MV-2, DL-1T, ACC-1T, ACC-2, and DHS-1T.

21 I also note that there were some duplicates in
22 cross-examination, exhibits that were identified by
23 different parties, and for that reason Exhibits DAH-24,
24 DAH-25, and DAH-28 are not offered and are not admitted.

25 Have I stated that correctly?

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1 MR. CEDARBAUM: Your Honor, before we went on
2 the record, I think when I was trying to cross-reference
3 duplicative cross exhibits. I think I did miss DAH-27,
4 which is duplicative of DAH-5.

5 JUDGE KOPTA: All right. Do other counsel agree
6 that those are the same document?

7 MR. FFITCH: I'm confused, Your Honor. I
8 thought at an earlier moment 24 was listed as the
9 duplicate of DAH-5.

10 MR. CEDARBAUM: 24 is duplicative of DAH-8. It
11 may be that DAH-25 is not duplicative, and that I was
12 mistaken before. But DAH-27 is duplicative of DAH-5.
13 DAH-28 is duplicative of DAH-6.

14 JUDGE KOPTA: Let's go off the record.

15 (Discussion off the record.)

16 JUDGE KOPTA: While we were off the record,
17 Public Counsel suggested that we resolve this issue at
18 the end of the proceedings, and I think that's the way
19 we will proceed.

20 So at the moment the exhibits that I have
21 identified have been admitted; those that I have stated
22 are not admitted are not admitted, and we can make any
23 corrections, add or subtract exhibits from the record,
24 as necessary at the conclusion of the proceedings.

25 The second area of discussion is some documents

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1 that Public Counsel has requested that the Commission
2 take official notice in an e-mail communication to me
3 yesterday.

4 Mr. ffitch, if you would like to expand on that
5 request, now would be the time.

6 MR. FFITCH: Thank you, Your Honor.

7 We made this request in an excess of caution.
8 It's not entirely clear to me whether the Bench needs to
9 take official notice of these documents. They are a
10 matter of public record from another commission
11 proceeding, but I wanted to, in the interests of
12 fairness and notice to the bench and the parties, make
13 known the fact that we did intend to cite them and
14 discuss them in our brief.

15 One of them is the Commission's own order in the
16 2006 general rate case, and the other two are copies of
17 Puget Sound Energy testimony. All of this has a bearing
18 on the depreciation tracker proposal that was made in
19 the previous case, or in the 2006 case.

20 The depreciation tracker proposal has been
21 discussed, has been raised by us in both the open
22 meeting phase of this proceeding and also addressed by
23 Ms. Crane in her testimony, so the fact that we believe
24 that's relevant to this case shouldn't come as a
25 surprise to Puget Sound Energy. And we feel that these

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1 are appropriate documents to have in the record.

2 In terms of the official notice rule itself, I
3 think these are judicially cognizable. The specifically
4 enumerated documents in the judicial notice ruling, I
5 don't think this falls quite into a category of a tariff
6 or other kind of enumerated document in the rule, but I
7 think it's clearly the type of document that the Bench
8 could take official notice of, and I think it will be
9 helpful to the record.

10 JUDGE KOPTA: Ms. Carson?

11 MS. CARSON: As for the order in the 2006
12 general rate case, I don't see any reason for the
13 Commission to take judicial notice of that. That can be
14 cited as any other Commission order.

15 I agree it's not clear whether or not testimony
16 from another proceeding should be an exhibit or can be
17 cited to, like as an order is. I guess PSE's primary
18 concern is that these weren't presented to us until
19 yesterday. Public Counsel has chosen a few exhibits, a
20 few pieces of testimony from that proceeding. There may
21 be other pieces of testimony that PSE would like to
22 point to in that proceeding.

23 So if the Commission is going to take judicial
24 notice of some testimony, we ought to be able to also
25 point to other testimony and ask the Commission to take

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1 judicial notice or official notice of it in our brief as
2 well. So I guess I would ask for the same courtesy to
3 be applied to other parties.

4 JUDGE KOPTA: Mr. ffitch?

5 MR. FFITCH: No objection to that, Your Honor.

6 JUDGE KOPTA: Well, I took a look at our rule,
7 and you are correct that testimony is not enumerated,
8 certainly. And I also observe that in
9 WAC 480-07-495(2), that discusses official notice, in
10 listing those items of which the Commission may take
11 official notice, the general category of (a)(1) is any
12 judicially cognizable fact. Examples of such facts
13 include but are not limited to rules, regulations,
14 administrative rulings, and orders exclusive of findings
15 of fact of the Commission and other government agencies.

16 My concern is that testimony is fact. If we are
17 excluding in our rule findings of fact, unless there's a
18 specific cognizable fact in that testimony that you
19 would like the Commission to take official notice of, I
20 am hesitant to take official notice of testimony.

21 I've looked at some of the testimony; it is
22 extensive. And I agree with counsel for Puget Sound
23 Energy that they should have the same ability. If we
24 get into an opening of that particular Pandora's box, we
25 may end up with a lot more in this record than we

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1 actually need to make a determination.

2 I think testimony is something that would be
3 more appropriately designated as a cross-examination
4 exhibit. If that was your intent to introduce it into
5 the record, at this point I'm not willing to expand the
6 Commission's procedural rules to include taking official
7 notice of testimony, at least under the circumstances
8 that they're presented here.

9 If you would like, we can take official notice
10 of the order. I tend to agree with Ms. Carson that it
11 is the Commission order, and therefore can be cited like
12 any other Commission order without the necessity of
13 taking official notice and making it a part of the
14 evidentiary record.

15 So I will leave that to you, Mr. ffitch, whether
16 you believe it's necessary to take official notice, or
17 whether it's sufficient to know that you may cite to
18 that order in your brief.

19 MR. FFITCH: That's sufficient, Your Honor, with
20 respect to the order.

21 With respect to the testimony, we would request
22 the opportunity to conduct cross-examination on the
23 testimony. Frankly, in the interests of efficiency, we
24 had thought that rather than go that route, which seemed
25 rather formalistic, we would simply ask that we be able

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1 to cite matters of public record, and that's why we
2 brought these forward. If we can't do that, then we'd
3 like to conduct cross-examination with respect to the
4 testimony.

5 JUDGE KOPTA: I understand the desire to
6 expedite proceedings, but at some point we can't go
7 there, and this is one of those points.

8 Ms. Carson, would you have an objection to those
9 testimonies being used as cross-examination exhibits of
10 your witnesses?

11 MS. CARSON: Well, yes, we would object to that.
12 The witnesses have not fully reviewed that testimony. I
13 believe two pieces of that testimony is testimony of Sue
14 McLain, who's not here, so I'm not sure who would be the
15 appropriate person to cross-exam on her testimony.

16 I just think they should have been -- if they're
17 going to be cross-exam exhibits, they should have been
18 submitted with cross-exam exhibits so we had adequate
19 notice to review them, and so I object.

20 JUDGE KOPTA: I'm going to sustain that
21 objection.

22 I think they should have been designated
23 earlier, and, particularly, given the nature of the
24 information, if you really are offering it for the legal
25 issue, as you've stated in your e-mail, of single-issue

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1 rate making, then I'm even less inclined to explore that
2 as a matter of fact, as opposed to a matter of law or
3 policy.

4 So to the extent that there are items in that
5 testimony that any of the witnesses that are here today
6 have discussed in their testimony here, then I would
7 allow some latitude in terms of questioning them on
8 their other testimony that they may have given in other
9 circumstances to the extent that it's consistent or
10 inconsistent with the testimony they're giving here
11 today. But at this point, I think it's not appropriate
12 to try and bring in that testimony from another case.

13 MR. BROOKS: Your Honor, if we're done with
14 Mr. ffitch's request, I have a similar related request,
15 which I think has a small distinction. If it's
16 appropriate now I'd like to raise it.

17 MR. FFITCH: Your Honor, I had one final
18 request, with respect to the 2006 testimony, and that is
19 the opportunity to make an offer of proof with respect
20 to the testimony for the record.

21 JUDGE KOPTA: Yes, you may do that.

22 MR. FFITCH: And I'm open to the Bench's
23 preference about how to do that. We could do that
24 during the evidentiary proceeding, or --

25 JUDGE KOPTA: That would be my preference. That

0045

1 way we can do it in the context of the witness'
2 testimony, so that we have an idea of the extent to
3 which it's relevant to that testimony and probative of
4 issues that need to be resolved by the Commission.

5 MR. FFITCH: Thank you, Your Honor.

6 JUDGE KOPTA: Mr. Brooks?

7 MR. BROOKS: You'll recall when we were
8 assembling the exhibit list, I'd initially identified an
9 exhibit that was subject to a protective order from
10 a different matter. We since concluded that we didn't
11 need that exhibit in order to conduct our
12 cross-examination, but it does relate to a confidential
13 filing from a prior docket, a 1995 rate case, in which
14 special contracts were included with the order.

15 We would like the Commission to take official
16 notice of that order, including those confidential
17 filings, so that we can maintain the confidentiality of
18 those filings. If there's not a protective order in
19 place in this case, then we can brief it if we're given
20 the opportunity to brief, and both sides will be able to
21 do that.

22 I think it's a little bit different, because
23 it's not in the nature of testimony. I think the
24 document stands on its own, and we'd like to be able to
25 rely on that.

0046

1 JUDGE KOPTA: Well, certainly with respect to
2 the order, that is something that the Commission can
3 take official notice of, or, as I indicated with
4 Mr. ffitch, we can always cite Commission orders without
5 the need to take official notice.

6 I am not willing to take official notice of
7 anything that's confidential in another docket for two
8 reasons: One, we do not have a protective order here,
9 as you referenced, and so it would not be appropriate to
10 take official notice of a confidential document in this
11 proceeding, because we don't have any means for
12 protecting it.

13 No. 2, the confidentiality of that is covered by
14 a protective order in another docket, and I am not
15 willing to extend that to use in another docket,
16 particularly at this stage. Certainly if you had an
17 agreement with the company about the use of that
18 document, that would be one thing, but at this point I
19 hear no agreement. And so that document you obviously
20 will need to work out with the company whether your
21 intended use of it during your cross here or reference
22 or using information in the document is consistent with
23 the protective order in the docket in which it was
24 entered. I will leave that to you and the company to
25 resolve. But at this point I'm not going to admit or

0047

1 consider any confidential information in this
2 proceeding.

3 Anything else that needs to come before us
4 before we are joined by the commissioners?

5 Hearing nothing, we can go off the record.

6 (A break was taken from 9:41 a.m. to 9:47 a.m.)

7 JUDGE KOPTA: I'm joined on the Bench by
8 Chairman Jeffrey Goltz and Commissioners Patrick Oshie
9 and Phillip Jones.

10 We are now prepared to have presentation of the
11 witnesses, and we'll start with Puget Sound Energy,
12 Ms. Carson.

13 MS. CARSON: Yes, Your Honor.

14 We would like to present Mr. Tom DeBoer as our
15 first witness.

16 JUDGE KOPTA: Okay.

17 Mr. DeBoer, would you stand and raise your right
18 hand?

19 TOM DeBOER

20 Witness herein, having been first duly sworn on
21 oath, was examined and testified as follow:

22 THE WITNESS: Yes.

23 JUDGE KOPTA: Be seated.

24

25

0048

1 DIRECT EXAMINATION

2 BY MS. CARSON:

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

5 A. Tom DeBoer, D-E-B-O-E-R. I'm director of
6 Federal and State Regulatory Affairs for Puget Sound
7 Energy.

8 Q. Do you have before you what's been marked for
9 identification as Exhibit Nos. TAD-1 through TAD-3 and
10 Exhibit Nos. TAD-3 through Exhibit Nos. TAD-14 through
11 TAD-7?

12 A. Yes.

13 Q. Do you have any changes to your prefiled direct
14 and rebuttal testimony?

15 A. No.

16 MS. CARSON: Your Honor, we ask that -- in fact,
17 I believe the testimony has already been admitted into
18 evidence.

19 JUDGE KOPTA: That is correct.

20 Anything further.

21 MS. CARSON: No.

22 JUDGE KOPTA: Then the witness is available for
23 cross-examination.

24 Let's begin with Commission staff.

25 MR. CEDARBAUM: Thank you, Your Honor.

0049

1 CROSS-EXAMINATION

2 BY MR. CEDARBAUM:

3 Q. Good morning, Mr. DeBoer.

4 A. Good morning.

5 Q. I have one area of questions on your direct
6 testimony, and then we'll move to your rebuttal.

7 In your direct testimony, which is TAD-1, at the
8 bottom of page 3, line 21, you were asked the question:

9 Please describe the processes by which PSE
10 communicated the proposed Pipeline Integrity Program
11 tariff to stakeholders.

12 And then your answer on the next page discusses
13 some meetings and other communications.

14 Do you see that?

15 A. Yes.

16 Q. In the last sentence of that paragraph, the
17 sentence beginning on page 9, you state:

18 Subsequent to this filing, PSE responded to a
19 number of informal data requests which were shared with
20 the other interested parties.

21 Do you see that?

22 A. Yes.

23 Q. And you were in the hearing room before we went
24 on the evidentiary phase of this record. Correct?

25 A. Yes.

0050

1 Q. You heard your attorney's objection to a number
2 of informal data requests that have been marked as cross
3 exhibits by Public Counsel and staff. Is that right?

4 A. Yes.

5 Q. Are those informal data requests the informal
6 data requests that you reference in your testimony?

7 A. Yes.

8 Q. Turning to your rebuttal testimony, which is
9 Exhibit TAD-4T, at page 4, line 15, and this is in the
10 context of your discussion of developments on the
11 federal level involving Pipeline Safety, and then at
12 line 15 you refer to:

13 Recent pipeline explosions in San Bruno,
14 California, and then Philadelphia and Allentown,
15 Pennsylvania.

16 Correct?

17 A. Yes.

18 Q. Do you know what type of pipeline was involved
19 in the San Bruno, California explosion?

20 A. No.

21 Q. So you don't know whether or not the pipeline
22 that was involved is the type of pipeline covered by the
23 Pipeline Integrity Management tariff proposed by the
24 company in this case?

25 A. No.

0051

1 Q. With respect to the Philadelphia and Allentown
2 incidents, do you know what type of pipeline was
3 involved with those accidents?

4 A. No.

5 Q. So you're not sure whether or not the pipeline
6 involved with those accidents is included in the tariff
7 program proposed by the company in this case?

8 A. No. But the tariff program is designed to be
9 flexible to encompass, you know, beyond what's proposed
10 in this year, depending on subsequent discussions with
11 stakeholders.

12 Q. Do you know whether or not the pipeline involved
13 in the Philadelphia and Allentown accidents is the type
14 of pipeline that's even in the company's system any
15 longer?

16 A. I don't know.

17 Q. At page 11 of your rebuttal testimony,
18 lines 2 to 5, you state:

19 The PIP program provides staff and others an
20 opportunity to participate and advocate for work they
21 would like to see done and look in detail at the
22 projects in small bites rather than a general rate case.

23 Do you see that?

24 A. Yes.

25 Q. When you refer to "staff" there, you're

0052

1 referring to the Pipeline Safety staff?

2 A. No. This is to Energy staff or Pipeline Safety
3 staff or any of the other stakeholders in the meetings
4 we proposed to be part of this proposal.

5 Q. Well, when you refer to work, what type of work
6 are you talking about?

7 A. Work, pipeline replacement, anything that would
8 be included in the program for the following year.

9 Q. Is it correct that the Pipeline Safety staff has
10 ongoing communications with the company with regard to
11 the safety of the company's pipeline system?

12 A. Yes.

13 Q. And is there anything preventing staff in those
14 existing communications from advocating for work they
15 would like to see the company do?

16 A. No.

17 Q. Are you aware of any instances in which the
18 staff, the pipeline staff, has done that, in other
19 words, advocate for work the company would like to see
20 the company do?

21 A. Well, that's what sort of drove us to this PIP
22 proposal, Pipeline Safety staff and our pipeline folks
23 began communications about how we could get additional
24 work done in a collaborative way, rather than through
25 Commission complaints and orders. So that's really what

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1 drove us to this filing in the first place.

2 Q. Those types of communications can happen without
3 the tariff proposal?

4 A. Sure, the communications can happen, but whether
5 the programs can be implemented is a different story.

6 Q. When you say "implemented," do you mean recovery
7 of the cost to implement those programs?

8 A. And putting the pipe in the ground. I mean,
9 it's -- both Pipeline Safety staff and PSE believe
10 additional work can be done. It's just a matter of
11 having it approved and being able to get recovery for
12 it.

13 Q. At page 12 of your rebuttal, lines 5 to 7, you
14 refer to the Commission's final order and the company's
15 2006 general rate case. You state, citing paragraph 51
16 of the order, that the commission noted that recovery of
17 infrastructure replacement could be undertaken outside
18 of a general rate case.

19 First of all, just to place this into context,
20 the 2006 general rate case order on this subject was
21 discussing the company's proposed depreciation tracker.
22 Is that right?

23 A. Yes, that's right.

24 Q. And that proposal was a tracker for the company
25 to recover depreciation expense for transmission and

0054

1 distribution investment that the company makes in
2 between general rate cases?

3 A. Yes. Yes, that's right.

4 Q. As I stated before, in your footnote on the page
5 you draw attention to paragraph 51 of Order 08. If you
6 need a copy of it, I can provide it to you.

7 A. I have one. Thanks.

8 Q. Okay. Good.

9 If we could turn to paragraph 51, which is on
10 page 19. I think what you're referring to is the
11 language that says:

12 Although we find this record insufficient to
13 support out-of-period adjustments, there is nothing that
14 precludes PSE from seeking additions to rate base
15 between rate cases so long as the amounts are not so
16 large as to trigger a general rate proceeding under our
17 rules.

18 That's where you're referring to?

19 A. Yes.

20 Q. Is it correct that in the next sentence the
21 Commission states:

22 If the investments are shown to be prudent, the
23 amounts are reasonable, and the plant demonstrates to be
24 used and useful, the Commission may exercise its
25 discretion to allow recovery in rates.

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1 Is that what the order says?

2 A. Yes.

3 Q. Now, with respect to the tariff proposal on the
4 current case, the pipeline integrity proposal, the
5 mechanism proposed by the company includes a true-up
6 process. Is that right?

7 A. That's right.

8 Q. Prior to that true-up, isn't it correct that the
9 tariff would recover facilities that have not undergone
10 a prudence review by the Commission?

11 A. It depends on when prudence is determined. I
12 can't answer that question.

13 Q. My understanding of how the tariff works is that
14 there are, at least for this initial year, and I think
15 for subsequent years, that the rate is based upon actual
16 costs for a period of time, and then forecasted costs
17 for a period of time. Is that correct?

18 A. That's right.

19 Q. Okay. Now, those forecasted costs, those have
20 not undergone a prudence review until a later filing
21 when the true-up occurs. Is that right?

22 A. Well, I don't know, you know, factually or
23 legally when that happens, but keep in mind what is
24 happening here is we are replacing an existing pipe and
25 these are projects that will be agreed to in advance by

0056

1 the State quota group, will be approved by the
2 Commission when we implement the rate before any pipe
3 goes in the ground.

4 So the parties and the Commission have had an
5 opportunity to look at the facilities that will be going
6 in. They've approved the -- in rates, and in the
7 following year they'll be trued-up and looked at again.
8 So, again, I can't imagine after that point -- I suppose
9 there's theoretically a risk of imprudence after the
10 fact, but I can't imagine the situation that that could
11 occur.

12 Q. But the forecasted costs that are included in
13 the recovery refers to costs that may or may not be
14 incurred by the company.

15 A. But they're for projects that have been approved
16 or agreed to before we collect the money. So people
17 have looked at what the pipe -- the projects will be,
18 and have agreed that these make sense, so to me that's
19 prudence.

20 Q. Your rebuttal testimony at page 7, at the
21 bottom, beginning at line 20, you state:

22 In addition, it provides -- "it," meaning the
23 mechanism -- provides a process to review the programs
24 after the fact as part of the annual true-up.

25 So what's to review after the fact?

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1 A. The parties get an opportunity to go back and
2 look, did you actually put in everything you said you
3 were going to do, true-up the costs, and you look at it
4 again to make sure that -- and maybe there was more put
5 in, maybe there was a project that couldn't get
6 permitted that didn't get in, and look at it again. I
7 mean, it actually provides more of an opportunity for
8 parties to look at these specific projects than less.

9 Q. So parties can look at the prudence of what the
10 company did or didn't do after the fact?

11 A. Sure.

12 Q. And if I understand your testimony, you're
13 saying that the parties will agree upon projects ahead
14 of time, and those will be included in the rate, so the
15 Commission would be signing off at the time that the
16 tariff is filed with the Commission, later filings come
17 before the Commission, the Commission would be signing
18 off on projects with respect to the safety of the
19 company's pipeline system?

20 MS. CARSON: Object to the form of the question.
21 Ambiguous.

22 BY MR. CEDARBAUM:

23 Q. I understood your testimony to say, Mr. DeBoer,
24 that it would be the process under which the parties
25 would agree to the projects that the company would

0058

1 engage in to improve the safety of the pipelines, of the
2 company's pipeline system. Is that correct?

3 A. These investments are intended to improve
4 safety, that's right.

5 Q. But you're saying the parties would have the
6 opportunity to agree to the specific projects that would
7 accomplish that goal?

8 A. The parties would agree, and it would be brought
9 before the Commission before the tariff is implemented
10 and it would be approved at the commission beforehand,
11 and then it would be trued-up after the fact.

12 It's very similar, in my mind, to what happens
13 in the conservation area, where they approve programs,
14 collect the money, and then we true it up the following
15 year. It's really, in my mind, no different.

16 Q. So at the time the Commission approves the
17 tariff, the commissioner would be essentially approving
18 safety-related projects?

19 A. I'll leave that to the Commission to decide what
20 they're approving.

21 Q. And again, the tariff, as I understand it, the
22 mechanism and how the rate is developed, there's a
23 portion of the costs are the forecasted costs?

24 A. That's right.

25 Q. And so that involves facilities that have, again

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1 until the true-up occurs, that involves facilities that
2 have not yet been placed in service since they were
3 forecasted?

4 A. Well, they'll be placed in over the course of
5 the year as you're collecting the costs.

6 Q. Right. But rate payers begin to pay the rate at
7 the beginning of the PIP period, and the rate they pay
8 includes forecasted cost for a plant that has not been
9 installed?

10 A. Perhaps. It just depends on the timing. They
11 may be -- there may be more pipe in the ground, and
12 they're paying for that, or depending on the timing of
13 the construction it's not going to be a perfect match,
14 but over the course of the year there's a match.

15 Q. I have a few questions for you about
16 Mr. Henderson's testimony, his direct testimony. I
17 believe you have that in front of you. It's DAH-1T.
18 The table that he shows on page 10. And I understand
19 this isn't your testimony. I'm not going to ask you
20 questions about the details or the numbers, but just the
21 general context.

22 The first column on the left, under bare steel,
23 those are the facilities that were removed from the
24 tariff in the amended filing from this past summer. Is
25 that right?

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1 A. That's right.

2 Q. And these are costs the company has spent and
3 then budgeted or planned to replace the bare steel
4 pipeline system in accordance with a prior Commission
5 order involving ordering the replacement of those
6 facilities?

7 A. Yes, for the bare steel.

8 Q. And would you agree or can you accept subject to
9 check that that was docket PG-030080?

10 MS. CARSON: I object to that use of "subject to
11 check." It's not a calculation.

12 MR. CEDARBAUM: I'm just trying to get the
13 docket number in the record. It's not a trick question.

14 CHAIRMAN GOLTZ: I got you.

15 THE WITNESS: I don't know if that's correct or
16 not.

17 BY MR. CEDARBAUM:

18 Q. Okay. But in any event, the bare steel is the
19 subject of a Commission order replacement program, so
20 these numbers relate to complying with that order. Is
21 that right?

22 A. Yes.

23 Q. Is it correct that the amounts that are shown as
24 actually expended from 2003 to 2010 have been addressed
25 in general rate proceedings, the recovery has been

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1 addressed in the general rate proceedings?

2 A. With the possible exception of the 2010 costs,
3 which are --

4 Q. Pending?

5 A. -- pending.

6 Q. And rate recovery of those amounts was granted
7 to the company by the Commission, other than 2010? I
8 understand the wrinkle.

9 A. Yes.

10 Q. Is it also correct that the amounts that are
11 shown -- well, the 2010 through 2014 amounts will also
12 be addressed through the general rate case process?

13 A. Most likely, yes.

14 Q. Assuming the company files general rate cases?

15 A. Or it doesn't get included in some sort of PIP
16 proposal at some point.

17 Q. So it's possible that the PIP as currently
18 proposed, the company could request expansion of the
19 proposal to include bare steel or something else?

20 A. Yes. Our filing is intended to be flexible
21 every year, depending on what the parties think should
22 be the priorities for the following year.

23 Q. The tariff itself is included in Mr. Story's
24 exhibits, but as I read it, and you correct me if I'm
25 wrong, I didn't read the tariff to preclude the company

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1 from proposing an expansion of the mechanism, even
2 without the agreement of other parties.

3 A. No. I think practically speaking that's
4 correct; however, if we want to get the filing approved
5 by the Commission, it probably is in our best interest
6 to at least have the consensus of some, if not all, of
7 the parties.

8 Q. Going back to Mr. Henderson's table, with
9 respect to the 2010 through 2014 costs, I think you
10 agreed that those will be addressed in general rate
11 proceedings, assuming the company files, which it sounds
12 more likely than not, and so the company in those cases
13 will have to demonstrate prudence and reasonableness of
14 those costs. Is that correct?

15 A. Yes.

16 Q. And if the company carries that burden, do you
17 see any reason why cost recovery would not be allowed?

18 A. No.

19 Q. Now, turning to the other three columns, wrap
20 steel, mains, wrap steel services of older plastic pipe,
21 these are the three categories of pipelines that are
22 included in the proposed mechanism. Is that right?

23 A. That's correct.

24 Q. And the amounts shown up through 2009 are
25 amounts that have been addressed in general rate

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1 proceedings?

2 A. Yes.

3 Q. Okay. And 2010 is pending with respect to the
4 current general rate case?

5 A. Correct.

6 Q. If the tariff, the proposed tariff, was not
7 approved by the Commission, the company would come
8 before the Commission in general rate proceedings for
9 the remaining costs that are shown through 2015. Is
10 that right?

11 A. Not necessarily. These are forecasted costs in
12 the outer years, and they could vary significantly from
13 what's listed here.

14 Q. Okay. The costs that the company spends on wrap
15 steel main service and plastic pipe replacement would be
16 the subject of general rate proceedings to come for
17 those later years?

18 A. Yes. Actual expenditures would be, yes.

19 Q. If the company were to demonstrate the prudence
20 and the reasonableness of those costs, do you have any
21 reason to believe the Commission would deny recovery of
22 those costs?

23 A. No.

24 MR. CEDARBAUM: Your Honor, those are my
25 questions.

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1 Thank you, Mr. DeBoer.

2 I'm assuming that the Staff cross exhibit -- I
3 think we only had one -- has been admitted.

4 JUDGE KOPTA: It has.

5 MR. CEDARBAUM: Thank you. That completes my
6 cross-examination.

7 JUDGE KOPTA: Thank you, Mr. Cedarbaum.

8 Mr. ffitch, your examination?

9 MR. FFITCH: Thank you, Your Honor.

10 CROSS-EXAMINATION

11 BY MR. FFITCH:

12 Q. Good morning, Mr. DeBoer.

13 A. Good morning.

14 Q. Could I get you, please, to turn to your
15 cross-examination exhibit that's marked TAD-10. Are you
16 there?

17 A. Yes, it's Public Counsel Data Request 36. Is
18 that right?

19 Q. Correct.

20 A. Yes.

21 Q. And there we asked you to provide a reference to
22 any UTC order that has disallowed recovery for natural
23 gas pipe of the type covered by the PIP proposal, and
24 you answered PSE is not aware of any such order.
25 Correct?

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1 A. That's right.

2 Q. You state in your rebuttal testimony, and I can
3 give you a cite if you'd like, that Puget Sound Energy
4 has never claimed that it has not recovered the cost to
5 replace the type of facilities involved in this pipeline
6 replacement program.

7 A. That's right. Again, that's not the focus of
8 our proposal here.

9 Q. Can you please turn to TAD-11. That's Public
10 Counsel Data Request No. 37.

11 A. Yes.

12 Q. In there, in response to discover, you state:
13 Puget Sound Energy is not aware of any UTC
14 order, advice, directive or other action that has
15 prevented Puget from replacing any unsafe or defective
16 pipeline in its system.

17 Correct?

18 A. Yes. I'd be shocked if such an order existed.

19 Q. I'd like you to, if you will now, assume a
20 hypothetical, Mr. DeBoer. Assume that the Commission
21 orders a collaborative process identical to the proposed
22 PIP process that you have outlined in your request here.
23 Do you have that in mind?

24 A. Yes.

25 Q. And further assume that the collaborative

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1 decides on a specific proactive accelerated replacement
2 plan for a particular type of pipe, let's say, older PE,
3 older plastic pipe. Okay?

4 A. I'm with you.

5 Q. Now, assume that that plan is implemented, costs
6 are suspended, and the plan is prudent. Can the
7 Commission authorize recovery of those pipeline costs in
8 a general rate case?

9 A. Yes. But PSE probably wouldn't agree to it
10 under the factual -- or that hypothetical.

11 Q. Let me vary the hypothetical just a little bit.
12 If the collaborative process and the proactive
13 replacement plan were not ordered but were done
14 voluntarily, could the Commission still authorize
15 recovery of prudently incurred costs and rates?

16 A. Yes.

17 Q. Can you tell the Commission, Mr. DeBoer, how
18 many rate cases Puget Sound Energy has filed in the past
19 ten years in Washington state?

20 A. I think you probably know more than me.
21 Several. I don't know the exact number.

22 Q. You're the director of regulatory affairs for
23 the company?

24 A. Yes.

25 Q. And you don't know the number of rate cases the

0067

1 company has filed?

2 MS. CARSON: I'd like to point out that

3 Mr. DeBoer has not been the director of rates for the

4 past ten years at PSE.

5 BY MR. FFITCH:

6 Q. So you don't have any knowledge of what happened

7 before you became the director of rates?

8 A. I don't know how many exactly we filed in the

9 last ten years. That's all I'm saying.

10 Q. But you would agree that the filings have been

11 frequent and virtually annual in recent years, would you

12 not?

13 A. Generally speaking, yes.

14 Q. Is it fair to assume that PSE will continue to

15 file rate cases at a similar frequency in the

16 foreseeable future?

17 A. Don't know, but probably, yes.

18 Q. So does Puget have plans to file a rate case

19 during 2012?

20 A. We haven't finalized our 2012 plans, but

21 tentatively, yes.

22 Q. So I take it that Puget Sound Energy is not

23 proposing any kind of stay-out period in connection with

24 PIP?

25 A. No.

0068

1 MR. FFITCH: I apologize, Your Honor. I'm
2 falling into the shorthand reference of "PIP," and I'm
3 not sure what we should do during the hearing with
4 regard to that. I'd be happy to say P-I-P, if that
5 would be better for the court reporter.

6 JUDGE KOPTA: I think she's now aware that PIP
7 is P-I-P, also, and not a character out of a Dickens
8 novel.

9 MR. FFITCH: I did swear at the beginning of
10 this case that I wasn't going to refer to PIP, I was
11 going to say the full name, but I've succumbed.

12 BY MR. FFITCH:

13 Q. Mr. DeBoer, can I now get you to turn to
14 Exhibit TAD-9. We have a revised version of that
15 exhibit, distributed by your counsel this morning.

16 A. I have it, yes.

17 COMMISSIONER OSHIE: Counsel, would you please
18 repeat the reference?

19 MR. FFITCH: This is TAD-9.

20 BY MR. FFITCH:

21 Q. I think, actually, Mr. DeBoer, if you wouldn't
22 mind using the version submitted by Public Counsel,
23 because that's what my page numbers have, and then if
24 you need to go and use the revised one at another time,
25 that would be okay.

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1 A. I've got it.

2 Q. I think it will be easier for folks to follow
3 along.

4 The TAD-9 is the company's response to our
5 request for recent Wall Street analysts' reports on the
6 company. Correct?

7 A. Yes.

8 Q. The exhibit that we've provided has the Moody's
9 Investor Service Report from March 17th, starting on
10 page 2, and then the Standard and Poor's Report starting
11 on page 7, and I'll ask you a few questions about those.

12 A. Yes, that's right.

13 Q. First of all, could you please turn to page 3 of
14 the news report. That's page 3 of the exhibit. My
15 page numbers are exhibit pages. You'll see there's a
16 heading on that page, Recent Events.

17 A. Yes.

18 Q. And that states, does it not, that Moody's has
19 updated the long-term ratings of Puget Energy and Puget
20 Sound Energy and assigned them a stable outlook.
21 Correct?

22 A. That's right.

23 Q. If you could please turn to the next page,
24 page 4 of the exhibit, you'll see a heading, "What is
25 PSE Spending Capital On," which I found delightfully

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1 casual for a Wall Street analyst's report.

2 In that section of the report, Moody's
3 recognizes Puget's expected high capital expenditures in
4 the next 12 to 24 months. Correct?

5 A. Yes.

6 Q. They also go on to say that periodic rate cases
7 are expected to minimize the effect of regulatory lag
8 for the company, did they not?

9 MS. CARSON: I object to the extent counsel is
10 reading from the report and not otherwise asking
11 questions of the witness.

12 JUDGE KOPTA: Mr. ffitch?

13 MR. FFITCH: Your Honor, I'm working up to a
14 question. I just have a couple more lead-ups.

15 JUDGE KOPTA: Okay. All right. But I tend to
16 agree with Ms. Carson that simply reading excerpts from
17 an exhibit into the record is not the best use of our
18 time this morning, so if you would lay your foundation
19 and ask your question expeditiously, we'd appreciate
20 that.

21 MR. FFITCH: I appreciate the guidance, Your
22 Honor. I am trying to highlight some things in the
23 report for the Bench, and Mr. DeBoer had an opportunity
24 to elaborate on these if he wants to or disagree with
25 these findings.

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1 JUDGE KOPTA: I understand, but I'm assuming we
2 will have briefing after this, which will be an
3 opportunity to highlight things in documents as opposed
4 to getting testimonies from witnesses, which is our
5 primary objective this morning.

6 MR. FFITCH: Thank you, Your Honor. I'll try to
7 work through this quickly.

8 BY MR. FFITCH:

9 Q. You'll note on, also, in that same section, that
10 Moody's indicates that the ownership consortium has
11 contributed no equity to the company since the
12 acquisition. You see that?

13 MS. CARSON: Where are you referring to?

14 MR. FFITCH: This is in the same section, "What
15 is PSE Spending Capital On." It's in the last paragraph
16 in the second line.

17 THE WITNESS: Yes, I see it.

18 BY MR. FFITCH:

19 Q. Mr. DeBoer, are you aware of any reference in
20 this analyst's report to perceived need on the part of
21 Moody's for a new tracker for Puget Sound Energy for
22 infrastructure investment?

23 A. I don't know. I mean, this is a Moody's
24 investment report that I've read, but I'm not all that
25 familiar with what underlies it.

0072

1 Q. Could you please turn to the S&P report.
2 Starting on page 9, S&P also notes the high capital
3 requirements of Puget, does it not? It specifically
4 mentions infrastructure replacement. That's in the
5 second paragraph on page 9 of the exhibit, page 3 of the
6 report.

7 A. Yes.

8 Q. Again, do you see any reference in this report
9 to a need for infrastructure tracker for Puget Sound
10 Energy in order to justify this credit rating?

11 A. It's not in there, but I wouldn't expect it to
12 be. That's not their role.

13 Q. All right. I'll move on to another topic.

14 Let's go to the direct testimony. That's
15 TAD-1T. Page 6, please, lines 16 through 19. In there
16 you're testifying that the Commission should not reduce
17 Puget's ROE because of the PIP tariff, essentially
18 because other comparable companies have various forms of
19 risk adjustment mechanisms. Correct?

20 A. Correct.

21 Q. You aren't suggesting that accelerated cost
22 recovery coupled with the true-up has no impact on Puget
23 Sound Energy's financial risk, are you?

24 A. No.

25 Q. Would you say that accelerated cost recovery

0073

1 increases Puget's financial risk or decreases it?

2 A. It improves our recovery, yes.

3 Q. Well, the question is does it increase or
4 decrease your financial risk.

5 A. I don't know what you mean by "financial risk."

6 Q. The type of risk upon which the setting of ROE
7 is based.

8 A. You'll have to rephrase that question. I don't
9 understand what you're asking.

10 Q. So you don't know whether or not it would
11 increase or decrease the financial risk?

12 A. I don't understand your question.

13 Q. All right. Let's try it this way. Does it make
14 it a riskier company for shareholders or owners,
15 investors, or does it make it a less risky company for
16 investors?

17 MS. CARSON: I object to this line of
18 questioning. Mr. DeBoer is not a cost of capital
19 witness or a financial witness.

20 MR. FFITCH: Your Honor, Mr. DeBoer provided
21 testimony in this case, which we have in front of us,
22 regarding the company's ROE.

23 JUDGE KOPTA: I will allow the question, if
24 Mr. DeBoer can answer it.

25 THE WITNESS: The point of my testimony here is

0074

1 that ROE -- setting ROE is not a scientific -- it's more
2 art, and it's -- you don't build up a return based on
3 the mechanisms or your -- even the regulatory
4 environment you exist in. I mean, it's developed based
5 on comparable companies across the country, all of which
6 have different operating parameters, different
7 regulatory regimes, different mechanisms. And so that's
8 how ROEs are set. And so to take one little piece of
9 this mechanism and say, yep, that results in a deduction
10 to your ROE, doesn't fit how ROEs are calculated. That
11 was the point of my testimony.

12 BY MR. FFITCH:

13 Q. But you're not testifying that it has no impact
14 on Puget's financial risk?

15 A. No.

16 Q. You just don't want to say whether it's good or
17 bad?

18 A. No. That's not the point of the testimony.

19 Q. All right. We'll move along.

20 Let me ask you to turn to your rebuttal on
21 page 3, please.

22 JUDGE KOPTA: That's Exhibit TAD-4T?

23 MR. FFITCH: TAD-4T.

24 BY MR. FFITCH:

25 Q. Do you have that on page 3, line 3?

0075

1 A. Yes.

2 Q. And there you testify that the cost to customers
3 of the PIP is small, and I take it your point is that
4 it's not as relatively minimal in terms of customer
5 impact. Correct?

6 A. Yes. In relationship to the safety benefit they
7 receive.

8 Q. Would you agree that the size of this charge is
9 in the same ballpark as the merger credit provided to
10 customers as a result of the Puget Sound Energy sale?

11 A. I don't recall exactly, but it's probably
12 somewhere in that vicinity, yes.

13 Q. So under 50 cents on every bill, approximately?

14 A. I would guess, but I don't recall.

15 Q. Are you aware what the ROE impact of the merger
16 credit is on the Puget ownership consortium?

17 A. No.

18 Q. Would you accept subject to check that the ROE
19 impact was stated by Puget in that proceeding to be
20 approximately 24 basis points?

21 MS. CARSON: I object to the use of "subject to
22 check." It's not a calculation, which is the point of
23 that rule.

24 MR. FFITCH: I have the testimony here, Your
25 Honor. I can show it to counsel and the witness.

0076

1 JUDGE KOPTA: Is that reflected in the
2 Commission's order approving the transaction?

3 MR. FFITCH: I'm not sure if it is, Your Honor.
4 I'm not sure one way or the other. It may not be
5 specifically mentioned in the order itself.

6 JUDGE KOPTA: I'm just thinking if there's some
7 easily referable reference that Mr. DeBoer can check.
8 I'm concerned about having him go through testimony in a
9 prior rate case in order to come up with that
10 information.

11 MR. FFITCH: Well, I have a copy right here I
12 can hand to counsel and the witness. It's very clear
13 stated in testimony by the joint applicants in that
14 proceeding.

15 JUDGE KOPTA: I will allow that question.

16 MR. FFITCH: Would you like me to provide that
17 at this point? Or would you like to check that on a
18 break?

19 THE WITNESS: We don't have -- we don't have any
20 of the merger testimony with us today, so maybe you
21 should provide it.

22 JUDGE KOPTA: We can do that at a break rather
23 than at this point.

24 MR. FFITCH: All right.

25

0077

1 BY MR. FFITCH:

2 Q. Would you agree that the ROE impact of the PIP
3 has been calculated at approximately 28 basis points in
4 this case?

5 A. No. I think that's an error. That was based on
6 our previous proposal. Mr. Story can address that in
7 more detail of what the current proposal effect would
8 be.

9 Q. Okay. But up until today that was the number in
10 the record of this case. Right?

11 A. No. That was an informal data request that was
12 based on a previous proposal that no longer is the
13 proposal.

14 Q. All right. Well, we can get that straightened
15 out with Mr. Story.

16 A. Yes.

17 Q. Now, the 16 cent amount you provide in your
18 testimony is based on the current year of the PIP, or
19 the first phase of the PIP, so that would end up
20 collecting about \$5.7 million. Is that correct?

21 A. I don't know the dollar amount. Mr. Story could
22 probably address that.

23 Q. Okay.

24 MR. FFITCH: I think those are all the questions
25 I have, Your Honor.

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1 JUDGE KOPTA: All right. Thank you.

2 Let's move to Mr. Brooks.

3 Do you have any questions for this witness?

4 MR. BROOKS: I have no questions for Mr. DeBoer.

5 JUDGE KOPTA: All right. Thank you.

6 I wanted to clarify something before we go to
7 the commissioners, Mr. DeBoer. You had a discussion
8 with Mr. Cedarbaum about how the program is going to
9 actually be implemented, if it's approved by the
10 Commission, and I'm focusing on what exactly you're
11 going to ask the Commission to do.

12 Is it your anticipation that you would present
13 to the Commission after the collaborative process
14 specific projects that the company proposes to undertake
15 as part of this program?

16 THE WITNESS: Yes. There would be a list of
17 projects and budgets attached to those projects as well
18 as a total amount, and their rate to collect that
19 amount.

20 JUDGE KOPTA: And you would be asking the
21 Commission to approve that list of projects and
22 expenditures?

23 THE WITNESS: That's the detail we have -- that
24 gets into when is prudence determined, and, you know,
25 again, we see it much like the electric conservation

0079

1 tariff where we provide here's what we're going to do
2 over the next year, here's the budgets, here's the rate
3 to collect that, and then it's trued-up the following
4 year. So I don't know if it's approved on the initial
5 filing, approved on the true-up. We would probably ask
6 for it to be approved in the initial filing.

7 JUDGE KOPTA: And if there is a dispute among
8 stakeholders as to the projects that are on that list,
9 and they present that to the Commission, on what basis
10 would you anticipate that the Commission would decide
11 what to approve and what not to approve?

12 THE WITNESS: Well, again, we would anticipate,
13 you know, coming to the Commission with an agreed-upon
14 proposal. There may be, particularly with staff, if we
15 didn't have agreement on what we were going forward
16 with, we probably wouldn't bring anything forward.
17 There may be other parties that have a particular
18 dispute with a project, one or two projects on the list,
19 and they would have an opportunity, if we decided to
20 proceed on that basis, have an opportunity in the tariff
21 filing to present evidence that that shouldn't be on the
22 list. And then if the Commission did order it, or did
23 approve it to be on the list, then they have another
24 opportunity the following year to say that shouldn't
25 have been done, it was imprudent.

0080

1 JUDGE KOPTA: I guess the point of my questions
2 are to explore the extent to which you would propose
3 that the Commission be involved in determining which
4 specific projects the company undertakes under this
5 program. And obviously it would be nice to think that
6 it will always be an agreed set of projects, but my
7 lawyer's paranoia makes me think what happens if that's
8 not the case.

9 Based on testimony in the record, there is a
10 fair amount of pipe that would be subject to this
11 program that might be replaced at some point in the
12 future, and the concern that I have is if there's a pool
13 of possible projects and the company believes it wants
14 to designate a certain number of those for the coming
15 year and staff or another party thinks there ought to be
16 a different set, who's the ultimate determiner of which
17 projects get done? Is it the company, or is it the
18 Commission?

19 THE WITNESS: Well, I can't imagine that the
20 company could proceed with a list of projects that
21 didn't have the Commission -- at least initial approval
22 in the tariff filing. I mean, my understanding, you
23 know, Northwest Natural has had this kind of mechanism
24 in Oregon for many years. In talking with the Northwest
25 Natural staff, they haven't had significant disputes of

0081

1 what goes into the program for the following year.

2 Again, these are replacement projects that are
3 already on a list to be replaced. It's just a matter of
4 when in the timing. For the most part, there are some
5 that may ultimately come off the list, but, you know,
6 these are replacement of pipe that have significant
7 safety risks. So I can't -- I'm having a hard time
8 envisioning having significant dispute on what should or
9 should not be on the list, but I suppose it's possible.

10 JUDGE KOPTA: As part of the collaborative
11 process, would you envision just providing parties with
12 the list of projects that the company proposes to
13 undertake for the coming year, or would there be also
14 some greater, larger list that would be shared with
15 those other parties and then the company would say of
16 these things that need to be done at some point, here's
17 what we're proposing to do this year?

18 THE WITNESS: Well, we can certainly provide
19 either. I don't know specifically whether we would -- I
20 would assume we would come in with a list, an initial
21 list, saying, here's the projects we're proposing for
22 next year to begin the discussion. And then we have, as
23 Mr. Henderson provided in his testimony, there is, you
24 know, a thousand miles of plastic pipe out there,
25 there's a hundred miles that we sort of identified as

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1 being the highest risk, and then out of that would be a
2 subset of the next year's projects, which might be five
3 miles, ten miles, whatever we come up with.

4 So that list does exist. The data does exist.
5 I'm sure we'd be happy to share that as part of the
6 collaborative process, and, you know, people could have
7 a potpourri of selections of pipe to choose from.

8 JUDGE KOPTA: Is that more or less how the
9 energy conservation program works now in terms of a
10 collaborative process?

11 THE WITNESS: PSE brings in a proposal, it's
12 discussed in the Conservation Resource Advisory Group.
13 There's some give and take, and then ultimately, you
14 know, we -- we haven't always reached a hundred percent
15 agreement, and then we bring it to the Commission for
16 approval as the projects and the budget. So we see it
17 as working fairly similarly, and it's worked well in the
18 CRAG process for quite a few years.

19 JUDGE KOPTA: When there isn't agreement, how do
20 you resolve any disputes as part of that process?

21 THE WITNESS: Well, I can only think of one that
22 we didn't get resolved, and it was most recently in the
23 setting the conservation targets, and that went to a
24 litigated proceeding.

25 JUDGE KOPTA: All right. Thank you.

0083

1 Commissioners, anyone want to start first?

2 COMMISSIONER OSHIE: I have a follow-up
3 question, Judge Kopta, because I want to clear the
4 record.

5 I thought I heard Mr. DeBoer in response to one
6 of your questions state that the projects that the
7 company anticipate being included in the PIP are
8 projects that I wrote down that have a significant
9 safety risk associated with them.

10 Did you testify to that just now, or did I just
11 not hear you correctly?

12 In fact, we can go back through the record and
13 look at it.

14 THE WITNESS: There's a list of pipe that has --
15 is a safety concern. That's why it's on the list.
16 Whether -- if I said "significant," I think that's what
17 Mr. Lykken testified to, that the plastic pipe is a
18 significant safety risk.

19 COMMISSIONER OSHIE: I'm asking you, significant
20 safety risk, how do you -- if you're going to testify to
21 that, then how do you define it?

22 THE WITNESS: There is a known risk for plastic
23 pipe, and it's evaluated through our Integrity
24 Management Program and the risks are ranked and we
25 address the most serious risk pipe first, but there's

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1 always other pipe further down the list.

2 COMMISSIONER OSHIE: And so if you have
3 significant safety risks now existing and on system, the
4 company's management is choosing not to address that?
5 And you're asking us today that you'll only address it
6 if we give you some beneficial regulatory treatment? Is
7 that your testimony?

8 THE WITNESS: No. Our system is safe.

9 COMMISSIONER OSHIE: That's what I thought from
10 the earlier testimony. But now I'm -- you know, now I
11 have some concerns. "Significant safety risk."

12 THE WITNESS: We address our -- our system is
13 safe. We address safety through the Integrity
14 Management Proposal. You can never -- you can always be
15 safer. You're never going to be at that point where you
16 say you are a hundred percent safe. That's just a fact
17 of life, the fact of operating both either our
18 electrical or gas system.

19 What we're talking about here is accelerating
20 projects that are riskier or less safe than other things
21 on our system based on their history, their leak
22 failure, everything we know about the system.

23 COMMISSIONER OSHIE: So give me an example.
24 What's the riskiest section of pipe now on your system?

25 THE WITNESS: I'd have to defer that to

0085

1 Mr. Henderson, who's our pipeline expert, but I'm
2 sure --

3 COMMISSIONER OSHIE: Has Mr. Henderson told you
4 that there exists on the system significant safety
5 risks, risks that aren't being addressed by the company?

6 THE WITNESS: No.

7 COMMISSIONER OSHIE: Then how do you come to
8 your conclusion?

9 THE WITNESS: That there's a significant safety
10 risk?

11 COMMISSIONER OSHIE: Yes.

12 THE WITNESS: It's riskier. I mean, maybe I
13 misspoke. That's my word, "significant." That's not
14 Mr. Henderson's word. I'm a lawyer, not a pipeline
15 expert.

16 COMMISSIONER OSHIE: All right. Thank you,
17 Mr. DeBoer. I may have other questions. I'll defer to
18 other commissioners.

19 JUDGE KOPTA: Okay. Commissioner Jones, would
20 you like to ask?

21 COMMISSIONER JONES: Sure.

22 Good morning.

23 THE WITNESS: Good morning.

24 COMMISSIONER JONES: I'd like to go back to kind
25 of first principles here. So let's talk about the

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1 purpose and the policy frameworks surrounding this. And
2 I don't like the word "PIP." I'm going to call it
3 integrity tariff or something like that.

4 I think on page 4 and 5 of your direct
5 testimony, TAD-1T, you talk about -- first of all, this
6 is not, Mr. DeBoer, this program, the fundamental goal
7 is not to replace pipe under the Distribution Integrity
8 Management Program. It's not to come up with a program
9 that's fundamentally different from the DIMP, which is
10 stipulated by PHMSA, is it?

11 THE WITNESS: No. We have implemented DIMP, and
12 we have operated under those principles for years. So
13 this will not change that.

14 COMMISSIONER JONES: Okay. So isn't it true
15 that the whole purpose of this is to accelerate
16 replacement of pipe?

17 THE WITNESS: Yes.

18 COMMISSIONER JONES: Then I think on pages 4 and
19 5, here you state on page 5 that PSE believes this
20 accelerated funding is appropriate, and you cite two
21 reasons there. We're going to talk about these a little
22 bit. I have some questions on these. So you quote
23 local and national issues, and then the age and
24 performance of PSE system.

25 So I guess my fundamental, my basic question,

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1 before we get to this, is why is the acceleration of the
2 pipe replacement program in this integrity tariff in the
3 public interest. And you can either cite to state laws
4 or safety laws or whatever you wish. Why is it in the
5 public interest?

6 THE WITNESS: Well, we know -- I mean, there's
7 -- nationally, we know there are issues with
8 some plastic pipe. We know that on our own system that
9 we have, you know, various gradations of areas of
10 plastic pipe that we would like to replace.

11 We rank it through the Integrity Management
12 Program. We have limited capital. We address the
13 issues in order to maintain our -- you know, our utility
14 obligation, but ultimately there's more you can do.

15 So if you can remove some of that pipe that's
16 next on the list, the next pipe that will be replaced
17 next year based on all the parameters that Mr. Henderson
18 can describe, and you move that up a year, the system is
19 going to be safer. It's not to say it's not safe now.
20 It will be safer.

21 COMMISSIONER JONES: And I will address this to
22 Mr. Henderson as well. But is there any such thing -- I
23 realize you're a lawyer, not an engineer, but is there
24 any concept that you understand as absolute safety?

25 THE WITNESS: No.

0088

1 COMMISSIONER JONES: So is it correct to assume
2 that all safety issues are based on a relative basis,
3 based on risk models?

4 THE WITNESS: Yes.

5 COMMISSIONER JONES: Okay. Let's turn to the
6 capital budgeting process, and I think you address this
7 on page 3 of your direct, where on line 3 you state:

8 While in a perfect world PSE would have
9 unlimited dollars to immediately address all facets of
10 these spending programs, the company does not.

11 And I think Mr. ffitch referred you to credit
12 ratings reports that describe your capital expenditure
13 program for 2011 and '12, which are substantial. One
14 estimate is 2.5 billion over three years, and, according
15 to my math, the other is about 1.8 billion in two years.
16 So those are substantial capital expenditure programs by
17 any stretch, isn't it?

18 THE WITNESS: Yes. I think in 2011 we're over a
19 billion in capital, and we're projected to spend almost
20 700 million in capital in 2012.

21 COMMISSIONER JONES: Could you describe a little
22 more specifically about how you internally budget for
23 these capital expenditure dollars and why under a normal
24 rate making process that you may not get sufficient
25 dollars to fund the Pipeline Safety integrity program?

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1 THE WITNESS: Well, again this is a bit of --
2 this proposal is a very small piece of our overall gas
3 and electric operation. We have -- they have to
4 compete -- the gas side has to compete with the electric
5 side for capital dollars. There's compliance programs
6 on both sides of the business. The integrity management
7 model will generate what are the riskiest projects, and
8 then they propose a budget to address -- to maintain our
9 utility obligations.

10 But the money for all these programs has to
11 compete with the capital from all other programs within
12 the company, and, you know, there isn't unlimited
13 capital available; even if we had the capital, unlimited
14 capital, you know, that would have a rate impact.

15 So we have to address the highest risk issues
16 first, and then we defer things that can be deferred.

17 COMMISSIONER JONES: Has there been an example
18 in the past where Mr. Henderson's budget has not been
19 adequately funded, to the extent that he wants, going
20 into the -- when he goes into the capital budgeting
21 process with this amount, and then it gets reduced to a
22 certain amount? I guess that's my question.

23 THE WITNESS: Well, Mr. Henderson can address
24 that directly. But that goes on in every department of
25 the company, that there's always more things on the wish

0090

1 list to spend capital on than ultimately get budgeted
2 and paid for, in every department.

3 COMMISSIONER JONES: Let's go back to the second
4 part of your reason you think this integrity tariff is
5 important, and that is the national framework.

6 What sorts of -- and I know you cited to a
7 letter from Cynthia Quarterman, the director of PHMSA,
8 in one of your exhibits, did you not?

9 THE WITNESS: Yes, in my rebuttal.

10 COMMISSIONER JONES: Okay. So I think some of
11 the parties in this case allege in some way that the
12 national policy framework, or safety work, hasn't
13 changed recently, or is not scheduled or not anticipated
14 to change in the next few years. So I'd like you to
15 comment generally on how you interpret the national
16 framework as changing.

17 THE WITNESS: Well, I think we've obviously had
18 some tragic explosions recently. We have, you know,
19 ongoing pipeline legislation pending at the federal
20 level. I think there's an increased focus on the fact
21 that there's a lot of old infrastructure in the ground,
22 and that it's going to take a long time to get to. It's
23 no different than, you know, bridges, the roads. I
24 mean, all infrastructure is aging. Unfortunately, gas
25 pipelines have more of an immediate safety impact and

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1 that's been highlighted by some of these explosions.

2 COMMISSIONER JONES: Do you anticipate those
3 requirements to become more stringent and require more
4 capital investments in the future or become less
5 stringent or be about the same?

6 THE WITNESS: I would guess, just guessing, it's
7 probably going to become more stringent on a federal
8 level.

9 COMMISSIONER JONES: Okay. Let's talk about
10 other cases, in terms of TAD-3, where you cite American
11 Gas Association, descriptions of states with
12 infrastructure, cost recovery rate mechanisms.

13 So I'd like to focus maybe on a couple of states
14 there and contrast your proposal with their proposal.
15 You talked a little bit about the state of Oregon.
16 Which companies in Oregon qualify for the infrastructure
17 tracker? Is it just Northwest Natural or --

18 THE WITNESS: I believe it's just Northwest
19 Natural.

20 COMMISSIONER JONES: Could you contrast that
21 tracking mechanism briefly with your revised proposal,
22 not the original proposal with bare steel in it, but
23 with the revised proposal?

24 THE WITNESS: I don't have all that familiarity
25 with the actual details, but their program is actually

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1 much broader and much more, I think in many ways,
2 complicated than ours. They include, as I understand,
3 O&M cost. It's more than just capital cost that is
4 included in their program.

5 They do have a forward looking piece to it,
6 although much of it is more historical, but it's trued
7 up to the actuals.

8 COMMISSIONER JONES: Does it have a cap here?
9 Let me pose a few questions to you. Does it have a soft
10 cap or a hard cap, if you understand --

11 THE WITNESS: Yes, it does have a cap. It's ten
12 or 12 million dollars, I think.

13 COMMISSIONER JONES: Is there any adjustment in
14 there for O&M, offsetting O&M, which may be produced as
15 a result of a tracker?

16 THE WITNESS: There is a -- I don't know what
17 the exact term is. There is sort of a dead band there
18 at the beginning. They bear a certain number, amount of
19 costs before they start collecting, but I can't recall
20 whether that was due to O&M or whether there was other
21 reasons for that.

22 COMMISSIONER JONES: Is bare steel in that
23 program or out of the program?

24 THE WITNESS: I don't recall.

25 COMMISSIONER JONES: Okay. This may be unfair.

0093

1 I was going to ask you to refer to the Ohio program.

2 Are you familiar with the Ohio program at all --

3 THE WITNESS: No.

4 COMMISSIONER JONES: -- whether it has a cap and
5 offsetting O&M adjustments?

6 THE WITNESS: None of those things.

7 COMMISSIONER JONES: Okay. This will be my last
8 line of questioning.

9 Let's go back. This refers to O&M costs. It's
10 page 4 and 5 of either your rebuttal or direct. I think
11 it's in your direct. I apologize.

12 Do you recall whether you addressed the --

13 THE WITNESS: It's on page 7 of my direct.

14 COMMISSIONER JONES: Okay. Thank you.

15 Yes, thank you.

16 So in there you state that you don't believe
17 that there should be an offsetting O&M adjustment.

18 Correct?

19 THE WITNESS: Yes.

20 COMMISSIONER JONES: Could you briefly
21 summarize -- just as a, from a commonsense perspective,
22 one would assume that if you -- let's take the PE pipe,
23 the pre '86 PE pipe, that has some history of leaks.
24 Leak surveys have to be done perhaps at a higher rate
25 than otherwise.

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1 From a commonsense perspective, at least I would
2 conclude that perhaps the leaks surveys would go down,
3 that you wouldn't have to perform as much maintenance on
4 newer pipe than older pipe. So that's what's driving my
5 question here, where you suggest that leak surveys will
6 have to continue at the same pace as before in the
7 pre '86 PE pipe, for example.

8 THE WITNESS: Well, two things. One, what we're
9 talking about here is replacing fairly short segments of
10 pipe, so the leak surveys, while on that particular
11 short section you might not have to go out for a leak
12 report, you still have to do the leak survey on that
13 piece as well as the surrounding system. So from a leak
14 survey standpoint, it probably has a minimal effect.

15 Now, if you actually had a leak and didn't have
16 to go repair that leak, of course you would save those
17 costs. But there's also O&M related to putting in the
18 new pipe that offsets some of those savings. So in the
19 net, while there may be minor O&M savings, we don't
20 think they're very significant.

21 COMMISSIONER JONES: So in your revised
22 proposal, I guess what you're telling me is that you're
23 not willing to accept an O&M adjustment in any -- let's
24 say if we were to prove an integrity tracker, that you
25 would not accept an O&M adjustment as appropriate?

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1 THE WITNESS: Well, we don't -- I don't know if
2 I would say we wouldn't accept it. We just -- it hasn't
3 been quantified, and we think it's very minimal.

4 COMMISSIONER JONES: Okay. That's all I have,
5 Judge.

6 JUDGE KOPTA: Mr. Oshie, did you have any other
7 questions?

8 COMMISSIONER OSHIE: I'll wait for the chairman.

9 JUDGE KOPTA: All right.

10 COMMISSIONER OSHIE: Other than most of my
11 questions that I actually thinking about asking were
12 covered by previous people who were cross-examining the
13 witness, other than the statement that he made to you
14 when you asked him a clarifying question.

15 JUDGE KOPTA: Okay.

16 Mr. Chairman?

17 CHAIRMAN GOLTZ: Thank you.

18 Mr. DeBoer, on page 3 of your rebuttal
19 testimony, you made the analogy of a -- try to I guess
20 justify the statement that the system is safe, but it
21 could be safer, and used the analogy of driving on the
22 freeway.

23 THE WITNESS: Yes.

24 CHAIRMAN GOLTZ: Are you basically saying that
25 driving on the freeway is a high risk proposition, but

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1 if you drive with a three-second gap between you and the
2 vehicle in front of you, you'll be safe?

3 THE WITNESS: I mean, that's the basic
4 recommendation from experts, and, I mean, you got to
5 leave some room between you and the car in front to
6 react to it.

7 CHAIRMAN GOLTZ: So what we have here is
8 testimony by you or Mr. Henderson, and perhaps
9 Mr. Lykken, that this plastic pipe is high risk, but yet
10 it's safe at the same time. And so those are two
11 concepts that, I submit, 99 percent of the people would
12 have trouble reconciling.

13 THE WITNESS: Yes. I mean, that is a difficult
14 concept to wrap your head around, but, you know,
15 particularly with a plastic pipe, I mean, it can, as
16 Mr. Henderson can testify to, it can be fine, depending
17 on ground conditions, you know, what's happened around
18 it over the years, it could be fine for decades;
19 however, in the right conditions it could fail, and
20 generally fail more quickly than leaks that happen in
21 other -- in bare steel, for instance.

22 So it is, you know, it's part of the integrity
23 management. It's an analysis, and you don't have
24 perfect information. You look at the leak history. You
25 look at what you know about the area, of ground

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1 conditions, and you make your best guess. But we do
2 know -- the one thing we do know is that certain
3 vintages of pipe made with certain plastics have a
4 higher risk of failure than others.

5 CHAIRMAN GOLTZ: Just offhand, do you know if
6 the Oregon system includes plastic pipe?

7 THE WITNESS: I don't know. I am sure they do,
8 but I don't know for sure.

9 CHAIRMAN GOLTZ: You're sure, but you don't know
10 for sure. Is that like safe and not safe?

11 THE WITNESS: I think Mr. Henderson could
12 testify plastic is the future, so I'm sure they have
13 plastic on their system. I don't know if they have any
14 of the DuPont pipe.

15 CHAIRMAN GOLTZ: Okay. So going to your direct
16 testimony on page 5, you talk about the stakeholder
17 process, and you've had some questions about that. And
18 who besides Pipeline staff would be in the stakeholder
19 group, the Commission Pipeline staff? Who besides the
20 Commission Pipeline staff would be in this stakeholder
21 group?

22 THE WITNESS: Oh, anybody that -- I mean, if
23 Energy staff wanted to participate, they're certainly
24 welcome. It isn't a mandatory, you have to come. It's
25 we'll have a meeting, you'll be invited. You're invited

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1 to participate.

2 CHAIRMAN GOLTZ: Practically, is it basically
3 you and Mr. Lykken's staff?

4 THE WITNESS: I would think so, yes.

5 CHAIRMAN GOLTZ: But it's not as if there's
6 some -- you aren't going to get members of the public
7 showing up. There's not some retired pipeline engineers
8 out there that are donating their time. It's basically
9 Puget Sound -- Mr. Henderson, Mr. Lykken, and their
10 respective staffs are going to get together? Is that
11 what you envision?

12 THE WITNESS: Basically, I would think so, yes.

13 CHAIRMAN GOLTZ: When you say "basically,"
14 that's it, isn't it? Is there anybody else you could
15 envision showing up?

16 THE WITNESS: I don't know if any Energy staff
17 will want to participate just based on --

18 CHAIRMAN GOLTZ: Other than Commission staff and
19 Mr. Henderson's staff, is there anyone else that would
20 show up for this? Is it basically just when you say a
21 stakeholder group, you're really talking about
22 Commission staff, and Puget staff?

23 THE WITNESS: That's -- maybe. I mean, Public
24 Counsel will be invited, could show up, the NWIGU will
25 be invited. I think they participate, Oregon -- Oregon

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1 NWIGU and then Oregon Northwest Natural collaborators
2 that they have. It's, you know, again, similar to the
3 Conservation Resource Advisory Group, where there's lots
4 of groups represented beyond just Commission staff.
5 Now, whether it will attract enough interest for them to
6 you show up is a different question.

7 CHAIRMAN GOLTZ: But basically, as I understand
8 it -- and if you want to defer this to Mr. Henderson,
9 that's fine -- basically this is an engineering
10 function. Correct?

11 THE WITNESS: Yes, I would think so.

12 CHAIRMAN GOLTZ: So probably if a bunch of
13 lawyers show up, that's not going to be too productive.

14 THE WITNESS: I don't plan on attending.

15 CHAIRMAN GOLTZ: Yeah, no, but -- but seriously,
16 you're looking for some highly specialized types of
17 people, because you're basically, even though you
18 referred to it as your best guess, you're basing this
19 guess as to which pipeline segments should be replaced
20 and when based on some serious engineering technical
21 judgments. Is that correct?

22 THE WITNESS: Yes. Yes, that's right.

23 CHAIRMAN GOLTZ: And, again, defer this to
24 Mr. Henderson if you want, but what sort of time
25 commitment is this?

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1 I mean, you talk about finite dollars. We have
2 finite numbers of pipeline staff that are -- have
3 statewide responsibilities and a lot of things with a
4 lot of systems, and how much time do you envision this
5 stakeholder -- pardon me, this Commission staff process,
6 being to make these -- to analyze in a technical manner
7 these priorities, or do you know?

8 THE WITNESS: I would envision the process, the
9 company would develop a list and bring it in as a
10 proposal, with whatever background data required, but I
11 would -- I would point out that in discussions with
12 pipeline staff, you know, this is exactly why we
13 proposed it, is because they want us to do this process
14 with them.

15 So I think they're willing and able to
16 generate -- to devote the time to do it, at least from
17 the pipeline staff perspective.

18 CHAIRMAN GOLTZ: Right. But right now -- again,
19 it will help me to ask Mr. Henderson, but I don't want
20 him to defer it back to you -- but right now when you're
21 making these judgments, you know, daily, weekly,
22 monthly -- correct?

23 THE WITNESS: Yes.

24 CHAIRMAN GOLTZ: And now does Puget staff pick
25 up the phone and ask the engineers on the Commission

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1 Pipeline staff for, "What do you think?"

2 THE WITNESS: I defer to Mr. Henderson on that
3 question.

4 CHAIRMAN GOLTZ: Okay.

5 Now, at your proposal, you started talking about
6 this collaborative process to result in a prudence
7 determination. Is that what you're envisioning?

8 THE WITNESS: In an ideal world, yes.

9 CHAIRMAN GOLTZ: But that's not necessarily your
10 proposal, or is it your proposal?

11 THE WITNESS: Well, no -- I don't know that
12 we -- we haven't got to that level of detail. I guess
13 in discussions here, you know, in the initial filing, we
14 would say here's our list of proposals, here's the
15 budgets that go with them, here's the rate to collect
16 it. And whether we say, you know, as part of the order
17 we want a prudence determination or whether that waits
18 until the true-up in the following year, we haven't --
19 we haven't gotten that far.

20 CHAIRMAN GOLTZ: Because I envisioned sort of a
21 continuum of Commission staff -- Commission involvement.
22 At one end would be nothing, but slightly further along
23 the continuum would be a phone call with Mr. Henderson,
24 or maybe some document exchanges, informal collaboration
25 with Mr. Lykken or the Commission's pipeline engineers

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1 about what do you think of us replacing this or not
2 replacing that, and some informal feedback.

3 At the other end of the continuum is a
4 Commission order saying we approve the PSE replacing
5 the, you know, the pipeline segments described in more
6 detail in Appendix A. And I read your proposal as being
7 a little bit unclear as to where on that continuum it
8 is. And I view it as being more toward the informal
9 side. But your testimony earlier sounded like you kind
10 of wanted to nudge it up to the more formal side.

11 THE WITNESS: Well, I would just point out we
12 have never got an order from the Commission, to my
13 knowledge, approving a particular piece of pipe as being
14 prudent, even in a general rate case. So, you know,
15 what is -- when does prudence happen for a pipeline
16 replacement.

17 I'm comfortable not asking for, you know, a
18 Commission approved this as prudent in initial filing
19 and leave it for later. I think -- I tend to agree with
20 you that, you know, we would file, here's the list of
21 projects, here's the budget, you true it up, and, you
22 know, no one complains and says you shouldn't have
23 replaced that.

24 Do you really need an order saying, yeah, these
25 were all prudent. That will happen, you know, when it's

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1 rolled into general rates in the next rate case, I'm
2 assuming it's prudent, but I don't know that we really
3 need a prudence determination.

4 CHAIRMAN GOLTZ: But would your mechanism, as
5 proposed, work if you were way at the informal end of
6 the continuum I described; that is to say that
7 Mr. Henderson and his staff had informal conversations
8 with Mr. Lykken and his staff about what you're planning
9 to do, not dissimilar to, I believe, what is happening
10 now?

11 THE WITNESS: I'm comfortable with that, as long
12 as -- I mean, what it really boils down to is what's in
13 the filing when you say here's the budget and here's the
14 rate we want to collect in this filing, and how much
15 backup or, you know, the Commission or parties to that
16 proceeding want to see backing up that rate. I'm
17 comfortable without the list.

18 CHAIRMAN GOLTZ: If we did go our more formal
19 basis, where there was a review and either a staff
20 approval or some more formal approval of the list, then
21 wouldn't there also have to be some post pipeline
22 replacement audit of all of that?

23 THE WITNESS: In the true-up, yes.

24 CHAIRMAN GOLTZ: And so you'd be asking us, the
25 Commission staff, to review the budget, approve the

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1 budget, and then go in and review the actuals and
2 approve the actuals?

3 THE WITNESS: Yes.

4 CHAIRMAN GOLTZ: Is that kind of the way, I
5 guess, a future test year works?

6 THE WITNESS: I don't know about that. But, I
7 mean, that's how the conservation program works on the
8 electric side.

9 CHAIRMAN GOLTZ: But the conservation program
10 doesn't have the same sort of detailed engineering
11 analysis, does it, that you're expecting here?

12 THE WITNESS: Well, it's got a lot more paper
13 and a lot more dollars attached to it than this
14 proposal.

15 CHAIRMAN GOLTZ: Let me ask you about the budget
16 process. One of the arguments that both you and
17 Mr. Henderson make is that the budget that Puget had --
18 that right now that replacement of pipeline
19 infrastructure has to compete with everything else going
20 on in the company. Is that correct?

21 THE WITNESS: Correct, yes.

22 CHAIRMAN GOLTZ: So I guess my question is how
23 the budgets work. Are you saying that the dollar amount
24 is determined and from that you determine the needs, or
25 do you determine the needs and from that determine the

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1 dollar amount?

2 THE WITNESS: It's a bit of an iteration of
3 both. Mr. Henderson could probably explain it much
4 better than me. But basically they'll come in with a
5 proposal for the following year based on what their
6 integrity management program says needs to be replaced,
7 and they'll come into the budget process with, you know,
8 here's what we propose to spend on each particular
9 project, and then it's up to management to prioritize,
10 you know, where the dollars go.

11 CHAIRMAN GOLTZ: So you're saying Mr. Henderson
12 comes into the budget process with a -- based on their
13 integrity management process, and says we need to
14 replace, in my professional judgment --

15 THE WITNESS: Right.

16 CHAIRMAN GOLTZ: -- they need -- in
17 Mr. Henderson's professional judgment they need to
18 replace, let's say, \$10 million, spend \$10 million, and
19 you're saying that in the budget process, because it
20 competes, that might get knocked down to 7 million --

21 THE WITNESS: It could. But, again, remember
22 that the list of projects on that list is based on a
23 risk model. It's not an absolute that, you know, if you
24 don't replace this piece of pipe this year it's going to
25 fail catastrophically. It's a very complex risk model,

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1 and somewhere along that continuum you cut it off in a
2 given year.

3 CHAIRMAN GOLTZ: And do you know of any example
4 in the past since these pipeline budget requests have
5 been made where the company has funded less than what
6 was requested?

7 THE WITNESS: I don't know, but Mr. Henderson
8 may.

9 CHAIRMAN GOLTZ: If I don't bring that up, maybe
10 you could mention that just voluntarily, Mr. Henderson.

11 Once the budget is determined -- and when is the
12 budgeted determined? What's the budget year? Is it a
13 calendar year?

14 THE WITNESS: Calendar year, yes.

15 CHAIRMAN GOLTZ: Okay. So when is a budget
16 determined for a given calendar year?

17 THE WITNESS: Usually in early November.

18 CHAIRMAN GOLTZ: Okay. So let's say the budget
19 is determined in early November, get into January,
20 sometime in the middle of the year, there is --
21 Mr. Henderson determines that there is a pipeline
22 segment, a significant one, that's not on the list, and
23 he needs another \$3 million to replace that. How does
24 that get processed?

25 THE WITNESS: That -- in that particular

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1 example -- and things like that happen all the time. I
2 mean, we have a generator unit that goes out, and we
3 need to spend money on repairing it, so we have to go
4 back and reprioritize the budget. It has to come from
5 somewhere. The budget is approved, so we don't go
6 beyond the capital budget. It's taken from somewhere
7 else.

8 CHAIRMAN GOLTZ: So you're saying once the
9 budget is approved, the capital budget is approved for
10 the company-wide, that no matter what the capital needs,
11 no matter what the safety needs, you will not go beyond
12 that budget?

13 THE WITNESS: I don't know if it's that
14 absolute, but, generally speaking, we try to stick to
15 the capital budget for the year.

16 So if there were an immediate safety need and we
17 didn't have any dollars, the dollars would be spent and
18 we'd worry about it later.

19 CHAIRMAN GOLTZ: You agree that it's your
20 statutory obligation to provide safe and reliable
21 service?

22 THE WITNESS: Oh, absolutely.

23 CHAIRMAN GOLTZ: Okay. And so if it's
24 determined that you need to replace a pipeline segment,
25 not in the budget, and that it's necessary for safe and

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1 reliable gas service, you would get the money from some
2 other of the pipeline money, or what?

3 THE WITNESS: It could come out of the electric
4 side, on a plant. It could come from anywhere within
5 the company. It's one big bucket of money in the end.

6 CHAIRMAN GOLTZ: But you're ambivalent about
7 whether you could just increase the budget?

8 THE WITNESS: I suppose that could happen, but,
9 generally speaking, we look for cuts elsewhere in order
10 to fund those unexpected expenditures.

11 CHAIRMAN GOLTZ: You mentioned that the proposal
12 is flexible, and although it does not as filed include
13 bare steel, it could be expanded to that. Is it your
14 view that that expansion takes place, under your
15 proposal, takes place in the stakeholder process, or is
16 it your view that that would get expanded only after
17 some other commission process and an order amending
18 either whatever we come up with or a new docket.

19 THE WITNESS: I think it would be both. It
20 would be vetted in the stakeholder process, and
21 ultimately have to be approved, that's part of the
22 initial filing.

23 CHAIRMAN GOLTZ: So, in other words, your
24 proposal does not allow bare steel replacement dollars
25 to get put into mechanism without a subsequent order

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1 from the Commission to extend that.

2 THE WITNESS: Yes, that's correct.

3 CHAIRMAN GOLTZ: Looking at your rebuttal
4 testimony at page 8 -- and I've messed up. This is
5 not -- my quote is not from page 8. I'll go on to
6 something else.

7 On page 11, on line 16, you get into some
8 discussion of authorizing return on equity. And you
9 said on line 16 and 17 that the PIP provides PSE an
10 opportunity to avoid exacerbating the chasm between its
11 authorized return and its actual return on equity while
12 accelerating replacement of higher risk pipe. Okay.

13 So turning to Mr. Story's rebuttal, which is
14 JHS-10, at page 6, and looking at the table on page 6,
15 if I understand this correctly, and I may not, Mr. Story
16 will correct me, but in the bottom row, where you
17 referred to Docket UG-090705, and it had allowed rate of
18 return and adjusted results of operations, and there's
19 two numbers there, 7.6 percent and 8.10 percent, is that
20 the chasm you're talking about?

21 THE WITNESS: Yes.

22 CHAIRMAN GOLTZ: I have no further questions.

23 COMMISSIONER OSHIE: Just one follow-up
24 question, and that deals with your comparison to the
25 conservation program, your comparison of the

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1 conservation program to this proposal, Mr. DeBoer.
2 Would the trackers work in the same way? I know the
3 subject matter is completely different, but how does the
4 conservation program work as a general rule? Does it
5 include a return on any investment that would be made by
6 the company, if it had any in conservation?

7 THE WITNESS: No. The conservation is just O&EM
8 dollars, not capital.

9 COMMISSIONER OSHIE: So it's expensed, isn't it?

10 THE WITNESS: Yes.

11 COMMISSIONER OSHIE: So why wouldn't that work
12 in this situation, if we chose to go that route? Why
13 wouldn't we just expense any improvements? You know,
14 what's being proposed here, at least initially, it's
15 quite small, it's under 2 million, so wouldn't we just
16 expense that?

17 THE WITNESS: With the recovery on a monthly
18 basis? Without the return? I'm not following your
19 question.

20 COMMISSIONER OSHIE: Without the return. Just
21 treat it as an expense, like the conservation program.

22 THE WITNESS: Well, that doesn't provide the --
23 I mean, the whole purpose of -- what's driving the
24 acceleration is the ability to actually recover those
25 dollars. If we don't recover the dollars, there isn't a

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1 real driver for the company to accelerate the programs.

2 COMMISSIONER OSHIE: What if you recovered the
3 dollars -- we could set it up -- you, hypothetically,
4 how would you want to recover them? Upfront? And then
5 expense? Wouldn't that take management's, any reticence
6 they have at improving the safety for the public off the
7 table?

8 THE WITNESS: But it doesn't remove the lag of
9 the recovery on the investment.

10 COMMISSIONER OSHIE: Upfront recovery wouldn't
11 remove the lag?

12 THE WITNESS: I'm not following your proposal,
13 Commissioner Oshie.

14 COMMISSIONER OSHIE: I probably filled the gap,
15 because I asked you for a hypothetical, how do you want
16 it, and then there was silence, so I just said how about
17 upfront. We can make anything up here.

18 But, you know, doesn't expensing the cost take
19 management's reticence to make the system safer for the
20 benefit of the public off the table?

21 THE WITNESS: But these are not expensed costs.
22 This is capital. We haven't asked for any O&M dollars.
23 And we earn upon our capital.

24 COMMISSIONER OSHIE: If we allowed you to
25 recover it as an expense, then it's not capital invested

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1 by the company, is it? You'd be treated as an expense.

2 THE WITNESS: Sure.

3 COMMISSIONER OSHIE: So that would remove the
4 company's management's reticence to improve the system
5 for the benefit of the public if we expensed the costs
6 that are in question here.

7 THE WITNESS: And then what do you do with the
8 plant?

9 COMMISSIONER OSHIE: Well, it's not in rate
10 base, because it's been expensed, year over year. You
11 don't earn return on it. You'll get a return of, as in
12 the conservation program. There would be a tariff set,
13 there would be projected cost, it would be recovered
14 from rate payer, true up at the end of the year.

15 THE WITNESS: I'd have to think about that, but
16 I don't think we would support that proposal.

17 COMMISSIONER OSHIE: That's fair.

18 Thank you.

19 JUDGE KOPTA: We will take a brief recess for
20 five minutes. Please be back at 11:25.

21 (A break was taken from 11:18 a.m. to 11:28 a.m.)

22 JUDGE KOPTA: Ms. Carson, do you have redirect
23 for this witness?

24 MS. CARSON: I have no redirect.

25 MR. CEDARBAUM: Your Honor, I'm sorry.

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1 JUDGE KOPTA: Yes, Mr. Cedarbaum?

2 MR. CEDARBAUM: I do have some follow-up
3 questions based on the commissioners' questions, if they
4 could be permitted.

5 JUDGE KOPTA: Any objection?

6 MS. CARSON: No, objection.

7 JUDGE KOPTA: Go ahead, Mr. Cedarbaum.

8 MR. CEDARBAUM: I understand Ms. Carson may have
9 redirect after that.

10 JUDGE KOPTA: We will give her that opportunity.

11 CROSS-EXAMINATION

12 BY MR. CEDARBAUM:

13 Q. Mr. DeBoer, two or three questions. You
14 answered some questions about expanding the scope of the
15 pipeline of the proposed tariff mechanism, and I think
16 you indicated that -- let me ask you this. There's
17 nothing in the tariff that prohibits, with Commission
18 approval, the company from requesting an expansion of
19 the types of pipeline systems covered by the mechanism,
20 for example, to include bare steel. Is that correct?

21 A. Yes. Although I can't imagine including bare
22 steel, but it is flexible to include things, yes.

23 Q. Again, you wouldn't have to have other parties'
24 and stakeholders' agreement to expand the proposal. Is
25 that right? To request to expand the proposal?

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1 A. No. But again we have to make a filing, and if
2 we want to get a filing approved, it would be in our
3 best interest to have at least the pipeline safety staff
4 onboard, if not others.

5 Q. Is the same true with respect to the capital
6 expenditure dollar limit that's currently in the
7 proposal? Right now it's capped at 25 million capital
8 expenditures. Is it correct that the company could ask
9 Commission approval to increase that number?

10 A. Yes.

11 Q. And that could be done with or without other
12 parties' agreement?

13 A. Yes.

14 Q. You were asked some questions about the
15 consultation process in terms of determining what
16 projects would be involved, and I believe you answered
17 that your expectation would be that it would involve
18 mostly the engineer-type folks. Is that correct?

19 A. I would presume that would be the case, yes.

20 Q. There are costs attached to each of the projects
21 that the engineers are looking at. Is that right?

22 A. Yes, and that's why Energy and Rate staff would
23 be invited and they could look at those costs.

24 Q. So there may be Energy, Regulatory Services
25 Section and other parties, such as Public Counsel, and

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1 other intervenors who aren't necessarily interested in
2 the actual engineering aspects might be interested in
3 the cost and expense aspects of things?

4 A. I would expect that to be the case.

5 Q. If they had any disputes with respect to any
6 item, whether from an engineering or cost perspective,
7 they would have to come to an open meeting where filing
8 is presented to the Commission and argue for suspension
9 of the filing. Is that right?

10 A. I don't know about suspension. They would have
11 to argue whatever they're going to argue at the open
12 meeting that it would be addressed.

13 Q. If they didn't want the tariff to go into
14 effect, they would have to ask the Commission to either
15 reject it or suspend it?

16 A. That's probably true, yes.

17 Q. You were asked questions about -- Chairman Goltz
18 put it to you in the sense of continuum, as in a context
19 in determining the projects to be included in the cost
20 recovery. At one end there was this more formal process
21 with pipeline safety staff, at the other end there was a
22 very formal process of the list of projects to be
23 approved by the Commission. If I understood your
24 testimony, if it were on the informal end of things,
25 then the prudence review of the projects that the

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1 company implements comes later on. Is that right?

2 A. I suppose so. Again, where prudence is
3 determined is a bit of a -- even in a rate case, a bit
4 of a mystery to me. But I don't know where prudence
5 would be determined.

6 Q. There's no prudence review that occurs on the
7 informal end of things. Is that correct?

8 A. I don't know. I mean, it could be.

9 Q. On the formal side, the other end of the
10 extreme, where the company comes before the Commission
11 with a list of specific projects and costs attached to
12 those projects, and that's presented in an open meeting
13 presumably, at first. At that point in time, would
14 there be a Commission determination as to the prudence
15 of those projects?

16 A. There would be a Commission order approving the
17 cost recovery and the true-up.

18 Q. But that cost recovery relies upon specific
19 projects that the company has presented to the
20 Commission?

21 A. That's correct.

22 Q. So implicit in that approval would be the
23 Commission's assessment that the projects were prudent
24 for the company to implement?

25 A. I would think so. Implicitly, yes.

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1 Q. And then there's the true-up later on, and we
2 have an after-the-fact review of the actual cost that
3 the company spends on the projects?

4 A. Oh, I'm sorry. When I answered earlier I
5 thought you were talking about the true-up process. You
6 were talking about the initial filing?

7 Q. Yes, I was.

8 A. Oh. What I was referring to was the true-up
9 after the fact, that the Commission would be approving,
10 you know, the true-up to the actual dollars spent, and
11 at that point I would think there would be implicitly an
12 approval of the projects. Not at the front end, I'm
13 sorry.

14 Q. Okay. Let's say we're again at this formal, you
15 know, the specific list of projects. Presumably there
16 can be addresses for homes or businesses on that list
17 where the pipeline that serves that property, there's an
18 incident involving that property, there's an explosion,
19 I mean, there's nothing about putting the property on
20 the list that precludes there being a safety hazard
21 there. Let me restate the question.

22 The list of projects that the company has
23 presented to the Commission may have properties on it
24 where the pipeline fails despite being on the list, and
25 despite having the replacement occur?

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1 A. So after the pipeline is replaced it fails?

2 Q. Correct.

3 A. Yes, that's always possible.

4 Q. And there could be properties served by the
5 company that are excluded from the list and don't have
6 pipeline replacements where the pipeline fails?

7 A. Yes.

8 Q. Finally, you were asked questions about public
9 interest and whether you thought the company's proposal
10 was consistent with the public interest. It's correct,
11 is it not, that the company has an obligation to provide
12 a safe pipeline system?

13 A. Yes.

14 Q. And do you believe that the company's proposal
15 in this case is consistent with that obligation?

16 A. Yes.

17 Q. Is it the company's position that unless the
18 Commission grants it the type of recovery mechanism
19 proposed in this docket that the company will not do the
20 work to implement that program?

21 A. No. As we covered in both my prefiled and
22 rebuttal, we will maintain a safe system, there's no
23 question about that.

24 Q. I guess my question is will the company
25 implement, do the necessary work to make the system

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1 safer, even without this recovery mechanism?

2 A. I was with you until you said "safer." We will
3 maintain a safer system. What we're talking about here
4 is accelerating to improve on that safety. It's no
5 question we will do what we need to do and spend what we
6 need to spend to maintain a safe system. But again it's
7 not a point, it's a continuum. And you can't say you're
8 safe now and you're not safe here. So we will maintain
9 a safe system.

10 Q. But I thought you answered, and maybe I just
11 stated the question poorly, I thought you answered that
12 the proposed mechanism with the company's obligation to
13 provide a safe system. My question is will the company
14 not fulfill that obligation unless the Commission
15 approves this tariff mechanism?

16 A. I took your initial question to mean is this
17 proposal inconsistent with our obligation to maintain a
18 safe system, and it's not. It will improve safety,
19 improve upon safety, but it's in addition to our
20 obligation to maintain a safe system.

21 MR. CEDARBAUM: Thank you.

22 JUDGE KOPTA: Anything further from the
23 commissioners?

24 CHAIRMAN GOLTZ: I have one question,
25 Mr. DeBoer. In reviewing your options for making this

0120

1 filing, did you consider filing a petition for rule
2 making? And I ask that because we have a number of gas
3 local distribution companies in the state, and they may
4 all be facing some of the issues that you're posing
5 here. Would it make more sense to do this as a rule
6 making so it's applicable to the other companies as
7 well?

8 THE WITNESS: We didn't -- we talked about it.
9 We did not ultimately obviously decide to request a rule
10 making. We think it would be very difficult to do this
11 in a rule making. Each utility is different. It's much
12 like some other contentious issues we have, but we -- we
13 do not, and we do not think -- you know, rule making
14 takes a long time.

15 CHAIRMAN GOLTZ: Not like this.

16 JUDGE KOPTA: Anything else from the Bench?

17 COMMISSIONER JONES: Just on that point. When
18 did you originally come up with this proposal, on the
19 timeline? Wasn't it like nine, ten months ago?

20 THE WITNESS: Oh, actually discussions have been
21 going on between our operations staff and pipeline
22 safety staff going back to 2008 with implementation of
23 the integrity management program. They became much
24 more, much more serious late last fall and early this
25 year when we started actually having discussions with

0121

1 stakeholders.

2 COMMISSIONER JONES: So a rule making might have
3 been faster in that context.

4 That's all I have.

5 JUDGE KOPTA: Ms. Carson, anything further for
6 this witness?

7 MS. CARSON: No, Your Honor.

8 JUDGE KOPTA: Thank you.

9 Mr. DeBoer, you're excused. Thank you for your
10 testimony.

11 Ms. Carson, you may call your next witness.

12 MS. CARSON: PSE calls Mr. Duane Henderson to
13 the stand.

14 DUANE HENDERSON

15 Witness herein, having been first duly sworn on
16 oath, was examined and testified as follow:

17 THE WITNESS: Yes.

18 JUDGE KOPTA: You may be seated.

19 DIRECT EXAMINATION

20 BY MS. CARSON:

21 Q. Mr. Henderson, please state your name and title
22 and spell your name for the court reporter.

23 A. My name is Duane Henderson, D-U-A-N-E,
24 H-E-N-D-E-R-S-O-N. I'm the manager of gas system
25 integrity for Puget Sound Energy.

0122

1 Q. Mr. Henderson, do you have before you your
2 prefiled direct and rebuttal testimony in this
3 proceeding?

4 A. I do.

5 Q. Do you have any corrections to that testimony?

6 A. I do not.

7 MS. CARSON: Your Honor, we offer Mr. Henderson
8 for cross-examination.

9 JUDGE KOPTA: Thank you.

10 Mr. Cedarbaum?

11 MR. CEDARBAUM: Thank you, Your Honor.

12 I just wanted to be sure to address the
13 company's objection to DAH-6. I would offer that
14 exhibit.

15 JUDGE KOPTA: You had identified that as being
16 in conjunction with this particular witness. Were you
17 going to ask him any questions about it?

18 MR. CEDARBAUM: No, I wasn't. I was just going
19 to offer it into evidence. He's designated as the
20 person who prepared the response, so I was just
21 offering.

22 JUDGE KOPTA: Ms. Carson, do you maintain your
23 objection?

24 MS. CARSON: I do maintain my objection. Shall
25 I restate it?

0123

1 JUDGE KOPTA: No. I believe we have it for the
2 record.

3 MR. CEDARBAUM: Your Honor, if I could just add
4 to my response, though. This morning, Mr. DeBoer, I
5 specifically pointed him to set -- a part of his direct
6 testimony in which he referred to the informal responses
7 that the company provided to parties in this case. It
8 seems to me that if he's going to testify about that, I
9 should be able to make any of those informal data
10 requests an exhibit in the case.

11 JUDGE KOPTA: Well, as I understand Ms. Carson's
12 objection, it just goes to one aspect of it, which is
13 the fact it is an informal data request as opposed to
14 formal data request. But her other objection is that
15 this, as I understand it, is referring to an earlier
16 version of the proposal that's no longer before the
17 Commission, and therefore is not relevant. That's why I
18 was going to give you the opportunity to explore with
19 this witness the relevance of this request and how it
20 relates to the issues that are before the Commission.

21 So my preference at this point would be for you
22 to ask the witness questions about this exhibit that you
23 have designated for him to demonstrate that it is, in
24 fact, relevant.

25 MR. CEDARBAUM: Why don't I start with that

0124

1 then.

2 JUDGE KOPTA: Thank you.

3 CROSS-EXAMINATION

4 BY MR. CEDARBAUM:

5 Q. Good morning, Mr. Henderson.

6 A. Good morning.

7 Q. If you could refer to Exhibit DAH-6, which is
8 Company's response to Informal Data Request No. 6. Do
9 you have that?

10 A. Yes, I do.

11 Q. This question, we asked you basically to define
12 what the company intended by suggesting the proposed
13 tariff is meant to be flexible with respect to the scope
14 of programs to be included in the future. Do you see
15 that?

16 A. Yes, I do.

17 Q. This morning before you testified Mr. DeBoer
18 testified with respect to the flexibility of the tariff
19 schedule. Did you hear his testimony?

20 A. Yes, I did.

21 Q. Anything to dispute about what he said?

22 A. No, I do not.

23 Q. Does it matter to what he said that bare steel
24 pipeline was removed from the structure of the tariff?

25 A. As far as this response, I think that it does

0125

1 not. I would offer that I think the example of using
2 bare steel as something that would be included at a
3 later date, perhaps there's other programs that are out
4 there that might be more demonstrative of how the
5 program could expand.

6 Integrity management is about identifying risk
7 to your system and devising means to mitigate those
8 risks, and we do not currently have other programs that
9 we would bring forward. But we believe that the
10 mechanism as proposed would allow in the future setting
11 that if some other items -- there may be another type of
12 pipe that's identified, for example, that that could be
13 brought forward, and they could be included under this
14 same mechanism.

15 Q. Is there anything about your response to the
16 data request that changes because bare steel was
17 removed?

18 A. No, it does not.

19 MR. CEDARBAUM: Your Honor, I'd offer
20 Exhibit DAH-6.

21 MS. CARSON: Well, I guess maybe I disagree a
22 little bit with Mr. Henderson. I think there may be
23 other things here in this that have changed since the
24 program was revised in July; specifically the way that
25 the collaborative process is described. I don't know if

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1 you want me to speak to this or Mr. Henderson.

2 JUDGE KOPTA: At this juncture, as I read the
3 response, and listen to Mr. Henderson's response to
4 questions from counsel, I believe this is consistent
5 with testimony that's been given, and I will allow you
6 to explore on redirect if you want to correct, but at
7 this point I see no reason not to admit the exhibit, so
8 Exhibit DAH-6 will be admitted.

9 MR. CEDARBAUM: Thank you, Your Honor.

10 BY MR. CEDARBAUM:

11 Q. Mr. Henderson, if you could turn to your
12 rebuttal, DAH-1T, at page 4, line 7. It's DAH-4. And I
13 apologize again, I'm in your direct testimony. That is
14 DAH-1, page 4.

15 A. Page 4.

16 Q. If you return to the bare steel replacement
17 program, beginning at line 7, do you see that?

18 A. Yes.

19 Q. That replacement program came about because of a
20 Commission complaint in a prior pipeline safety
21 document. Is that correct?

22 A. That's correct.

23 Q. And specifically in that case, the company, and
24 the Commission's Pipeline Safety staff, reached
25 agreement on the complaint, and then their agreement

0127

1 included a number of remedial steps, to include the
2 safety of the company's system, including the bare steel
3 replacement program.

4 A. That's correct.

5 Q. So that document is an example of Pipeline
6 Safety staff at the Commission, and counterparts with
7 the Company and their safety section, where agreement
8 was reached on improving pipeline replacement, and
9 having that brought to the Commission and approved?

10 A. Correct.

11 Q. Does a similar situation happen with respect to
12 the company's cast-iron system at an earlier time than
13 the bare steel?

14 A. Yes. I believe in the early '90s that a similar
15 situation presented itself. An agreement was reached
16 between us and Pipeline Safety staff.

17 Q. So again -- and for the record, hopefully this
18 won't raise an objection -- the docket is UG-920487. In
19 that case, the staff and Company agreed to a schedule
20 for replacement of the cast-iron system presented to the
21 Commission, the Commission approved it. The cast-iron
22 system has been replaced since then. Is that right?

23 A. Correct.

24 Q. Do you know what the total cost was to replace
25 the cast-iron system?

0128

1 A. I do not.

2 Q. If we look at Exhibit DAH-13, that's a
3 cross-examination exhibit from Public Counsel.

4 A. Which?

5 Q. It's DAH-13, Exhibit DAH-13, which is the
6 company's response to Public Counsel Data Request 4. Do
7 you have that?

8 A. Yes, I do.

9 Q. And on page 1, at the bottom, there's a table
10 that goes onto page 2, that lists the capital
11 expenditures to replace the cast-iron system.

12 A. Yes.

13 Q. So we just add up those numbers to get the total
14 cost?

15 A. That would give us the total.

16 Q. Also, switching to a different topic, in your
17 direct testimony, you indicate that you're the manager
18 of the company's gas system integrity group. Right?

19 A. Yes.

20 Q. And part of your duties and the duties of other
21 people in your section is to meet with members of the
22 Commission's Pipeline Safety staff with respect to
23 safety issues. Is that right?

24 A. Yes.

25 Q. Can you tell me how often those types of

0129

1 meetings occur?

2 A. We do meet on a very regular basis, and it takes
3 a number of forms. There is, you know, a quarterly
4 meeting where myself and folks from other departments in
5 the company get together to talk about not only pipeline
6 safety issues but consumer issues, electric issues, and
7 what not. That's one forum. On a monthly basis one of
8 my peer managers or myself get together with Pipeline
9 Safety staff to go over and just -- as much to continue
10 our professional relationship and talk about issues that
11 are current and germane to what's happening at the time.

12 Q. Who from the Commission's pipeline section are
13 involved in those meetings?

14 A. Typically it's attended by Mr. Lykken.
15 Mr. Subsits often is in attendance at the monthly
16 meetings. The quarterly meetings would include
17 Mr. King, Ms. Wallace may attend, in some instances, and
18 we've had representatives from the energy side, or the
19 rate side.

20 Q. Mr. Henderson, those were people on the
21 Commission side that get involved. Who on the company's
22 side other than yourself?

23 A. Myself and Ms. Cheryl McGrath, who's our manager
24 of gas compliance and regulatory audits, is a regular
25 attendee. We include at the quarter meetings directors

0130

1 of our electrical side, director of our -- of
2 compliance. Ms. Kathy Coke is another regular attendee
3 at that. And depending on the subjects, we may bring
4 people in from our call center or other departments as
5 the agenda might dictate.

6 Q. You've listed some of the subject matters that
7 these discussions involved. I take it then that the
8 meetings and the companies provide staff the opportunity
9 to communicate any concerns they have with respect to
10 pipeline replacement, pipeline operation, any matter
11 addressing safety?

12 A. It certainly is one form for that to happen,
13 yes.

14 Q. Would you expect that to change if the
15 Commission were to deny the proposed tariff mechanism?

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

17 MR. CEDARBAUM: Thank you. That's all my
18 questions.

19 JUDGE KOPTA: Thank you, Mr. Cedarbaum.

20 We are now at 5 to 12. It seems like it might
21 be a good point for a break for lunch. So let's be off
22 the record.

23 (Discussion off the record.)

24 (A luncheon recess was taken from 11:54 a.m. to
25 12:45 p.m.)

0131

1 JUDGE KOPTA: Let's be back on the record. We
2 are back after our lunch recess, and we'll resume
3 cross-examination of Mr. Henderson.

4 Mr. ffitch, I believe it is your turn.

5 MR. FFITCH: Your Honor, with your indulgence,
6 I've conferred with Mr. Brooks, and he asked if he could
7 go before me. He has very short questioning, and I
8 indicated that would be okay with me. If it's all right
9 with the Bench.

10 JUDGE KOPTA: Okay by us. Mr. Brooks?

11 MR BROOKS: Thank you.

12 CROSS-EXAMINATION

13 By MR BROOKS:

14 Q. Good afternoon, Mr. Henderson.

15 A. Good afternoon.

16 Q. Do you have Exhibit DAH-29 in front of you?

17 A. Give me a moment.

18 Yes, I do.

19 Q. The document footer indicates that it's Response
20 to Public Data Request 009. Is that your understanding
21 of this document?

22 A. Yes.

23 Q. Did you prepare this response?

24 A. I did, yes.

25 Q. I just want to ask you a few questions about the

0132

1 statements that are made in this.

2 Since the time you initially prepared the
3 response to this data request, has Puget undertaken any
4 cost benefit studies relating to the acceleration of its
5 pipe replacement program?

6 A. We have not.

7 Q. Does Puget currently engage stakeholders,
8 including commission staff, with respect to pipeline
9 replacement initiatives?

10 A. I would say that specifically we don't, but as
11 discussed earlier, we do meet with staff regularly, and
12 as part of those discussions, issues around pipeline
13 integrity and pipeline replacement may be discussed.

14 Q. Does Puget currently have a process for
15 determining its risk reduction objectives?

16 A. The whole integrity management approach is
17 really kind of in its infancy as far as how we've been
18 implementing it with MPSE, so we have risk models that
19 do provide for us a scoring, if you will, of that, of
20 risk, and that helps us to prioritize our intention on
21 what work needs to be done. We have not yet identified
22 a reduction objective or a threshold, if you will, that
23 we're striving for.

24 Many of the programs, the risk models vary from
25 bare steel to plastic pipe to our wrap steel, and we're

0133

1 still kind of calibrating the various risk models.

2 Q. What's the difference between an objective and
3 determining your prioritization, I think is what you
4 said?

5 A. I think the prioritization will put it into an
6 order with which we are intending to address the work.
7 The objective in my mind tells me that there's a certain
8 level, a certain score that we're trying to get to and
9 we have not gotten to a point where we can say that a
10 risk score of -- any number, is what we are driving
11 towards. The various risk models do still, as they're
12 being -- becoming matured, balance different risks
13 differently for the different types of materials.

14 Q. Does Puget currently establish which pipe
15 segment should be replaced the following year?

16 A. Yes, we do.

17 Q. Do you have before you Exhibit DAH-30?

18 A. Yes, I do.

19 Q. The footer on this exhibit indicates that it's
20 PSE's response for Public Counsel Data Request 031. Is
21 that your understanding of this document?

22 A. Yes.

23 Q. Did you prepare the response in this document?

24 A. Yes, I did.

25 Q. The answer provided here states that customer

0134

1 benefits are, quote, generally qualitative, unquote.
2 Has Puget undertaken any analysis to determine any
3 nonqualitative customer benefits?

4 A. We have not, no.

5 Q. In light of that answer that you have not
6 analyzed any nonqualitative benefits, what do you mean
7 by generally qualitative as opposed to, for example,
8 purely qualitative?

9 A. As we've discussed, or heard discussion earlier
10 today, the primary benefit is around improving safety,
11 and it's very difficult to put a numerical value to what
12 safety is. As Mr. DeBoer has testified, safety is a
13 continuum, and we do operate a safe system. I'll say
14 that benchmark, that initial benchmark is established by
15 the state and federal regulations on pipeline safety.
16 Through integrity management, we're trying to move
17 beyond just the minimum requirements of those
18 regulations. And -- but to say where we're going to
19 land on that continuum is still, as we see today, up for
20 some debate as to how safe is safe.

21 Q. Are you able to quantify the minimum
22 requirements that you just spoke of?

23 A. The pipeline safety regulations would be that
24 benchmark, but they aren't -- again, in the sense of a
25 number, numerical value, it can't be done. It's a

0135

1 compendium of a number of different requirements that
2 all go into establishing what the minimum safe level is.

3 MR. BROOKS: That's all the questions I have.

4 JUDGE KOPTA: Thank you, Mr. Brooks.

5 Mr. ffitch? Cross-examination.

6 MR. FFITCH: Thank you, Your Honor.

7 CROSS-EXAMINATION

8 BY MR. FFITCH:

9 Q. I'm going to start out with some questions,
10 Mr. Henderson. And good afternoon, Mr. Henderson.

11 A. Good afternoon. Thanks.

12 Q. I'm going to direct you to Exhibit DAH-7, which
13 is the 2010 continuing surveillance annual report for
14 Puget Sound Energy. Do you have that?

15 A. Yes, I do.

16 Q. I want to spend a little bit of time with this,
17 with this document, without trying to get too bogged
18 down in the weeds, and without reading it back to you,
19 which I am sensitive to the bench's direction on that.

20 Can you first of all just tell us what we're
21 looking at here? This is essentially a comprehensive
22 report of Puget Sound Energy's safety program for its
23 gas distribution and -- distribution pipeline. Correct?

24 A. That is correct.

25 Q. I'll let you put that in your own words.

0136

1 A. Yeah. So the continuing surveillance annual
2 report is a part of our overall distribution integrity
3 program. We have a written program, and it tells us --
4 there is the boilerplate of the different activities
5 that we're going to undertake. One of those activities
6 is to measure or analyze and report on progress that
7 we're making identifying the risks and mitigating those
8 risks.

9 So the continuing surveillance annual report is
10 intended to provide that analysis of the work that we're
11 performing in identifying the risks, speaking in terms
12 of the different programs that we've implemented over
13 time, and describe at least at a high level how that is
14 moving -- or helping us to mitigate the pipeline safety
15 risks that we've identified.

16 Q. And the report describes plans to initiate new
17 proactive measures, does it not?

18 A. It does.

19 Q. And also to enhance existing proactive measures.
20 Is that correct?

21 A. Correct.

22 Q. And the report also states that if you discover
23 a need for new added or enhanced measures, they would be
24 incorporated in the budget process. Correct?

25 A. They would be put forward as a plan, and would

0137

1 be subject to our normal budgeting process, correct.

2 Q. Can I ask you to look at page 9 of the exhibit,
3 which is the forward, spelled in an interesting fashion.

4 A. Written by engineers.

5 Q. Were you one of the authors of this document?

6 A. I was one of the reviewers of the document, yes.

7 Q. Just following up on my last question about
8 budgeting, could you read the last sentence of the
9 forward, please. I think it's a little different than
10 the answer you just gave.

11 A. "If additional or enhanced measures" -- I'll
12 read it to myself.

13 I don't know that that is different. It will
14 be -- the plans will be incorporated, so it becomes part
15 of the budgeting process. The process -- the output of
16 that process is the funding levels that we will go
17 forward, but --

18 Q. So it's your testimony that Puget could be
19 presented with an additional or enhanced measure that
20 was needed for public safety, but they may or may not
21 decide to adopt it in the budget process?

22 A. Again, as to the amount that it gets funded,
23 it's up for competition amongst many other projects, and
24 it may not be funded at the entire level that was
25 requested. If it's not funded at that level, we will go

0138

1 back and revise our plans and look at do we change
2 scope, do we trade for other projects that are in that
3 portfolio that gets approved.

4 Q. So it's possible that it would not be funded at
5 the level that would be necessary to achieve public
6 safety?

7 A. No, I would not say that. I would say that it
8 would be furnished at a level that's different than the
9 initial plan. We can -- that plan may go beyond the
10 minimum requirements for public safety.

11 MR. FFITCH: There will be some pauses here as I
12 try to add up my cross on the fly, Your Honor.
13 Hopefully we'll have a net benefit at the end. Some of
14 the questions I had intended to ask have been covered.

15 BY MR. FFITCH:

16 Q. I'd like to start just briefly looking at the
17 executive summary, Mr. Henderson. And that starts on
18 page 11. That tells us that the majority of the Puget
19 system was installed after improved standards and
20 regulations went into effect. Correct?

21 A. Yes.

22 Q. And if we look sort of halfway down page 11, we
23 see a heading System Performance Measures and Trends.
24 It's true that Puget has developed the specific baseline
25 against which to measure its program, its various safety

0139

1 programs. Correct?

2 A. Yes.

3 Q. All right. And we'll come back to that in a bit
4 more detail.

5 Overall, your hazardous leaks are declining.

6 Correct?

7 A. That is correct.

8 Q. One thing I wanted to ask you about, at the very
9 last sentence on the page, it's actually kind of a long
10 sentence, but there's a reference there to your
11 significant reduction of grade B leaks. Perhaps you
12 could just remind us what a grade B leak is. Maybe you
13 should just go through A, B, C so we can get that out
14 there.

15 A. Right. So the grading classification, the state
16 regulations require that we have the grading
17 classification in place. The highest grade that we use
18 is a class A grade. That requires our immediate
19 attention and we must continue to work it. It's an
20 immediate hazard, and we must work the leak until it's
21 been repaired.

22 The B class leaks are leaks that are hazardous,
23 but we've determined that they can exist for some time
24 before repair activity occurs. And we've put some sub
25 classifications on those that we may determine that we

0140

1 can come back the next working day, we may come back
2 30 days, we may come back six months later to reevaluate
3 those leaks, and at the end of a certain period, 18
4 months -- 15 months, I'm sorry, they must be repaired
5 unless there's a replacement project where we can get a
6 six-month extension.

7 So the idea is that you determine that a repair
8 is required and you keep monitoring them until the time
9 that you've removed them from the system.

10 The grade C leaks are nonhazardous at the time
11 they were discovered, and you don't expect them to
12 become hazardous. These are small, I would describe
13 them as nuisance leaks. They're very small
14 concentrations of gas. They may be a weeping gas from
15 fretted fittings, gas migration, and due to the location
16 of the pipe does not present any hazard to the public or
17 the property. And those we just monitor on an annual
18 basis.

19 Q. Who makes the determination -- and let's focus
20 on grade B leaks -- who makes the determination about
21 which category to put those leaks in, whether it be B-1,
22 B-2, or whatever?

23 A. We have some field employees that are qualified
24 in leak evaluation. They are either performing part of
25 their normal leak surveys or they're going out

0141

1 specifically to monitor those leaks if they've already
2 been previously identified.

3 Q. All right. So that's determined by field
4 employees and they evaluate it on a technical basis and
5 determine what is the appropriate leak rating --

6 A. Correct.

7 Q. -- from a public safety perspective.

8 And they're not assigning a leak rating on the
9 basis of Puget Sound Energy's budget, are they?

10 A. No, they are not.

11 Q. I guess just to recap generally the question of
12 the vintage of your system, the oldest pipe that you had
13 was cast-iron, and that's been completely replaced.

14 Correct?

15 A. That is correct.

16 Q. You inherited that from Washington Natural Gas,
17 your old employer?

18 A. That's right.

19 Q. And then the next oldest is bare steel. Is that
20 correct?

21 A. You describe it as if it's a sequential age.
22 There was bare steel put in at the same time as some of
23 the newer cast-iron was put in. So there's overlap in
24 the ages. Generally if you think in terms of periods,
25 cast-iron was some of the earlier pipe, bare steel was

0142

1 the next early.

2 Q. And then wrap steel mains, older wrap steel
3 mains, and then older plastic. Is that sort of the
4 general -- I know there's some overlaps.

5 A. Yes.

6 Q. -- general vintage situation? Is that correct?

7 A. Correct.

8 Q. Puget Sound Energy has programs for all of these
9 types of pipe. Correct?

10 A. When you say "programs," can you clarify?

11 Replacement programs or --

12 Q. Either replacement or leak survey programs. We
13 can come to that as we go through the report.

14 A. Yes, all of that pipe is under continual
15 inspection and monitoring, yes.

16 Q. And that's because there's sort of two key
17 components, two major components anyway, to your
18 approach, and one of them is replacement, the other is
19 leak management? That's all an important part of system
20 safety, isn't it?

21 A. It is. And I'm trying to -- it's difficult to
22 separate replacement and repairs. It's all part of the
23 overall management of our system and our system safety.
24 And so we can elect to go out and repair leaks and just
25 address the immediate concern, or if the pipe is of the

0143

1 condition or we want to remove certain safety risks from
2 the -- from the system, we might consider a more
3 comprehensive replacement. It might be many feet, it
4 might be a block of pipe, it might be a whole
5 neighborhood of pipe.

6 Q. And you have undertaken all those different
7 kinds of remedial actions?

8 A. Those have all been part of our program, yes.

9 Q. So basically you're saying that it's not just
10 replacement, that leak management is also an important
11 part of the picture, and they work together?

12 A. Yes, yes.

13 Q. And the report shows that Puget's having really
14 positive trends in terms of leak management. Correct?
15 I'm looking at page 13 of the report. Just generally
16 speaking, your trends are positive for leak management?

17 CHAIRMAN GOLTZ: 13 of the report or 13 of the
18 exhibit?

19 MR. FFITCH: 13 of the exhibit. I'm just solely
20 using --

21 CHAIRMAN GOLTZ: I know you are, but you said
22 report. Confused me.

23 MR. FFITCH: Oh, I'm sorry. Okay. You're
24 correct, Your Honor. Page 13 of the exhibit.

25 THE WITNESS: Yes, our overall focus has been on

0144

1 driving the number of active leaks down, and as the
2 report indicates, we are making progress in that area.

3 BY MR. FFITCH:

4 Q. If I can get you to turn ahead to page 20 of the
5 exhibit, and that is in the section on system
6 performance measures and trends. It's the second
7 page of that section.

8 A. Correct.

9 Q. And we're coming back to measurement here.
10 Again, the report states that Puget has performance
11 measures that are specifically required by DIMP, does it
12 not?

13 A. These are our first performance measures that
14 we've identified, yes.

15 Q. And there's two specific ones mentioned here,
16 both based on five-year averages, one is average leaks
17 repaired per mile by leak cause, and the other is by
18 leak material. Correct? That's the paragraph under the
19 table.

20 A. Correct.

21 Q. The report concludes that the performance
22 measures and other indicators listed in the report
23 validate the policies and mitigation actions that are
24 currently in place?

25 A. That is correct.

0145

1 Q. Can I get you to turn to Exhibit DAH-21, please.

2 If I can find that also. Do you have that?

3 A. Yes, I do.

4 Q. We asked you there if any specific performance
5 criteria and benchmarks were proposed by the company for
6 the use of determining if the PIP is successful relative
7 to current practices. Right?

8 A. Yes.

9 Q. Kind of to summarize your answer, you're not
10 proposing any additional specific performance criteria
11 or metrics or measurements for the PIP, you're stating
12 that the evaluation would be based on trending leak
13 performance?

14 A. That is the primary driver of our integrity
15 assessment, yes.

16 Q. And so which specific trending leak performance
17 are you talking about in that answer?

18 A. Well, I think there's many dimensions that we
19 need to look at in our leak evaluations; not only is it
20 the number of current active leaks, it would be things
21 like the number of new leaks found per, say, mile of
22 survey -- mile of facility surveyed. We also need to
23 look at some granularity. If we look at our entire
24 system, and let's use plastic pipe for an example, we
25 have over 6,000 miles of plastic pipe in the system. If

0146

1 you look at average numbers, it might tend to lead you
2 to a conclusion that the system is performing adequately
3 and no additional work is required, but as we drill down
4 on whether it's vintages or even specific areas, we may
5 find different numbers. And some of that granularity is
6 going to be important as we go forward in our integrity
7 management assessment.

8 Now, some of the tools that we have currently
9 don't support that level of analysis, but we are in the
10 midst of upgrading our mapping system to GIS,
11 geographical information system. That will help us to
12 see the performance of pipe at a much more granular
13 level than we currently are able to see. So these
14 performance measures may evolve as we are able to kind
15 of peel back the onion and look at pipe at sub material
16 level.

17 Q. Could you turn to page 22 of the exhibit,
18 please.

19 I'm sorry, I'm jumping back to the report,
20 DAH-7.

21 A. Which page?

22 Q. Twenty-two. I promise we won't jump around a
23 whole lot.

24 So that page has a list of your different leak
25 trend measures. Right?

0147

1 A. Yes.

2 Q. Now, I asked you a little bit ago about specific
3 baseline measures that you had adopted pursuant to the
4 DIMP program, and I take it from your answer that you
5 would not be simply looking at those baseline measures,
6 you'd also be looking at the universe of your other leak
7 trend measurement. Is that right?

8 A. Yes.

9 Q. Does that include all of these different types
10 of measures listed on this page?

11 A. Yes.

12 Q. Do any of these have a baseline connected with
13 them that you're using?

14 A. So the baseline would be -- and back to the kind
15 of our system -- high level system averages. I think as
16 we develop our reporting systems in more detail, we'll
17 be able to break that down and come up with new
18 baselines for specific materials or specific locations.

19 Q. Okay. But for right now, these trend measures
20 that are shown on page 22, you don't have a baseline
21 developed at this point?

22 A. No.

23 Q. So essentially your kind of big picture answer
24 is if we want to know how the PIP is doing, whether it's
25 a success or not, we would look at the same different

0148

1 kinds of measurements that you're using now?

2 A. At this time, our systems limit us to that, yes.

3 I think the success of the PIP, though, would also be
4 are we lowering the amount of some of these higher risk
5 pipes in our system. That's not a leak metric, that's
6 just an overall kind of inventory metric.

7 Q. Well, you already have that inventory metric
8 available to you, don't you?

9 A. That is true, yes.

10 Q. And, in fact, you're lowering the amount of the
11 pipeline you refer to at the present time. Correct?

12 A. At a certain pace we are.

13 Q. All right. So there really isn't any way to
14 tell if the PIP were to be enacted whether things are
15 turning out any differently than they would have
16 otherwise under the operation of Puget's current
17 programs, including the DIMP?

18 A. That is one of the challenges of the DIMP
19 program, the D-I-M-P program, especially as it relates
20 to plastic pipe. The manner in which these leaks
21 develop do not slowly appear and grow in hazard over
22 time. They appear all of the sudden. So as we replace
23 pipe, we can't assess how many leaks we would have
24 avoided, necessarily, by replacing that piece of pipe.

25 Q. Let's stay on that page, and towards the bottom

0149

1 of the page there's a discussion of your leak survey
2 program, and I have a couple of questions about that.

3 A. All right.

4 Q. What's the sort of general standard frequency
5 that's required for inspection of gas pipeline?

6 A. There's numerous survey frequencies defined in
7 the regulations, depending on the material type and
8 where the pipe is located. The baseline which would
9 cover the majority of our system is a minimum of every
10 five years. We actually survey at an increased
11 frequency of three years so that we can do some
12 additional work at the same time.

13 Business districts, which are your more highly
14 occupied areas, wall-to-wall paving, are at an annual
15 frequency. And the bare steel system, the cathodically
16 unprotected system, is every six months.

17 Q. So you do more than the minimum in terms of your
18 more general survey frequency?

19 A. Yes.

20 Q. And Puget actually has the discretion, as long
21 as they meet the minimum requirements, you've got the
22 discretion to decide to conduct inspections of any
23 material more frequently than the regulations require,
24 don't you?

25 A. Yes. And that is a big part of our integrity

0150

1 management risk mitigation strategy on those areas where
2 maybe replacement isn't called for but we still have
3 some question about it, we may actually employ increased
4 frequencies in our leak service.

5 Q. You've actually done that with respect to wrap
6 steel, have you not?

7 A. Wrap steels, yes.

8 Q. What's the leak frequency, leak survey
9 frequency, for older PE pipe?

10 A. It's currently at a three-year cycle, although
11 we do use in some areas an annual, either because it's
12 in a business district or because it's -- has been
13 identified as a candidate for replacement, but we
14 aren't -- it's not in our current year's funding.

15 Q. And it's Puget's belief that your current
16 regimen for leak survey frequency for the different
17 types of pipe materials and locations is appropriately
18 assigned. Isn't that correct?

19 A. That is correct.

20 Q. One last area of the report I'd like to look at,
21 and that is part four of the gas maintenance programs,
22 and that starts on page 53 of the exhibit. Gas
23 maintenance programs are centralized planning activity,
24 correct, of the company?

25 A. Yes.

0151

1 Q. Let take a look at the bare steel program which
2 is there on the same page. I know that is no longer in
3 the proposal before the commission, but I wanted to just
4 discuss the last paragraph. The report notes that Puget
5 identified some opportunities here to integrate the bare
6 steel approach with the wrap steel services program,
7 which is part of PIP. Correct?

8 A. Yes.

9 Q. Could you just describe what PSE did in this
10 situation?

11 A. So this was two types of our system. So we have
12 bare steel and we have wrap steel services.

13 In this case we may have wrap steel services, so
14 those are generally newer services, relatively new
15 services that were installed off of existing bare steel
16 systems, and so what we started to do is to fold in the
17 performance of those wrap steel services into the
18 overall risk ranking of our bare steel so that we could
19 take advantage of reducing the risk not only on the bare
20 steel mains in this case, but also the existing wrap
21 steel services, and we created, you know, some synergies
22 by looking at the two materials together.

23 Q. All right. So can you describe how that would
24 work in a particular job if you're replacing a section
25 of bare steel, are you replace the wrap --

0152

1 A. What we wanted to do was to get the
2 prioritization -- to combine the prioritization of both
3 the service replacements and the main together, so that
4 we were doing it efficiently, and at the same time, and
5 not having multiple trips, one to go out and replace a
6 service, only to follow up a short time later to replace
7 the main.

8 Q. Okay. So the main might be -- well, in this
9 case, it looks like the main would be bare steel because
10 this is a reference to the --

11 A. Wrap steel.

12 Q. -- the wrap steel service, so the service would
13 be connected to that bare steel main, and you would then
14 take that opportunity while you've got it opened up,
15 basically, to make a replacement that you might not
16 otherwise make if you're just looking at those in
17 isolation?

18 A. Correct.

19 Q. You list some benefits to that here in the
20 report: Reducing disruption to the customers, fewer
21 paving cuts, et cetera. And you also indicate this
22 involved working with commission pipeline staff, did it
23 not?

24 A. Yes.

25 Q. Can you elaborate on what type of collaboration

0153

1 was involved in that instance?

2 A. It was an overall discussion of the, just the
3 combination of doing the work in concert with each other
4 and not adhering strictly to the requirements that were
5 outlined in the risk models and the programs that had
6 been presented. So they agreed that it made sense to do
7 things in combination with each other.

8 Q. To go a little bit beyond what the risk model
9 itself might have mandated?

10 A. Yes.

11 Q. So this integration approach here, which sounds
12 really positive, this was not required by state or
13 federal regulations?

14 A. No. It was how we chose to manage our work in a
15 more efficient manner.

16 Q. If you could turn the page to page 54 of the
17 exhibit. Let's see if I have questions about this.

18 I guess just to kind of maybe, you know, add
19 some clarity to the record, there's been some discussion
20 about the risk model and the mitigation categories, and
21 we see that on this page. That's in the case of wrap
22 steel, the risk model matrix, if you will, is that
23 you -- I'm going to ask you if I've got this right --
24 you do your analysis, you do your leak survey, and then
25 things are categorized by priority, schedule

0154

1 replacement, increased leak survey or standard
2 mitigation, depending on the level of risk. Is that
3 right?

4 A. It is, yes. The risk model produces a risk
5 number for each of the individual services. We stack
6 those up from one to in this case 91,000 services, and
7 we look at the risk scores and look for kind of the
8 breaks or the trends in those risk scores that will help
9 us identify whether replacement is required, and if
10 replacement is required, is it something that we should
11 do on a priority basis or something that we can do on a
12 more scheduled basis.

13 One of the challenges of the risk model is it is
14 highly dependent on the data that we have available, and
15 that data is improving all the time, but to deal -- I'm,
16 as an interrogating management person, I'm more
17 interested if we were to draw the line and say No. 100,
18 I'm more interested in No. 101, 102, to understand why
19 that one isn't part of the replacement effort. And so
20 we've applied an increased leak survey to a number, kind
21 of on the marrying of where we've determined replacement
22 is appropriate, so that we can satisfy ourselves that we
23 haven't missed anything due to the some uncertainty
24 around the data.

25 Q. And if you do that additional leak survey and if

0155

1 it looks like it should be bumped up to scheduled
2 replacement or priority, then you bump it up into those
3 groupings?

4 A. In the next model, the next year's model run,
5 that information then is part of the new data set that
6 the risk model is run on.

7 Q. For purposes of the wrap steel service program,
8 you had a goal of mitigating all the services in the two
9 highest priority categories and you met that goal almost
10 completely. Right? I think there were a couple of
11 exceptions with permitting problems.

12 A. Yeah, there were two services that we were still
13 working due to either permitting or customer issues.

14 Q. And it's true, isn't it, that Puget very
15 thoroughly analyzed this kind of risk model and how it
16 was working and concluded that no adjustments were
17 needed to the model?

18 A. That is correct.

19 Q. And you're going to continue to use it and
20 you're going to integrate it into your DIMP program?

21 A. It is part of our DIMP program, and we're using
22 that as a model as well for some of the other risk
23 models that we're using.

24 Q. Okay. You're anticipating where I was going,
25 because I was going to ask you -- which is fine -- I was

0156

1 going to ask you next, you've actually taken this sort
2 of four-part risk model and been using it with other
3 categories of pipe. Correct?

4 A. You described a four-part risk model. It's not
5 a four-part risk model. That the mitigation strategies
6 that come out of that risk model are four-part.
7 Correct.

8 Q. I understand the distinction.

9 You've taken that framework, and now you're
10 using it for wrap steel mains and for older PE also. Is
11 that correct?

12 A. Yes.

13 Q. Let's turn to page -- let's see if I've got
14 these pages correctly here -- page 55. The next page is
15 the description of the wrap steel main replacement
16 program. In the last paragraph -- I just want to pursue
17 this a little bit -- I believe that discusses this point
18 that you just made that you've taken those mitigation
19 categories and you're using them for wrapped steel. It
20 doesn't mention priority of replacement specifically
21 there. Is that an intentional -- or priority. It
22 doesn't mention the priority category. Is that an
23 intentional omission? Does it use all four?

24 A. I'm at a loss at the moment as to whether that
25 does include all four, but in concept it's replacement,

0157

1 increased leak survey, and I'll say the standard
2 mitigation or status quo application.

3 The priority for the service lines was more
4 focused on they are service lines and they're in close
5 proximity to structures, so those were things we wanted
6 to get to rather soon. Main replacements are much more
7 involved than a service replacement, so we treat it more
8 in concept as if it's a scheduled replacement, because
9 we have to plan a lot more of the work around that
10 aspect. So we just may not have that top category of
11 the priority replacements.

12 Q. In the real world, though, I would assume, I
13 would hope that if you found a section of wrapped steel
14 main that needed priority replacement that would receive
15 immediate attention, wouldn't it?

16 A. If there were hazardous leaks, we would take the
17 appropriate action to make sure that those hazardous
18 leaks are addressed with -- in an appropriate fashion.
19 We can address the leaks and still have the pipe exist
20 out there and come back in a more planned approach to
21 replace that pipe, the remaining pipe.

22 Q. Is that the case for other types of main as
23 well?

24 A. That general approach applies to the other types
25 of mains, but again the manner in which steel leaks

0158

1 present themselves is more along the lines of a small leak
2 that grows over time, whereas plastic pipe doesn't give
3 us necessarily that forewarning, so it pushes us more
4 into a take action and replace pipe versus the steel
5 wrap pipe which you have a little more time to plan
6 things out.

7 Q. We'll come back to the plastic. I just want to
8 stay on this page.

9 The first paragraph under the heading indicates
10 that you have an integrated approach as well for wrap
11 steel mains and wrap steel services. Can you describe
12 that a little more?

13 A. Again, similar to what we described with the
14 bare steel mains is to work the two in concert with each
15 other so that we can take advantage of essentially the
16 crews out there, one move-in, one pavement restoration,
17 do all the work at one time.

18 Q. I'm trying to understand the next paragraph.
19 Oh, this is for mains that are not adjacent to wrap
20 steel services that you're addressing, and it states
21 that those are designated as DIMP mains. Can you
22 explain the different treatment that you give to those
23 nonadjacent mains?

24 A. The treatment really isn't any different. The
25 approach is the same. Those that are adjacent to the

0159

1 wrap steel services were really part of the agreement
2 that we had with the UTC that -- around the whole wrap
3 steel service program. It says address your services,
4 but then also come back and look at those mains that are
5 in proximity to those services.

6 The next step that we took here, and this wasn't
7 part of the agreement, or required in the agreement, was
8 then to take that approach more broadly across all of
9 our wrap steel mains.

10 Q. Okay. So it wasn't required by the Commission,
11 it wasn't required by federal or state regulations?

12 A. No.

13 Q. Let's go to the plastic. It's not next in line.
14 We have to go through some other programs. Let's see.
15 Go to page 60 of the exhibit.

16 I guess I was curious why the older PE pipe
17 replacement was not more to the front of this section.
18 It seems to be somewhat buried with a whole lot of other
19 programs that the company is doing, all of which looked
20 important, but is there a reason why it's not given this
21 same prominence as the other programs we just discussed?

22 A. No intent other than the other programs were
23 part of an order and we wanted to draw specific
24 attention to those requirements.

25 Q. So this program, the older PE pipe replacement

0160

1 program in general, is focused on replacement of
2 pre-1986 PE pipe, especially the DuPont pipe. Is that
3 right?

4 A. Correct.

5 Q. Because that is identified to have a higher risk
6 factor than other types of pipe?

7 A. That's correct.

8 Q. Now, a majority, about two-thirds of your system
9 is plastic pipe. Right?

10 A. Yes.

11 Q. And it's not all this risky or older PE, is it?

12 A. No. There's been several manufacturers of pipe
13 over the years that we've employed in our system, both
14 manufacturers and the -- the classification of plastic
15 pipe, whether it's high density or medium density pipe.

16 Q. Would you characterize the older PE as a
17 minority of your system? I could just ask you --

18 A. Yes.

19 Q. Yes?

20 A. Yes.

21 Q. Do you have a percentage in mind of --

22 A. I don't. I was trying to do the calculation,
23 but I wasn't quick enough. Of the DuPont pipe, it's
24 about a thousand miles of that, two-thirds of our
25 system, so, you know, that's a thousand miles out of

0161

1 roughly 800. A thousand miles out of 8,000 of plastic.

2 Q. Of the pre-1986 pipe?

3 A. No. Of our total complement of plastic pipe.

4 Two-thirds of our entire system, two-thirds of

5 12,000 miles of our system is plastic pipe.

6 Q. So that's 8,000.

7 A. And of that a thousand was manufactured by

8 DuPont.

9 Q. All right. And is all of that DuPont pipe sort
10 in this high risk category that we've been talking
11 about?

12 A. It's demonstrated that it's part of this high
13 risk population. The distinction is that some of this
14 pipe, and we've seen this over time as well, nationally,
15 because of the installation environment, is still
16 performing well and we expect to continue to perform
17 well, and that's part of the reason why we are not
18 proposing an all out replacement of a thousand miles of
19 pipe. It's more of a planned approach or a risk
20 mitigation approach where we've identified either past
21 performance or environmental conditions that would
22 warrant the replacement.

23 Q. Am I correct that the federal regulatory
24 authorities identified the problem with brittleness in
25 plastic pipe in 1998, issued a notice about it?

0162

1 A. That sounds right when the first notice came out
2 on it. They've issued several notices on some of these
3 older vintages of plastic pipe.

4 Q. Sort of looking back at the report here at this
5 paragraph, this also indicates that Puget found an
6 integration opportunity with older PE efforts and steel
7 main replacement. Is that correct?

8 A. There's -- the integration effort is, in using
9 similar models, in ranking these, so that we are
10 establishing a relative risk, or between the different
11 types of materials. This is to help us prioritize
12 across dissimilar materials where our dollars should go.

13 Q. That's the only integration --

14 A. Yes.

15 Q. -- program --

16 A. Because typically you don't have, as we
17 described earlier, where you have a wrap steel off of
18 plastic, we don't have steel service lines off of
19 plastic.

20 Q. As I'm reading this report, it indicates that in
21 2010 you implemented a new policy to replace pre-1986 PE
22 services as part of a larger main replacement program
23 such as bare steel --

24 A. I'll let you finish. I'm sorry.

25 Q. Perhaps you see where I'm going. I was asking

0163

1 you about that integration program.

2 A. I had in mind more of the mains, but you're
3 right, on the service lines we've also taken advantage
4 of the need to be out there to replace mains in the
5 street, and taken that opportunity to replace the
6 service lines rather than just test -- or tying them
7 over and having a need perhaps later to come back and
8 replace it.

9 Q. And that policy was put in place due to the
10 additional risk the services posed, instead of spending
11 money to keep them active and repair them later?

12 A. Yes.

13 Q. So, I'm sorry, you may have answered this
14 already, but what is the leak survey frequency for the
15 older PE mains versus older PE services?

16 A. They would be on the same frequency, and it's
17 depending, for plastic pipe, on their location. Either
18 for our company a three-year cycle, or a one-year cycle.

19 Q. The one-year, is that in what's known as a high
20 consequence area?

21 A. Yeah. Or business districts, yes.

22 Q. So you, again, you could increase the frequency
23 of those surveys for the older plastic pipe if you
24 wanted to, could you not?

25 A. That could be a risk mitigation strategy.

0164

1 Q. Do you think those need to be increased at this
2 time?

3 A. Again, we're evaluating how that -- how that
4 fits in for plastic pipe, and again it's a lot -- a lot
5 of it is because of the way that pipe present -- the
6 leaks present themselves. We could survey it today and
7 it's fine, and tomorrow we have a very, you know, a
8 large grade leak or a high grade leak on it. So we're
9 employing that as a strategy in evaluating as to how
10 successful that is in helping us determine those leaks.

11 One of the -- in the -- I'm not sure, I can't
12 refer specifically in the continuing surveillance
13 report, but one metric that we are looking at is who --
14 or how are these leaks found. And we determined that
15 the majority of the higher grade leaks, which are
16 indicative of plastic pipe-type failures, actually are
17 reported by the public and not found on our leak
18 surveys. Again, that's due to the odorant that we put
19 in the gas and the way the leaks present themselves.

20 The lower grade leaks, which is what you would
21 typically find on steel piping, on the early stages
22 anyways, are typically found via the leak surveys.
23 That's factoring in how we might use additional leak
24 survey frequencies in mitigating some of these risks,
25 and why we believe that expanding the amount of pipe

0165

1 that we replace, plastic pipe, becomes important,
2 because it helps us to head off the future leak. We
3 aren't dealing with the existing leak so much, we're
4 dealing with the future leak we're trying to avoid.

5 Q. Now we've kind of skimmed over this. The report
6 includes a pretty comprehensive description of the
7 company's practices, its integrity management practices,
8 so I'll ask you a general question. Does Puget Sound
9 Energy plan to discontinue any of its integrity
10 management practices that are described in this report
11 if the pipeline integrity program is not approved?

12 A. That is not our intent.

13 Q. I'd like to turn to another area now. Do you
14 have Mr. DeBoer's exhibits that -- they were exhibits to
15 his rebuttal testimony, and they relate to the
16 Department of Transportation press releases.

17 A. If not, I'm sure I'll get them pretty quick.

18 Q. That's TAD-5, 6 and 7.

19 Do you have that?

20 A. I do.

21 Q. Looking at page 2 of TAD-5, the second paragraph
22 relates that Secretary LaHood asked the CEOs of major
23 pipeline companies to review their systems, identify the
24 highest risk pipelines, and prioritize critical repair
25 needs. Do you see that?

0166

1 A. Yes.

2 Q. Did Puget Sound Energy do that, or has the
3 company done that?

4 A. That is what we're doing as part of our
5 distribution integrity management program.

6 Q. This exhibit goes on, starting at page 5 of the
7 exhibit, to lay out an action plan or describe the
8 action plan that the Department of Transportation is
9 advocating. Correct?

10 A. Yes.

11 Q. Are you familiar with the action plan from the
12 Department of Transportation?

13 A. Not in detail, no.

14 Q. Are you familiar with this exhibit?

15 A. I have read it, yes.

16 Q. It's the case, isn't it, that the examples of
17 risky pipe that are provided in here are cast-iron,
18 copper and bare steel?

19 A. Those are specifically mentioned, yes.

20 Q. If we look at page 3 of the exhibit, there's
21 specific reference to Pennsylvania, New York and
22 Connecticut systems. Correct?

23 A. I do see that at the bottom of the page, yes.

24 Q. And just generally speaking, for Pennsylvania
25 and New York, specifically reference to cast-iron

0167

1 systems that are many, many decades old, and not
2 expected to be replaced for many, many decades into the
3 future. Correct?

4 A. At their current rate, that's correct, yes.

5 Q. And that's not Puget Sound Energy's situation,
6 is it?

7 A. We do not have any cast-iron pipe in our system,
8 no.

9 Q. Mr. DeBoer was asked earlier about the accidents
10 in California and Pennsylvania that he referenced in his
11 testimony. I believe they were also referenced in the
12 cover letter with the original filing. Is Puget Sound
13 Energy representing that the specific factual situations
14 which caused the California and Pennsylvania accidents
15 are present in the Puget Sound Energy system?

16 A. I don't believe that was the intent of
17 mentioning those specific examples. Those were just
18 illustrative of incidents that have occurred nationwide
19 that have raised the attention on the need to take more
20 proactive actions with all of our aging infrastructure.
21 We could have easily used some -- or could have updated
22 that with some recent incidences in Cupertino,
23 California, where plastic pipe was an issue.

24 But, again, it's just the laying the groundwork
25 that there is a much greater awareness about pipeline

0168

1 safety issues and it's incumbent upon the operators to
2 identify whatever the highest risk. And if cast-iron
3 isn't in our system, we need to look at the next highest
4 risk, make sure that our programs are addressing those
5 adequately.

6 Q. So you haven't presented any evidence in this
7 case derived from the California or Pennsylvania
8 accidents that link those accidents in any way to the
9 specifics of the PIP proposal, have you?

10 A. We have not.

11 Q. And are you aware that the California accident
12 in San Bruno involved transportation pipeline?

13 A. I believe you mean transmission pipeline?

14 Q. Transmission, pardon me.

15 A. Yes.

16 Q. Transmission pipeline.

17 A. Yes.

18 Q. That was approximately 50 years old?

19 A. Seems about the right vintage, yes.

20 Q. And Puget is not including transmission pipeline
21 in this proposal, is it?

22 A. It is not.

23 Q. Are you aware that the Allentown, Pennsylvania
24 accident involved cast-iron pipe that was installed in
25 1928?

0169

1 A. Yes, I am.

2 Q. And that the utility in that case had not had a
3 rate case for 15 years?

4 A. I was not aware of that.

5 Q. Mr. Henderson, are you aware of any unsafe
6 conditions that Puget Sound Energy is not addressing at
7 this time because there's no pipeline integrity program?

8 A. No. We take whatever actions are necessary to
9 make sure that we have a safe system, from leak repairs
10 to pipe replacement.

11 Q. Is it your testimony that if the PIP is not
12 approved, PSE will decline to remedy unsafe conditions
13 in its system?

14 A. Could you repeat that? I'm not sure if I
15 flopped something there.

16 Q. I'll repeat it. If the PIP is not approved,
17 will Puget decline to remedy any unsafe conditions in
18 its system?

19 MS. CARSON: I'm going to object to the form of
20 the question. That's ambiguous.

21 JUDGE KOPTA: Do you want to rephrase that? Or
22 I believe it may be duplicative of questions you've
23 already asked.

24 MR. FFITCH: I'll move on to another question,
25 Your Honor.

0170

1 BY MR. FFITCH:

2 Q. Mr. Henderson, will PSE decline to pursue
3 improvements in the safety of its natural gas system in
4 the pipeline integrity program is not approved?

5 A. We will continue to operate a safe system.

6 Q. Will you decline to pursue improvements if the
7 Commission does not approve this proposal?

8 MS. CARSON: Objection. Vague, ambiguous as to
9 "improvements."

10 MR. FFITCH: Your Honor, if the company could
11 present us with some more specifics about the kind of
12 improvements which are promised under this proposal
13 perhaps my questions could be more pointed or directed.

14 JUDGE KOPTA: Would you ask the witness what his
15 understanding is of improvements as the company has
16 proposed them as part of this program?

17 MR. FFITCH: Your Honor, I think we've got
18 plenty of testimony on that, and that's really not my
19 question.

20 JUDGE KOPTA: Mr. Henderson, do you understand
21 the question that he's asking?

22 THE WITNESS: I believe I understand what he's
23 getting at, and I'll try to offer a response.

24 The company will continue to make investments in
25 its system to ensure minimum levels of safety are met.

0171

1 As far as our ability to move the dial on this continuum
2 of safety and replace things in a much more proactive
3 manner, the absence of a PIP mechanism will not be
4 removing the existing barriers that we operate under and
5 our ability to fund pipeline replacements to a higher
6 level.

7 BY MR. FFITCH:

8 Q. You're going beyond the bare minimum now, aren't
9 you, Mr. Henderson?

10 A. To some degree, we are.

11 Q. Is it your testimony that Puget Sound Energy
12 only does the bare minimum required to make its system
13 safe for the public?

14 A. No. We do go beyond.

15 Q. Is it your testimony that there are no proactive
16 programs that Puget Sound Energy is currently operating?

17 MS. CARSON: Objection. Asked and answered.

18 JUDGE KOPTA: Sustained.

19 MR. FFITCH: May you have a moment, Your Honor?

20 JUDGE KOPTA: Certainly.

21 MR. FFITCH: I'm getting to the end.

22 I don't have any further questions. Thank you,
23 Mr. Henderson.

24 JUDGE KOPTA: One clarifying question that I
25 have. Mr. ffitich, are you still intending to offer

0172

1 DAH-26?

2 MR. FFITCH: No, Your Honor, we're agnostic as
3 to whether that comes in. I think that it's duplicative
4 of the report, the surveillance report that I was just
5 examining on, and Mr. Henderson is nodding.

6 JUDGE KOPTA: All right. That was not admitted,
7 it was objected to, so it will not be admitted.

8 Questions from the commissioners? Commissioner
9 Jones?

10 COMMISSIONER JONES: Thank you.

11 I'm going to start with the length of time for
12 PE pipe replacement. So could you turn to page 4 of
13 your rebuttal testimony.

14 I'm getting a little bit confused by these
15 numbers. As I understand it, your total PE pipe system
16 is 8,000 miles, and of that, 1,000, approximately
17 1,000 miles is the pre '86, what you call DuPont pipe,
18 or pre '86 PE pipe?

19 THE WITNESS: I'll provide a little
20 clarification here. The 12,000-mile overall system is
21 our mainline piping. So the mains in the streets.

22 Over the period of time that we were purchasing
23 DuPont pipe, we purchased in excess of a thousand miles
24 of pipe. Some of that pipe is service piping, that is
25 not included in that overall mileage. But our records

0173

1 only tell us how many miles of pipe we purchase, not
2 whether it was service -- used for services or for
3 mains. So we use as a rough number that we have as much
4 as a thousand miles of DuPont pipe in our system. And
5 it could be mains or it could be services.

6 COMMISSIONER JONES: And you mentioned that the
7 data is very important for the risk models to produce
8 accurate assessments, so how is that classified in the
9 data that you use? Is it clearly labeled DuPont pipe,
10 or is it -- or not?

11 THE WITNESS: It is not. It is only marked in
12 our system as to an age of pipe, and as I mentioned
13 before, our efforts in implementing a GIS system is
14 going to help us to identify the locations of that older
15 pipe, but it could be from any one of a number of
16 manufacturers that were purchased from at the time.

17 COMMISSIONER JONES: Okay. So in this testimony
18 on lines, what is it, 15 through the balance of the
19 page, you talk about the current pace of replacement
20 under the current DIMP system. Correct?

21 THE WITNESS: Correct.

22 COMMISSIONER JONES: So you identify 14 new
23 miles identified for replacement each year. So are
24 those new miles in addition to the 100 miles or are they
25 included in the 100 miles?

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1 THE WITNESS: Those are in addition to the
2 100 miles.

3 COMMISSIONER JONES: So there's a possibility
4 that this could go on -- this number to be replaced
5 under the current risk modeling system could go up and
6 up?

7 THE WITNESS: It could, yes.

8 COMMISSIONER JONES: And you also state that it
9 takes you two years to replace six miles of pipe. Now
10 being the country mathematician that I am, that's about
11 three miles a year, roughly. And I think in 2011 you
12 say you replaced 23,615 feet of pipe, so that's a little
13 bit over four miles. So somewhere in the three to
14 four-mile range is your current replacement program?

15 THE WITNESS: That's correct.

16 COMMISSIONER JONES: So your testimony is
17 without the integrity tariff, without a financial
18 incentive to align your incentives financial with that
19 of safety, it would take you several decades at this
20 pace to complete that replacement?

21 THE WITNESS: That is correct.

22 COMMISSIONER JONES: And I use four years, four
23 miles a year, would be 25 years.

24 THE WITNESS: If we remained at a hundred miles
25 only it would be 25 years.

0175

1 COMMISSIONER JONES: If you do it at three miles
2 a year it would be 33 years?

3 THE WITNESS: Yes.

4 COMMISSIONER JONES: If you identify 14 miles
5 every year, that number could increase.

6 THE WITNESS: Yeah. We're filling the bathtub
7 faster than we're draining it.

8 COMMISSIONER JONES: So when you respond to
9 questions of Public Counsel and others about safety, and
10 is the system safe, is your testimony that because
11 safety is a relative continuum, and because the risk
12 models and the assessments are changing, it's dynamic,
13 it's difficult to obtain a precise number as to what is
14 safe for the system?

15 THE WITNESS: That is correct.

16 COMMISSIONER JONES: Let's go to page 13 of your
17 direct testimony. I want to talk about budget. And
18 this is a graph that talks about the annual process for
19 budgeting. Correct?

20 THE WITNESS: Yes.

21 COMMISSIONER JONES: Would this process also
22 apply to plastic piping?

23 THE WITNESS: Yes. And the flow chart that we
24 have here, as you see about the middle of the page, it
25 breaks into three separate columns. And those three

0176

1 columns line up with bare steel, wrap steel, and then
2 the older plastic pipe on the right side.

3 COMMISSIONER JONES: So I think in one part of
4 your testimony when you talk about the process, the
5 collaborative process with pipeline safety staff --

6 THE WITNESS: Yes.

7 COMMISSIONER JONES: -- that the biggest change
8 with the integrity tariff will be that the capital
9 budget issue will be removed as an issue.

10 THE WITNESS: Yes.

11 COMMISSIONER JONES: Is that correct? Okay.

12 So let's go through the current process.
13 Specifically you see that box labeled budget process on
14 the right-hand side about halfway down?

15 THE WITNESS: Yes.

16 COMMISSIONER JONES: Mr. DeBoer testified
17 earlier that all projects, whether electric or gas, have
18 to go to the senior management and the CFO for approval.
19 Is that correct?

20 THE WITNESS: The overall budget dollars go to
21 that level for approval. There is lower level
22 management that deals with the breakout of that number
23 into the different kind of allocation to the different
24 portfolios.

25 COMMISSIONER JONES: So who is the chair of

0177

1 this -- this box labeled budget process? I would assume
2 that would be your CFO.

3 THE WITNESS: At the highest level, yes.

4 COMMISSIONER JONES: Correct. And then who
5 makes the decision on project funded, that box below?
6 Does that go to the board of directors, the CFO, the
7 CEO? Who makes that determination?

8 THE WITNESS: So based on what the CF -- in your
9 scenario what the CFO says is our funding level, we at
10 lower levels look at what dollars that needs are
11 available in any one of the categories of the overall
12 portfolio, and we determine whether the projects that
13 were presented early on in the process were fully funded
14 or if there's not enough dollars to cover all of those.
15 Then we are left in a position of determining do we
16 scale back, do we defer, do we institute some other
17 mitigation strategies, until we can come back the next
18 year.

19 COMMISSIONER JONES: And I think Mr. DeBoer
20 testified earlier that there are perhaps some of the --
21 because certain projects are played off against each
22 other, electrical gas and vegetation -- well, vegetation
23 management may be separate, but let's just take cap X,
24 capital expenditures, that some may be funded and some
25 not through this process?

0178

1 THE WITNESS: Yes.

2 COMMISSIONER JONES: So are there examples where
3 some of the gas pipeline safety projects that you
4 supervise have not been funded when they go through this
5 budget process?

6 THE WITNESS: There have been examples where we
7 have not received the full funding that was requested,
8 and that forced us to go back and rescope some of those
9 projects so that we could take care of the highest
10 safety risk portion of a project and leave some of the
11 other pipe for a later date.

12 COMMISSIONER JONES: So if we approve an
13 integrity tariff as you propose, with the financial
14 incentive with a rate of return, and deferred taxes,
15 everything that you propose, how would this flow chart
16 look? I assume it would look something -- like you
17 responded to Chairman Goltz earlier about an annual
18 process, with a true-up, you would submit something to
19 staff, or staff and stakeholders would review it. So
20 what would happen? What would this approval process
21 look like?

22 THE WITNESS: As the budget process then becomes
23 less of a -- I'll use the word "discretionary" in the
24 sense that we will establish what the funding level is
25 going to be, and that input from the collaborative will

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1 help us determine what the funding level needs to be.
2 It removes it from the competition side with all the
3 other projects. It will still look similar in that it
4 will receive the same amount of visibility throughout
5 our organization, but it won't be subject to the same
6 competition for the dollars that the other projects
7 would be.

8 COMMISSIONER JONES: So it would still go
9 through the overall budgeting process, and of course
10 because of your capital needs and the need to raise debt
11 and equity, the senior management, CFO, would examine
12 it, it would be included in those totals, but it
13 wouldn't be subject to the competition to various needs.

14 THE WITNESS: Correct.

15 COMMISSIONER JONES: My last two questions. If
16 you could go back to your rebuttal testimony on page 7,
17 I just have a couple more questions. And this is when
18 you talk about Mr. Lykken's testimony. So you refer to
19 Mr. Lykken's direct testimony and the summary, and you
20 seem to be agreeing with a certain part of his
21 statements -- and I know he's on the phone, I don't want
22 to speak for his testimony now -- but what part of his
23 testimony are you agreeing with in your advocacy of the
24 integrity tariff here? And specifically this old
25 vintage PE type.

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1 THE WITNESS: We're acknowledging or agreeing
2 with the fact that this pipe has performance. We've
3 identified performance issues with this pipe. As he
4 described the advisory bulletins from PHMSA, this is a
5 national issue, and we're acknowledging that that is an
6 exposure that we have, albeit as we describe here it's a
7 small portion of our overall system mileage. It is
8 something that we're subject to.

9 COMMISSIONER JONES: When you say on line 18
10 there, you say there still exists an increased concern,
11 that's in the passive voice. So are you meaning to say
12 that Puget Sound Energy has an increased concern?

13 THE WITNESS: Yes.

14 COMMISSIONER JONES: And by only a fraction, on
15 line 17 you are referring to the 100 miles of this older
16 vintage pipe?

17 THE WITNESS: Yes.

18 COMMISSIONER JONES: My last question is on
19 page 9, referring to the materials in the older vintage
20 PE pipe. And I'm not an engineer, but I just want to
21 try to understand your statement in lines 10 through 21
22 there. And these are the grade C hazardous leaks that
23 you detect, which you say are nonhazardous, but even
24 though they're nonhazardous, because of the brittle-like
25 nature of the PE pipe you're saying that they can be

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1 particularly dangerous to human health, or to the
2 overall safety of the pipe? What are you trying to say
3 here?

4 THE WITNESS: What we're saying here, I've tried
5 to describe this previously, and I think beginning on
6 line 15, where we say:

7 More than 75 percent of the leaks found on
8 plastic pipe require immediate or next day repair unless
9 a small percentage, less than two percent, are the grade
10 C or nonhazardous leaks.

11 So again that's, as we hone in on the types of
12 pipe we're looking at, plastic pipe, when it does fail,
13 tends to fail suddenly, and with a higher hazard to the
14 public.

15 COMMISSIONER JONES: I get it. Okay. Thank
16 you.

17 That's all. That's the end of my requests.

18 JUDGE KOPTA: Mr. Oshie?

19 COMMISSIONER OSHIE: Mr. Henderson, the
20 \$25 million cap that Puget has advocated for this
21 program, these additional 14 miles of plastic pipe that
22 you've identified in your testimony, does the
23 \$25 million cover the cost of that kind of replacement,
24 the total, the 14 miles? Or just a portion of it?

25 THE WITNESS: And just for clarification, the

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1 14 miles is new pipe identified each year that is of
2 concern and requires some additional mitigation.

3 We have already identified over a hundred miles
4 of this plastic pipe that requires some additional
5 mitigation, or is candidates for additional mitigation.

6 COMMISSIONER OSHIE: So that's pipe that you've
7 brought to management's attention but management has
8 refused to fund its replacement?

9 THE WITNESS: The pipe that we've identified
10 that are candidates for replacement from the standpoint
11 of perhaps somewhere on that system a historical leak
12 has occurred, and that is one of our first flags that
13 this is an area that needs to be looked at. The pipe
14 itself may be performing fine today. We may propose
15 some additional mitigation like we discussed earlier,
16 increased leak surveys, but we have not yet proposed
17 those for replacement.

18 COMMISSIONER OSHIE: You haven't proposed those
19 for replacement to who? To your management?

20 THE WITNESS: To our budgeting process.

21 COMMISSIONER OSHIE: Through your budging
22 process.

23 THE WITNESS: Right.

24 COMMISSIONER OSHIE: So going back to your
25 testimony on the budget process. So you've identified

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1 these possible risks, because you say the pipe is
2 performing as designed right now, you've identified
3 these possible risks to who within the management chain,
4 and then at what level, I should say, and then their
5 response has been to not fund or have you suggested that
6 within your judgment that they need to be replaced or is
7 it -- or have you told your management that we've
8 identified these pipelines, but they do not need to be
9 replaced? How do you characterize that with your
10 company?

11 THE WITNESS: I would characterize the
12 identification of this pipe as these are areas of which
13 we've got increased concern, we have not yet proposed
14 them for replacement. In part this -- the budgeting
15 process -- we know going in what the realistic
16 magnitudes of the dollars are going to be, that will be
17 available, and we prioritize those hundred miles and
18 identify the first amount that we can get achieved, or
19 get replaced with those -- the dollars that we expect to
20 be available.

21 We propose, and communicate through that
22 continuing surveillance annual report, that there are
23 additional mitigation that's required on this pipe. So
24 if we're not going to replace it, we do the leak
25 surveys.

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1 We think we're managing, we believe we're
2 managing that risk appropriately, but as we want to move
3 the dial on pipeline safety, as I've said before, we
4 would like to get ahead of this and be proactive in that
5 replacement before we are dealing with a leak.

6 COMMISSIONER OSHIE: So are you saying that your
7 management will not approve this proactive approach to
8 public safety without some kind of extraordinary rate
9 making treatment that would afford them a greater return
10 over a period of time than they otherwise would have
11 earned based on our traditional regulatory mechanisms in
12 place here in the state?

13 THE WITNESS: What I'm saying is that there are
14 practical limits given the current mechanism that we
15 have in place to what we can find, and we manage within
16 those bounds.

17 COMMISSIONER OSHIE: Have you ever gone to
18 management and said that we have some potential pipeline
19 that we would like to replace or that we believe could
20 be replaced, and management -- you'll have to identify
21 what level if this is true -- management has said, well,
22 we're not going to earn our return in this period, and
23 so for that reason we're not going to -- we're not going
24 to mitigate that pipe in question at this time?

25 THE WITNESS: Those types of conversations have

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1 not taken place.

2 COMMISSIONER OSHIE: So you're saying management
3 has never been faced with that particular question at
4 your level?

5 THE WITNESS: Correct.

6 COMMISSIONER OSHIE: And I would imagine that if
7 you went to management and you said I think that this
8 pipeline needs to be replaced, or it needs to be mitigated,
9 their response would be to go ahead?

10 THE WITNESS: On a case-by-case basis, there
11 would be money made available.

12 COMMISSIONER OSHIE: And if we have a
13 \$25 million cap -- let's go back to that question. So
14 you've got a hundred miles of pipeline. You're
15 identifying 14 annually. Over, you know, over five
16 years, that's going to be another 70 miles. So what
17 does the \$25 million cap provide you as far as being
18 able to correct this particular PE pipeline, if that's
19 where it's going to be devoted?

20 THE WITNESS: Round number, we use about a
21 million dollars per mile for pipeline replacement, so
22 that would get us about 25 miles a year.

23 COMMISSIONER OSHIE: And what would be the cost
24 to rate payers of that 25? Is that for Mr. Story?

25 THE WITNESS: I would defer to Mr. Story on

0186

1 that.

2 COMMISSIONER OSHIE: It's a little under
3 2 million for this particular period, you know, and it's
4 like 16 a month, so --

5 THE WITNESS: Might be, you know, less than 50
6 cents a month.

7 COMMISSIONER OSHIE: So it would be easier for
8 the company if we just order the company to replace the
9 plastic pipeline on some structured schedule and that
10 way you wouldn't have to fight the budget fights that
11 are alluded to here?

12 THE WITNESS: I don't know that it's easier,
13 because that presents other challenges. As we're
14 managing bare steel, that's not an easy program to
15 manage.

16 COMMISSIONER OSHIE: When you first reached a
17 settlement with staff on the bare steel program, what
18 was the timeline for replacement of the pipe in
19 question? How many years did the company forecast that
20 it would take to replace the bare steel that was covered
21 by the settlement?

22 THE WITNESS: Oh, ten years.

23 COMMISSIONER OSHIE: Has the company asked for
24 more time to get that job done?

25 THE WITNESS: Not for bare steel, no.

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1 COMMISSIONER OSHIE: Not for bare steel. To any
2 section of pipeline that it was required to replace?

3 THE WITNESS: No.

4 COMMISSIONER OSHIE: I seem to remember a
5 petition by the company, and I just can't recall whether
6 it was bare steel or one of the other, some other
7 cathodic protection, where the company came in a few
8 years after the original settlement was made and they
9 said we can't get this done in the timeline proposed, so
10 we want an extension of time.

11 THE WITNESS: That was the isolated facilities
12 program, which was not a pipe replacement program. That
13 was an investigation program to identify and then
14 remediate things in our system. And we did
15 underestimate the amount of effort that it would require
16 to take on that investigation.

17 COMMISSIONER OSHIE: Do you like fighting the
18 budget fights that have been alluded to here to try to
19 get your job done as the pipeline integrity manager?

20 THE WITNESS: Do I like them? No, that's not
21 something that any one of us I would say would like to
22 do. But I also understand the responsibilities that we
23 have to make some decisions around prioritizing where we
24 spend our dollars and how far we can make them go.

25 COMMISSIONER OSHIE: Has any piece of pipe that

0188

1 needs to be replaced ever not been replaced because you
2 couldn't get management to approve the money to do it?

3 THE WITNESS: Not to my knowledge.

4 COMMISSIONER OSHIE: I do want to clear the
5 record. Do you agree with Mr. DeBoer that there's a
6 significant safety risk that's inherent in your pipeline
7 that have not been corrected --

8 THE WITNESS: No.

9 COMMISSIONER OSHIE: -- with the pipeline
10 program?

11 THE WITNESS: Not significant risks. I think
12 what Mr. DeBoer was alluding to, in Mr. Lykken's
13 testimony he refers to this plastic pipe risk as a
14 significant -- it presents a significant risk. But I
15 think we are taking the appropriate steps to mitigate
16 that, so it does not present an immediate hazard to
17 anybody.

18 COMMISSIONER OSHIE: Do you think our rules
19 should be changed that would provide more remedial tools
20 to the company in the event they determine that there's
21 a particular risk that's identified with PE pipe that's
22 not already included in the rules?

23 THE WITNESS: I don't know that additional
24 regulation or additional rules would -- is necessary
25 there.

0189

1 COMMISSIONER OSHIE: How long have the rules
2 been in place that we are operating under now? Well, at
3 the state level.

4 THE WITNESS: They go way back. Before my time
5 in the industry.

6 COMMISSIONER OSHIE: Before my time as well.

7 THE WITNESS: Okay.

8 COMMISSIONER OSHIE: We'd have to get Mr. Lykken
9 up here.

10 THE WITNESS: I think it's before his time too.

11 COMMISSIONER OSHIE: Strike that.

12 All right. I have no other questions. Thank
13 you.

14 JUDGE KOPTA: Chairman Goltz?

15 CHAIRMAN GOLTZ: Thank you.

16 Mr. Henderson, could you turn to page 10 of your
17 direct opening testimony, where you have the pipeline
18 replacement program capital costs in the table.

19 THE WITNESS: All right.

20 CHAIRMAN GOLTZ: So looking ahead to, say, the
21 2013, 2014, 2015 rows, for wrapped steel, WSSAP services
22 and older PE, is that the plan with the PIP or without
23 the PIP?

24 THE WITNESS: That is absent the PIP.

25 CHAIRMAN GOLTZ: So with the PIP, maybe you said

0190

1 this somewhere else, but how would those numbers change?

2 THE WITNESS: It's a little early to say. I
3 would expect them to go up. And the reason I say it's
4 early to say, I call it the machine that it requires to
5 get this pipe replaced, not only the upfront design,
6 project management, but also the downstream construction
7 of it, the machine that's in place is geared to a
8 certain level of bare steel and all of these other
9 programs. As we increase, or project to increase, we
10 need to start tooling up our capabilities to get that
11 work done as well.

12 So I would expect that if a program such as the
13 PIP were put into place, that we would see initially a
14 ramp-up, probably out in 2013 and 2014, and then to
15 establish a new level, a new burn rate, if you will,
16 that our crews and our capabilities are able to install.

17 CHAIRMAN GOLTZ: So the amount of dollars that
18 would be included in the recovery mechanism under the
19 PIP would, and let's say in 2013, 2014, 2015, would be
20 these dollars on your table, plus some more, up to
21 25 million?

22 THE WITNESS: Yes.

23 CHAIRMAN GOLTZ: So what we have in front of us
24 then is a proposal where you're going to a basic level
25 of replacement, and that basic level of replacement is

0191

1 increasing every year according to this chart. Correct?

2 THE WITNESS: There is some increase, yes.

3 CHAIRMAN GOLTZ: And then there's drop off in
4 the bare steel, so actually probably in year 2015, and
5 even 2014, the aggregate replacement for the company
6 would be less than in some -- a couple years prior than
7 that?

8 THE WITNESS: Yes.

9 CHAIRMAN GOLTZ: So what I'm trying to get at is
10 the -- your testimony is the system is safe, that PIP
11 will make it safer, and so the safe level, if I'm
12 correct, is embodied in this table, and the safer level
13 goes beyond that.

14 THE WITNESS: (Witness nods head.)

15 CHAIRMAN GOLTZ: But your recovery mechanism
16 would recover not just the safer amount, but also some
17 of the safe.

18 THE WITNESS: Yes, as you've described it, yes.

19 CHAIRMAN GOLTZ: As you have proposed it.

20 THE WITNESS: Sure.

21 CHAIRMAN GOLTZ: So another way to cut this
22 which would be is if the company is kind of going to a
23 basic level of ensuring safety, that we could say, okay,
24 that goes under the existing mechanism, but if you
25 want -- but if we want you to accelerate that for good

0192

1 policy reasons, that might be a candidate for some
2 additional recovery. Would that be another way to slice
3 this?

4 THE WITNESS: That would be another way to slice
5 it, certainly. That's not our proposal.

6 CHAIRMAN GOLTZ: I understand. The details
7 might get a little complicated.

8 To whom do you report in your company? We
9 talked a lot about budgeting. How do you get to the
10 decision makers on the budget? Where do you go
11 upstream.

12 THE WITNESS: Up through the director of
13 planning, the vice-president of operation services, on
14 to the senior vice-president of -- I forget her title
15 now, it's a new one, but it's engineering and planning
16 and --

17 CHAIRMAN GOLTZ: Who is that.

18 THE WITNESS: Marla Mellies.

19 CHAIRMAN GOLTZ: And she would be involved in
20 the actual budget decision making then?

21 THE WITNESS: Yes.

22 CHAIRMAN GOLTZ: So again, as I understand it we
23 had a safe system, but every year you identify
24 approximately 14 more miles of pipe as problematic. Is
25 that -- and under current pace, you're replacing less

0193

1 than 14 miles?

2 THE WITNESS: Yes.

3 CHAIRMAN GOLTZ: So is it fair to conclude from
4 that that as time goes on, if you don't change the
5 current pace of replacement the system will become less
6 safe?

7 THE WITNESS: I think we would -- if nothing
8 changed, if we were to change nothing in our approach,
9 that could be an outcome of that. But, again, I think
10 as new pipe is identified, we look at ways to scale,
11 perhaps scale back on other jobs, to identify what
12 absolutely needs to be replaced to maintain that safe
13 level.

14 CHAIRMAN GOLTZ: So you have a thousand miles of
15 DuPont pipe steel main replacement. Every year you
16 identify about 14 more miles of DuPont pipe that is
17 problematic?

18 THE WITNESS: Of pre-1986 pipe. It's primarily
19 DuPont pipe. There may be some other pipe there.

20 CHAIRMAN GOLTZ: Is it fair to say that, say,
21 last year's 14 miles is identified, all of that will
22 have to be replaced at some point in the future?

23 THE WITNESS: It's likely that that would be the
24 case, yes.

25 CHAIRMAN GOLTZ: So is it likely that all of

0194

1 that 1,000 miles of DuPont pipe will have -- or let me
2 rephrase that -- all of the pre-1986 pipe will have to
3 be replaced at some point in the future?

4 THE WITNESS: At some point in the future, yes.
5 I don't know how soon that will be. I think there's
6 plenty of that pipe that is still performing well, and
7 again as I described due to the environmental
8 conditions, will continue to perform very well. It's
9 where you've got the environmental conditions. I say
10 that it's -- generally it's rockier soils, and a
11 combination of the rockier soils and the plastic pipe
12 that creates the problem for us. In other areas we
13 expect continued long life out of that pipe.

14 CHAIRMAN GOLTZ: So looking back at your table
15 on page 10, it looks like in the next couple of years
16 you are having a fairly significant ramp-up of pipeline
17 replacement if you include the bare steel.

18 THE WITNESS: Yes.

19 CHAIRMAN GOLTZ: Is there a problem with getting
20 the work force to do that, or are they just out there
21 waiting to go?

22 THE WITNESS: It is a challenge, it is a
23 challenge to make sure that our contractors are geared
24 up with the staff to do the work we're asking. They've
25 pulled in, you know -- they're starting to pull in from

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1 outside of the state. They can draw on other areas of
2 the country to help in this area. So we are maxing out
3 the local pool of skilled craftsman.

4 CHAIRMAN GOLTZ: I gather by that that we must
5 be replacing pipeline faster than other parts of the
6 country then.

7 THE WITNESS: There may be a bit of that going
8 on. I think that, as you may be aware, we've
9 transitioned to a new service provider. As they were
10 gearing up in the beginning of the year, they weren't
11 achieving the productivity that we had set out to
12 achieve, and so we've fallen behind a little bit. And
13 with an eye towards 2014 as our drop dead date for
14 getting bare steel done, we're ramping up to make sure
15 we meet that date.

16 CHAIRMAN GOLTZ: Given that you're ramping up to
17 2014 to get the bare steel replaced, is there, putting
18 aside the \$25 million cap in this program, is there a
19 practical limit on how much you can do, just because
20 everyone is going to be either replacing bare steel or
21 going to be out of state replacing pipe there?

22 THE WITNESS: There may be a limit that we start
23 to reach here. I don't know what that is, but there may
24 be that, yes.

25 CHAIRMAN GOLTZ: Right now you said you have

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1 quarterly meetings with -- you have monthly meetings and
2 quarterly meetings with various sets of Commission
3 staff.

4 THE WITNESS: Yes.

5 CHAIRMAN GOLTZ: But I thought I also heard you
6 say that you don't really consult with Commission staff
7 now on specific replacement plans for specific pipeline
8 segments.

9 THE WITNESS: We currently are not sitting down
10 and reviewing our list of projects that we're replacing,
11 no.

12 CHAIRMAN GOLTZ: So that would be a major change
13 between the existing practice and the future practice?

14 THE WITNESS: That would be.

15 CHAIRMAN GOLTZ: If that process would benefit
16 the Company and the public safety by consulting with
17 Commission staff, why hasn't it been done yet?

18 THE WITNESS: Well, it's, again, in the context
19 of these other meetings that we have going on, and even
20 just day-to-day conversations with Pipeline Safety
21 staff. This is a lot about conversation and
22 understanding where people's relative risk comfort is
23 at, and so as far as what's shaping our proposals as
24 we're working now, we do consider that, but we don't
25 have the formal process in place where we sit down and

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1 actually review the identified projects to be replaced.

2 The other piece of this that's -- provides some
3 change is this whole integrity management approach. The
4 rule just went into place this last August. It requires
5 the operators to do some things to identify those risks
6 and to try to go beyond what the regulations would
7 otherwise require. I think it's putting both the
8 operators and the regulators in a different relationship
9 than they've been in in the past, in requiring some more
10 upfront discussion.

11 We saw that the PIP program and that
12 collaborative would in part go a long ways towards
13 resolving that; that we can talk about our relative risk
14 strategies and what we would like to see, and through
15 that process influence how our programs develop.

16 CHAIRMAN GOLTZ: So you're saying one of the
17 drivers behind the proposal for enforced consultation
18 process is the federal regulations?

19 THE WITNESS: In part the integrity management
20 program encourages that kind of dialogue to take place,
21 yes.

22 CHAIRMAN GOLTZ: Looking at page 13 on your
23 direct testimony, DAH-1T, and forgive me if you've
24 testified to this before, or if it's embodied in another
25 document, just refer me to that, that would be fine.

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1 The second box from the top says data entered
2 into risk model. Is there some really shorthand
3 description of what the risk model is and what's in
4 there? Because it seems a little black-boxish to me.

5 THE WITNESS: In some ways it might appear that
6 way to us as well. The risk model is essentially a
7 large spreadsheet, and it's got a lot of formulas built
8 into it, and we're entering in data about cathodic
9 protection history, we're entering data about our -- the
10 leak activity or leak history, we're entering data
11 from -- that we gather from exposed pipe condition
12 reports. And this model then assesses all of the
13 different attributes that we've entered in to arrive at
14 a risk score.

15 CHAIRMAN GOLTZ: Is this a model that is in
16 common usage around the country?

17 THE WITNESS: Not to my knowledge. We work very
18 closely with Pipeline Safety staff and a consultant when
19 we develop the risk model for the WSSAP program. As
20 we've talked about, that's become a bit of the
21 foundation of the development for some other models.

22 CHAIRMAN GOLTZ: So even though you don't
23 consult with Commission staff on a case-by-case basis on
24 specific projects, you've consulted on the risk model?

25 THE WITNESS: Their input has been in there as

0199

1 well.

2 CHAIRMAN GOLTZ: Okay. In a box below that, it
3 says review of the risk and public improvement
4 opportunities. Is that supposed to be public
5 involvement opportunity?

6 THE WITNESS: No. So another driver of our work
7 are the external agencies. So pick on the City. The
8 City of Renton is putting a new sewer in, and they're
9 tearing up the street and there's an opportunity for us
10 to get in there while the digging is good, get our work
11 done and get out of there and not -- and so that public
12 improvement opportunity may adjust the priority or the
13 scheduling of any one of those projects.

14 CHAIRMAN GOLTZ: Sure. Okay. So you meant
15 public improvement opportunity. I thought I found a
16 mistake.

17 THE WITNESS: I did.

18 CHAIRMAN GOLTZ: And then where on the table is
19 the determination made on which pipe will be replaced?

20 THE WITNESS: So it's from that box to the kind
21 of the next -- the three boxes along there where we
22 start to identify the replacements plan for bare steel.
23 Again, bare steel is working under a different kind of
24 criteria, where we have to get certain mileage done each
25 year to meet our end date. Likewise with WSSAP, it's a

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1 little more prescribed as far as the process, and so as
2 they migrate up to that priority or scheduled
3 replacement, those are planned for and budgeted for.

4 It's the boxes to the right where we have a
5 little bit more discretion. Plastic pipe and the DIMP
6 steel mains are prioritized, and we determine what we
7 think we -- is the appropriate level to go.

8 CHAIRMAN GOLTZ: Sorry to go back to the budget
9 process. But I see three budget processes here.

10 THE WITNESS: Yes.

11 CHAIRMAN GOLTZ: Is the one that competes with
12 everything else in the company, is it all three of
13 these, or is it just the one on the right with dealing
14 with --

15 THE WITNESS: It's really the one on the right,
16 where there's competition.

17 CHAIRMAN GOLTZ: I asked Mr. DeBoer about the
18 process, consultation process, and I just want to make
19 sure you agreed with him that what you were really
20 talking about is involvement with Commission staff.
21 When you say stakeholders, you aren't talking about
22 other people exterior to the Commission staff or Puget
23 staff?

24 THE WITNESS: Certainly I would anticipate that
25 the Commission staff, Pipeline Safety staff, will have

0201

1 the most interest in that dialogue. It is not limited
2 to just that group.

3 CHAIRMAN GOLTZ: But you don't know of any other
4 group that would be in there? I'll trying to envision
5 the room.

6 THE WITNESS: I don't know what Public Counsel's
7 or NWIGU's interest might be in participating in that
8 discussion.

9 CHAIRMAN GOLTZ: In your rebuttal on page 3, so
10 that's DAH-4T, you're responding to Ms. Crane, witness
11 for Public Counsel, and the issue of whether the
12 collaborative process is an attempt to dilute PSE's
13 responsibility for managing its pipeline replacement
14 activities, and you disagree with that characterization.

15 THE WITNESS: Absolutely. That's our
16 responsibility.

17 CHAIRMAN GOLTZ: Is it possible, though, that
18 it's going to just -- the opposite is going to happen,
19 that if the Commission were to approve this, and approve
20 extra funds, would there be enhanced expectation of
21 pipeline safety on the part of Puget and actually your
22 responsibilities for a safer system just have been
23 ratcheted up a little bit? You turned the dial up, so
24 to speak?

25 THE WITNESS: I think that's a fair

0202

1 characterization, yes, we have turned the dial up on
2 pipeline safety.

3 CHAIRMAN GOLTZ: I have no further questions.

4 Thank you.

5 JUDGE KOPTA: Are you going to have any
6 redirect?

7 MS. CARSON: Yes, I do.

8 JUDGE KOPTA: All right. Well, let's take our
9 afternoon recess. It's now ten after 3. Please be back
10 at 20 minutes past the hour.

11 We'll be off the record.

12 (A break was taken from 3:10 p.m. to 3:22 p.m.)

13 JUDGE KOPTA: After our afternoon recess, the
14 Chairman has one additional question for this witness.

15 CHAIRMAN GOLTZ: Might be a couple more.

16 You testified, sir, you received notices around
17 1998. Was that about the DuPont pipe?

18 THE WITNESS: I'm aware that there were notices
19 around that time frame, around older vintages of plastic
20 pipe. It wasn't specific to DuPont pipe, but that there
21 was --

22 CHAIRMAN GOLTZ: When you mean notices, you mean
23 there is information from federal authorities that there
24 was a problem with the durability of this pipe?

25 THE WITNESS: Yes.

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1 CHAIRMAN GOLTZ: I'm trying to figure out when
2 the company, at some management level, was aware that
3 there might be a potential problem going forward with
4 that pipe that may trigger at some point a replacement
5 issue.

6 THE WITNESS: Right. It was when those notices
7 first came out in the late '90s, I think there's been a
8 series of three notices between then and just recently.
9 When that notice first came out, we started to look for
10 that type of a problem in our system.

11 Now, plastic pipe ages with time, and we weren't
12 seeing any marked trend or anything with the performance
13 of the pipe that we had. We had seen some instances
14 where there were issues, mostly from a workmanship
15 standpoint, and not the types of brittle-like cracking
16 that they were describing, but over time, since we are
17 now aware of it and we were looking for that, we did
18 start to identify that those were risks that existed in
19 our system.

20 CHAIRMAN GOLTZ: So when did you start to see
21 the trend line go up that indicated risks in your
22 system?

23 THE WITNESS: I don't have an exact date as to
24 when that occurred, but as our chart shows, and my
25 testimony, it was in the mid part of this decade that --

0204

1 CHAIRMAN GOLTZ: Last decade?

2 THE WITNESS: That we started to begin paying
3 action to address that.

4 CHAIRMAN GOLTZ: Okay. Thank you.

5 JUDGE KOPTA: Now, Ms. Carson?

6 MS. CARSON: Thank you. And that removes one of
7 my redirect questions.

8 REDIRECT EXAMINATION

9 BY MS. CARSON:

10 Q. Mr. Henderson, you were asked by Mr. ffitch
11 about some examples of agreements with Commission staff
12 on replacement schedules. Specifically you were asked
13 about bare steel and cast-iron and weren't those
14 agreements with the Commission Pipeline Safety staff
15 about the schedule for replacement. Do you recall those
16 questions?

17 A. Yes, I do.

18 Q. How did those agreements for those schedules
19 come about?

20 A. So those in both cases, those were the result of
21 complaints filed by Pipeline Safety staff, and as a
22 result of the processing of those complaints, settlement
23 agreements were arrived at to resolve the issues at
24 hand.

25 Q. And in those cases, there were some allegations

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1 that there were violations of regulations. Is that
2 right?

3 A. Yes.

4 Q. And have you had any allegations of violations
5 of plastic pipe that isn't being replaced?

6 A. There are none currently.

7 Q. I'd like you to turn your attention to page 10
8 of your testimony. You were questioned about this
9 chart.

10 JUDGE KOPTA: That's the direct testimony,
11 Exhibit --

12 MS. CARSON: That is the direct testimony,
13 DAH-1T.

14 THE WITNESS: Yes.

15 BY MS. CARSON:

16 Q. I believe that you said that the numbers that
17 show up on wrapped steel mains, services, and older PE
18 planned 2012 through 2015 are the safe level. Are you
19 saying that these numbers represent the bare minimum to
20 meet a level of safety?

21 A. No. I did not mean to represent that. These
22 are the minimum amounts required to take care of the
23 pipe that we've identified, but by way of example, the
24 minimum requirement might be to replace ten feet of
25 pipe. These numbers represent typically a

0206

1 block-to-block approach of those pipe replacements, and
2 that's how we arrived at the planned, or plan number
3 here.

4 Q. And is planned the same as budgeted?

5 A. Plan is not the same as budgeted. This would be
6 our budget request, and only through the budget process,
7 as we talked about earlier, would an amount be arrived
8 at.

9 MS. CARSON: Thank you.

10 I have no further questions.

11 JUDGE KOPTA: All right.

12 MR. FFITCH: Your Honor, may I have one or two
13 follow-ups on a particular question that Ms. Carson
14 asked?

15 JUDGE KOPTA: Very briefly.

16 RE-CROSS-EXAMINATION

17 BY MR. FFITCH:

18 Q. Mr. Henderson, you were asked about the genesis
19 of some of the cooperative arrangements we discussed
20 just a moment ago by Ms. Carson. Your testimony in
21 general was that those resulted from settlements or
22 Commission orders. Correct?

23 A. Correct.

24 Q. I'd like to take you back through those briefly
25 and just get clarification. And I'm looking at

0207

1 Exhibit DAH-7, which is the surveillance report. I'm
2 looking at page 53, the last paragraph. And this is
3 where Puget identified an opportunity to reduce risks
4 and then integrated service replacement with bare steel
5 replacement. You didn't mention an order or settlement
6 when we discussed that earlier. Are you now saying that
7 that specific arrangement was required by a Commission
8 order or a provision in the settlement?

9 A. The arrangement of combining services with the
10 bare steel?

11 Q. Right.

12 A. That was not -- that was not the subject of an
13 order.

14 Q. I understand, and I'm not disputing that there
15 was an order with regard to wrap steel services and bare
16 steel, but this particular opportunity, and then the
17 arrangement which yielded benefits for consumers, was
18 above and beyond the requirements of the settlement, was
19 it not?

20 A. Yes.

21 Q. All right. If you turn the page to page 54.
22 Actually, go all the way to page 55, under wrap steel
23 mains, and the last paragraph there. I'm sorry, not the
24 last paragraph. The first paragraph discusses another
25 integrated arrangement where wrapped steel mains

0208

1 adjacent to wrapped steel services are replaced when
2 it's convenient. Is that required by the Commission
3 order or settlement?

4 A. That was included in the order, yes.

5 Q. That the adjacent mains be replaced when perhaps
6 those services were replaced?

7 A. Not that they be replaced but that they be
8 reviewed; that wrap steel main adjacent to wrap steel
9 services that were being replaced be reviewed to
10 determine whether the mains should be replaced as well.

11 Q. But that wasn't required by any other federal
12 regulation or state regulation?

13 A. No.

14 Q. I don't know if we need to go to the page, but
15 there under the -- older PE pipe, that is on page 60,
16 there you testified about a policy of replacing old PE
17 pipe as part of a larger main replacement program. That
18 was not required by a Commission order or settlement
19 provision, was it?

20 A. There was not.

21 MR. FFITCH: Thank you. Those are my questions.

22 JUDGE KOPTA: All right. Thank you.

23 Anything further for this witness?

24 MS. CARSON: Yes. Just a couple more questions.

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FURTHER REDIRECT EXAMINATION

2 BY MS. CARSON:

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Q. Mr. Henderson, back to this bare steel and wrapped steel program integrating those two replacements, was there any kind of expansion of replacement of bare steel or the wrapped steel services as a part of that or was it just combining the two?

A. It was just combining the two.

Q. Was there any new schedule set in terms of when these replacement would be done, or was it the same schedule that was agreed to?

A. It still operated under the same schedule.

Q. And in terms of the wrapped steel service assessment program, did that come out of a settlement as well?

A. Yes, that was a settlement as well.

MS. CARSON: No further questions.

JUDGE KOPTA: Thank you. Thank you for your testimony, Mr. Henderson. You're excused.

Ms. Carson, you may call your next witness.

MS. CARSON: Puget Sound Energy calls John Story to the stand.

JUDGE KOPTA: Would you raise your right hand.

JOHN STORY

Witness herein, having been first duly sworn on

0210

1 oath, was examined and testified as follow:

2 THE WITNESS: Yes.

3 DIRECT EXAMINATION

4 BY MS. CARSON:

5 Q. Mr. Story, could you please state your name and
6 title and spell your name for JUDGE KOPTA reporter?

7 A. Yes. My name is John Story, J-O-H-N, S-T-O-R-Y,
8 and I'm director of cost and regulation.

9 Q. Mr. Story, do you have before you your prefiled
10 direct and rebuttal testimony and exhibits?

11 A. Yes, I do.

12 Q. Do you have any corrections to those exhibits?

13 A. No.

14 MS. CARSON: Your Honor, PSE offers John Story
15 for cross-examination.

16 JUDGE KOPTA: Thank you.

17 Mr. Cedarbaum?

18 MR. CEDARBAUM: Thank you, Your Honor.

19 CROSS-EXAMINATION

20 BY MR. CEDARBAUM:

21 Q. Hello, Mr. Story.

22 A. Good afternoon.

23 Q. I'd like to ask you questions first of all about
24 the table on page 10 of Mr. Henderson's direct
25 testimony. Let's talk about some rate making issues on

0211

1 that. Let me know when you're there.

2 A. I have it, yes.

3 Q. And on the left-hand side of the page, there are
4 dates from 2003 to 2015. Right?

5 A. That's correct.

6 Q. Is it correct that the company filed a general
7 rate case for its electric and gas operations in 2004?

8 A. Yes.

9 Q. And that it also filed a general rate case for
10 its electric and gas operations in 2006?

11 A. Yes.

12 Q. And again in 2007?

13 A. I believe so, yes.

14 Q. And again in 2009?

15 A. That's correct.

16 Q. And then there was a gas only general rate case
17 in 2010. Is that right?

18 A. That's correct.

19 Q. And currently pending before the Commission is a
20 general rate case for both size of the business with a
21 2011 filing. Is that right?

22 A. That's correct.

23 Q. Over the same period of time, were there also
24 some power cost only rate case filings?

25 A. Two or three, yes.

0212

1 Q. And Mr. Henderson in response to the Chair's
2 questions indicated that the numbers on this page for
3 wrapped steel main services and older PE are absent the
4 PIP proposal. Were you present for that testimony?

5 A. Yes, I was.

6 Q. And if the company were to ramp up those -- the
7 costs for the replacement of these facilities without
8 pipeline integrity proposal -- actually, let me back up.

9 Mr. DeBoer also indicated in his testimony this
10 morning that he expected the company would file another
11 general rate case in 2012.

12 A. Yes.

13 Q. Do you recall that? I apologize for that. I
14 did digress.

15 To the extent that these numbers for wrapped
16 steel main services and the older PE are increased, and
17 if the company doesn't have a PIP program in place,
18 wouldn't those costs, including the additional costs, be
19 addressed in any of the general rate cases that come
20 before the Commission in 2012 and forward?

21 A. Yeah. That's one of the concerns we have.

22 Q. Mr. Story, I just asked you a simple question,
23 yes or no.

24 A. Twenty-seven months after the fact, yes.

25 Q. Twenty-seven months after what fact?

0213

1 A. Of actually putting the pipe in the ground, up
2 to 27 months.

3 Q. Well, to the extent that the 2012 general rate
4 case is based on a test year in 2011 that will include
5 pipeline, all pipeline costs?

6 A. And it would be settled in 2013, right, or
7 finalized in 2013.

8 Q. And any additional rate cases after 2012 you
9 have the same answer?

10 A. Yes.

11 Q. But nevertheless, the rate recovery of those
12 costs would be addressed in general rate proceedings?

13 A. Yes.

14 Q. If we could turn to your rebuttal testimony,
15 which is JHS-10T.

16 A. Yes.

17 Q. Your answer on page 2 is in response to a
18 question that begins on page 1 in which you dispute
19 Public Counsel's testimony that customers under the PIP
20 are prepaying for plant that is not yet in service, and
21 Mr. Vasconi's testimony, questioning whether the PIP
22 violates the use and useful statute. Is that correct?

23 A. Right.

24 Q. On line ten you refer to the Commission's
25 historical approval of future costs for rate base

0214

1 additions for using average or monthly average rate base
2 for new electric production facilities. Correct?

3 A. That's correct.

4 Q. Earlier I've referred to the power cost only
5 rate case mechanism the company currently has. Do you
6 recall that?

7 A. That's correct.

8 Q. Isn't an intent of that process is to try to
9 synchronize the recovery of costs associated with new
10 generation with the in-service date of that
11 regeneration?

12 A. That would be part of it, yes.

13 Q. The final question I have for you involves
14 Exhibit JHS-12. That's a cross-examination exhibit.

15 A. I have it.

16 Q. The company's response to Staff Data Request 11.
17 And here we asked the company to provide a list of all
18 regulatory mechanisms for accounting treatment in part
19 A, and then part B, other regulatory mechanisms and
20 procedures that serve to reduce regulatory lag. Is that
21 right?

22 A. That's correct.

23 Q. In addition to the list that you included of
24 those deferred accounting mechanisms, the company has
25 the power cost only rate case mechanism, correct, that

0215

1 we've discussed?

2 A. That's correct.

3 Q. The company also has a power cost adjustment
4 mechanism. Is that right?

5 A. What was your first one?

6 Q. The power cost only rate case mechanism.

7 A. PCOR, right.

8 Q. And then the company has a PCA as well?

9 A. Well, they're basically the same thing.

10 Q. Well, my understanding is the PCOR was adopted
11 as part of the PCA, but the PCA mechanism operates
12 separately under annual filings from the company --

13 A. That's right. No rate adjustment with a PCA.

14 Q. There hasn't been yet?

15 A. No.

16 Q. There can be?

17 A. There could be, yes.

18 Q. And then the company also has, I think as was
19 discussed at other times today, a tariff rider for
20 conservation expenses. Correct?

21 A. Correct.

22 Q. And the company also has a tariff rider for low
23 income?

24 A. Right. And we also have a tariff rider for
25 Schedule 95T, which is the PTC's -- we have one for REC,

0216

1 for the, you know, the environmental. There's several
2 of those type of riders which are included in these
3 numbers here.

4 MR. CEDARBAUM: Thank you.

5 Those are all my questions.

6 JUDGE KOPTA: To clarify, PTC stands for?

7 THE WITNESS: Production tax credit.

8 JUDGE KOPTA: And REC is?

9 THE WITNESS: I knew somebody would ask that.

10 MS. CARSON: Renewable energy credit.

11 JUDGE KOPTA: For the record. Thank you.

12 Mr. Brooks, do you have any questions for
13 Mr. Story?

14 MR. BROOKS: I do, just a few.

15 CROSS-EXAMINATION

16 BY MR. BROOKS:

17 Q. Good afternoon, Mr. Story.

18 A. Good afternoon.

19 Q. Does the proposed PIP include a surcharge on
20 customers that have a special contract with Puget?

21 A. I'm sorry?

22 Q. The PIP as it's proposed, does that include a
23 surcharge for customers that have a special contract?

24 A. Yes, it does.

25 Q. What is the initial amount of that proposed

0217

1 surcharge?

2 A. It's about \$36,000.

3 Q. How did you arrive at that amount?

4 A. It was allocated based on the same way the 2009
5 allocations were done for pipe. It was factors were
6 used to allocate the different revenue dollars to the
7 different classes of customers, and then those dollars
8 were spread based on estimated therms.

9 Q. When you say it was allocated in the same ways
10 as in 2009, did you mean relied on the cost of service
11 study?

12 A. That the company had used, yes.

13 Q. In calculating the amount for special contracts
14 customers, did you use just the results of that cost of
15 service study, or did you actually segregate out the
16 pipeline as part of the PIP and run it through that cost
17 of service study?

18 A. We did not segregate the pipeline.

19 Q. When the cost of service study was used as part
20 of that '09 rate case, was that part of a stipulated
21 settlement that was presented to the Commission?

22 A. Yes, it was.

23 Q. Would that have included language that indicated
24 the parties intended to use the cost of service study
25 only for that rate case and not for setting precedents?

0218

1 A. Yeah, that's what my testimony is.

2 Q. If the Commission does not approve the PIP,
3 would the cost of replacing the pipeline segments
4 otherwise contemplated in that proposal get passed on to
5 special contracts customers?

6 A. It could, depending on the price -- or the type
7 of pipe.

8 Q. Are there any other factors that would determine
9 how it gets passed on to those customers?

10 A. It would be just part of the normal allocations.
11 I would say it would be under the cost of service study.

12 Q. As you were calculating the amount that would be
13 charged to special contracts customers for the PIP, did
14 you review any of the special contracts that Puget has?

15 A. They were reviewed, yes. I didn't do it
16 personally.

17 Q. In your rebuttal testimony, which is JHS-10T,
18 page 6, I believe line eight, concludes that
19 supplemental schedules do apply. Was that your
20 conclusion?

21 A. Yes. I was shown the section on the contract
22 that would support that.

23 Q. So you did review the contracts?

24 A. You asked prior to us filing, and after there
25 was testimony saying that that shouldn't be allocated I

0219

1 did look at it, yes.

2 Q. Do the special contracts typically contain
3 provisions that would run -- I guess without the PIP, if
4 you were going to pass these costs on to those
5 customers, do they contain calculations or formulas that
6 would determine what the ultimate amount is that gets
7 charged for a special contracts customer?

8 A. Well, depends on the contract. Some have
9 formulas, some have statements saying additional costs
10 that are approved by the Commission could be added to
11 the contract price. Most of them would have that type
12 of provision.

13 MR BROOKS: That's all the questions I have.

14 JUDGE KOPTA: Thank you, Mr. Brooks.

15 Mr. ffitch?

16 MR. FFITCH: Thank you, Your Honor.

17 CROSS-EXAMINATION

18 BY MR. FFITCH:

19 Q. Good afternoon, Mr. Story.

20 A. Good afternoon.

21 Q. I'd like you first to turn to your
22 Exhibit JHS-4. That's the third exhibit to your direct.

23 A. I have that, yes.

24 Q. And page 1, it's a one-page exhibit.

25 A. Yes.

0220

1 Q. And I just want to ask you a couple of questions
2 about the first column, the summary column of that
3 exhibit.

4 This is essentially the revenue requirement
5 calculation behind the surcharge proposal. Correct?

6 A. That's correct.

7 Q. And year one of the program includes
8 16.4 million of capital costs. That's at the top, line
9 one.

10 A. That's an average, a monthly average number.

11 Q. Okay. And what covers actual and forecasts of
12 replacements through October 31, 2012?

13 A. That's correct.

14 Q. And the PIP then includes the recovery of
15 \$1.9 million through the surcharge. We see that number
16 on the bottom on line 14. Correct?

17 A. That's correct.

18 Q. And of that 1.9 million, 586 million --
19 thousand, is depreciation. Correct?

20 A. That's correct.

21 Q. You can see that on the chart on line ten.

22 And then the return is 1.23 million --
23 1.237 million. Right?

24 A. No. The return is 804,000. The one million two
25 is the return plus taxes.

0221

1 Q. Those are taxes associated with that return.

2 Correct?

3 A. That's correct.

4 Q. And that amount is going to the shareholders or
5 investors. Correct?

6 A. No. Part of it is going to taxes.

7 Q. And the IRS, excuse me.

8 A. Yeah, right.

9 Q. So this shows us, doesn't it, that if the
10 company spends \$16.4 million on plant, it only recovers
11 586,000 in depreciation expense, the return of its
12 capital. Where did you get the other 15.8 million that
13 it paid for the replacement pipe, the 16.4 million at
14 the top?

15 A. That would come from the funds that are
16 generated day to day. It includes income that's coming
17 in from customers, it includes financing, it includes
18 equity, all sorts of -- it's whatever the source of
19 funds are. You're not going to have dollars that are
20 coded, you know, that these are long-term debt dollars,
21 these are equity dollars. It's all put together, and
22 it's been discussed on the budget. The dollars are
23 allocated out to capital and O&M.

24 Q. That would include a combination of debt and
25 equity, just like any other capital project?

0222

1 A. Well, debt and equity and short-term debt,
2 depreciation, you know, the funds coming in from
3 depreciation, all sorts of things, yes.

4 Q. In the 2006 general rate case, Mr. Story, Puget
5 Sound Energy proposed the depreciation tracker, did they
6 not?

7 A. Yes.

8 Q. You were witness in that proceeding on a number
9 of issues including in support of the depreciation
10 tracker. Right?

11 A. Yes, I was.

12 Q. The tracker was proposed essentially to meet a
13 need for capital investment in replacement and upgrade
14 of transmission and distribution facilities. Is that
15 right?

16 A. I did not review that testimony, but if that's
17 what the testimony says, yes. It's been five years,
18 four years.

19 Q. The testimony was provided, the citations were
20 provided to your counsel in advance of the hearing, but
21 you haven't reviewed the testimony to prepare for this
22 hearing?

23 A. I reviewed the testimony, yes. Those came in
24 yesterday. I was reviewing testimony and exhibits.

25 Q. You accept that that was the basic rationale for

0223

1 the --

2 A. I'll accept it.

3 Q. And also timely recovery of that investment, the
4 argument was made, would provide an incentive to the
5 company to make those investments on behalf of
6 customers?

7 A. That's what the testimony says, yes.

8 Q. Do you recall in that case that another party's
9 witness described the proposal as unusual and extreme?

10 A. There were all sorts of descriptions on that
11 program, yes.

12 Q. Isn't it the case that you responded to that by
13 pointing out that the company was not asking for a
14 return on the investment, but that that proposal simply
15 asked for a return of the investment?

16 A. That's correct.

17 MR. FFITCH: I want to ask now about an exhibit,
18 Your Honor, that is subject to objection by Ms. Carson.
19 That would be JHS-15. I'd like to just inquire of the
20 witness in aid of resolving the objection, if I can.

21 JUDGE KOPTA: That is appropriate, yes.

22 BY MR. FFITCH:

23 Q. Mr. Story, I guess first of all just explain to
24 us what we're looking at here. Just give us the
25 context.

0224

1 A. This exhibit was the program that we had
2 proposed earlier in the year where bare steel was
3 included, and the program included building in bare
4 steel, wrap steel, may -- services and plastic pipe and
5 the other item also. We took what was built into rates,
6 took it out into the rate year, and then also added the
7 additions, added the depreciation, deferred taxes
8 associated with that, and came up with a total revenue
9 requirement for the programs. So we were adjusting what
10 was included in rates for wrapped -- or bare steel and
11 the other three programs in this.

12 Q. All right. And you also calculated the return
13 on equity increase that would result from the program,
14 and that's shown in the bottom right-hand corner as 28
15 basis points. Correct?

16 A. That's not correct.

17 Q. Doesn't the exhibit say 28 basis points on it?

18 A. But that's not on the return on equity in total
19 company, that's only on the return on equity in the rate
20 base that we were adding that we were looking at for
21 bare steel and the other three programs.

22 The \$347 million is not rate based for gas. Gas
23 rate base is about 1.6 billion, so this was measuring
24 the return on equity only on those programs.

25 Q. The top line shows revenue requirement and it

0225

1 shows a difference on the far right-hand side of
2 731,000. It's a revenue deficiency number. Is that
3 correct?

4 A. That's correct. It's for four months, that's
5 July through October of 2011, because this original
6 program had the rates starting in July of 2011, so this
7 was only for those months.

8 Q. So the correct number that we would put in there
9 now, which we would see from your JHS-4, would be
10 1.9 million, approximately?

11 A. That's correct.

12 Q. And how would that affect the 28 basis point
13 number that's shown at the bottom of the page?

14 A. The correct basis point for what we're
15 requesting and for a full year and on total equity would
16 be seven basis points.

17 Q. We would request that the company update the
18 exhibit. Are you able to do that, Mr. Story?

19 A. Yes. The calculation is available from the
20 numbers you have. We can provide the calculation.

21 Q. Ms. Crane referenced this --

22 JUDGE KOPTA: Just a moment, Mr. ffitich.

23 Do you have an objection to --

24 MS. CARSON: I do have an objection. This is
25 again response to informal data request back when it was

0226

1 a completely different program, it includes bare steel,
2 it includes time period that's past.

3 JUDGE KOPTA: Well, I'm referring specifically
4 to Public Counsel's request that the company essentially
5 update this table to reflect the current proposal.

6 MS. CARSON: So it would be a completely new
7 table.

8 JUDGE KOPTA: It would.

9 THE WITNESS: Yeah, I'd just clarify that. I
10 wouldn't update this table. It's not set up in a manner
11 to calculate return on equity in total. I'll give you
12 the calculation.

13 MR. FFITCH: What we're asking for, Your Honor,
14 is to have this data request answered based on the
15 company's current proposal.

16 MS. CARSON: I think we're happy to do that. It
17 may look a little bit different. Mr. Story, I believe,
18 it was on vacation when this was done, and has a few
19 different ideas about how it should be formatted. Bob
20 Williams prepared this, so it might look slightly
21 different, but it would cover our current proposal.

22 JUDGE KOPTA: We'll identify that as Record
23 Requisition No. 1, which would be -- I will let Public
24 Counsel, since it's your request, state the request for
25 the record so that the company understands exactly what

0227

1 it is you're asking for.

2 MR. FFITCH: I would simply restate it in the
3 words of the Staff Data Request No. 23, which is before
4 Mr. Story and it's in the record, would that be the same
5 wording.

6 JUDGE KOPTA: All right. Ms. Carson, do you
7 understand, and Mr. Story, do you understand the
8 request?

9 THE WITNESS: I understand the request, but
10 the -- normally what happens in an informal data request
11 is there's been some discussions, and that's why this is
12 most probably in this format, with staff. The -- as
13 long as we're in agreement that it is on total equity of
14 the company and for a year, I understand the request.

15 JUDGE KOPTA: Does that reflect your
16 understanding Mr. ffitch?

17 MR. FFITCH: Yes.

18 JUDGE KOPTA: All right. Then we have an
19 understanding. So that is Record Requisition No. 1.

20 With respect to this exhibit, are you finished
21 asking your questions about this exhibit?

22 MR. FFITCH: Your Honor, I have a couple more
23 questions about the exhibit.

24 JUDGE KOPTA: Okay. Then I'll let you continue.

25

0228

1 BY MR. FFITCH:

2 Q. Ms. Crane referenced this response in her direct
3 testimony, citing the 28 basis points on October 25th,
4 did she not?

5 A. Yes, she did.

6 Q. So you, Puget Sound Energy, were aware that the
7 parties were relying on that number, weren't you?

8 A. Yes. And as Ms. Carson indicated earlier, we're
9 not really sure where it came from, until we saw the
10 exhibit. We saw the reference to Staff Request 23, we
11 didn't have a Staff Request 23. We have a Staff
12 Informal Request 23. So it was kind of a surprise to
13 see this. But it really didn't make any difference,
14 because the equity is nowhere close when you talk about
15 these kind of basis points, it's nowhere close to what
16 the company is already behind on equity in its normal
17 earnings.

18 Q. Mr. Story, you're going way beyond my question.

19 A. I'm just saying why we didn't respond to it.

20 Q. You were aware that Ms. Crane had relied on
21 that. The company could have pretty easily figured out
22 by looking at the number of data requests in this case
23 where that number came from, couldn't it?

24 A. We weren't looking at informal data requests,
25 and she didn't provide a copy with her testimony.

0229

1 Q. You did not update this data response for
2 whatever reason, did you?

3 MS. CARSON: I object to this line of
4 questioning. As we discussed earlier when we objected
5 to this exhibit, this was response to an informal data
6 request before this was an adjudicative proceeding,
7 before the program became what it is today as part of
8 this adjudicative proceeding, and the company did not
9 think about going back and looking at the informal data
10 requests that had been issued prior to the commencement
11 of the new program in July.

12 MR. FFITCH: I just have one more question on
13 this line, Your Honor.

14 JUDGE KOPTA: Well, I have to agree with
15 Ms. Carson. I don't see any obligation under the rules
16 to update any informal data requests. If you have any
17 more questions along those lines, then I don't think
18 that that's appropriate, but if you have a different
19 question, then you may ask it.

20 MR. FFITCH: I think it's a different question,
21 Your Honor.

22 JUDGE KOPTA: Then proceed, please.

23 BY MR. FFITCH:

24 Q. You referenced Ms. Crane's testimony on this
25 point in your rebuttal without asserting that it needed

0230

1 to be corrected. Isn't that correct?

2 A. I just used the same number she used.

3 MR. FFITCH: I think those are all my questions.

4 Just one more minute. Let me check my notes,

5 Your Honor.

6 JUDGE KOPTA: Of course.

7 MR. FFITCH: No more questions.

8 Thank you, Mr. Story.

9 JUDGE KOPTA: Thank you, Mr. ffitch.

10 Are you going to offer Exhibit show offered

11 JHS-15?

12 MR. FFITCH: Well, Your Honor, just for
13 completeness of the record, I would offer it. I think
14 we're going to get a bench request that updates it, but
15 since we talked about the witness' referring to it, I
16 would offer it.

17 JUDGE KOPTA: Ms. Carson?

18 MS. CARSON: I renew my objection.

19 JUDGE KOPTA: I'm going to sustain the
20 objection. I don't see anything in this exhibit that's
21 probative of the case that is currently before us. I
22 understand there's been some discussion, there may have
23 been some misunderstandings, but that's certainly beside
24 the point of proceedings. So at this point I'm not
25 going to admit this particular exhibit.

0231

1 Questions from the commissioners? Commissioner
2 Jones?

3 COMMISSIONER JONES: No questions.

4 JUDGE KOPTA: Mr. Oshie?

5 COMMISSIONER OSHIE: No questions.

6 JUDGE KOPTA: Chairman Goltz?

7 CHAIRMAN GOLTZ: Just a couple.

8 Mr. Story, would be fair to characterize the
9 proposal as an attrition adjustment?

10 THE WITNESS: If you define attrition adjustment
11 as including future looking numbers, yes, and that's
12 been defined in this state that way, yes.

13 CHAIRMAN GOLTZ: Looking at Mr. Henderson's
14 testimony, the table on page 10 of his testimony --

15 JUDGE KOPTA: His direct testimony?

16 CHAIRMAN GOLTZ: His direct testimony.

17 JUDGE KOPTA: Exhibit DAH-1T for the record.

18 CHAIRMAN GOLTZ: We've looked at this a lot this
19 afternoon, and this morning. And it basically shows the
20 actual and planned expenditures for various classes of
21 pipeline replacement. Is that correct?

22 THE WITNESS: That's correct.

23 CHAIRMAN GOLTZ: So for the wrap steel WSSAP
24 services and older PE, do you happen to know offhand
25 what the depreciable -- what the life is for

0232

1 depreciation purposes of that sort of plan?

2 THE WITNESS: For distribution, or wrap steel
3 mains, it's 3.27 percent, plastic it's 2.77 percent, and
4 distribution services plastic is 4.58 percent.

5 CHAIRMAN GOLTZ: So depreciable life would be
6 between three and four and a half years for that type of
7 pipe, about? I'm -- sorry.

8 THE WITNESS: No, 30 --

9 CHAIRMAN GOLTZ: Between 25 and 30 or so?

10 THE WITNESS: Twenty-five and thirty-five,
11 right.

12 CHAIRMAN GOLTZ: Right. So currently is the
13 company taking their depreciation expense for
14 some of this pipe that's in the ground already?

15 THE WITNESS: It is.

16 CHAIRMAN GOLTZ: Do you know offhand how much
17 that would be for the various classes of pipe?

18 THE WITNESS: In total?

19 CHAIRMAN GOLTZ: Either in total or by class of
20 pipe.

21 THE WITNESS: I do not have that number in
22 total, but for that -- if you're talking about the total
23 distribution or the pipe in 376 and 380 --

24 CHAIRMAN GOLTZ: Tell me with 376 and 380.

25 THE WITNESS: Those are just the accounts that

0233

1 we keep the plastic and steel pipe in.

2 CHAIRMAN GOLTZ: Right.

3 THE WITNESS: I do not have what the total
4 depreciation is on this, no.

5 CHAIRMAN GOLTZ: Do you know, looking at the
6 planned expenditures on that table on page 10 of DAH-1T,
7 does it come close to approaching those figures?

8 THE WITNESS: Most probably the easiest thing to
9 look at is the Exhibit 4. For adding this \$16 million
10 of pipe on an average of, monthly average basis --

11 JUDGE KOPTA: Excuse me, Mr. Story. What
12 exhibit are you looking at?

13 THE WITNESS: I'm looking at JHS-4.

14 Now, this is pipe going up from June of 2010 up
15 through October of 2012. The one year depreciation on
16 that pipe is about \$600,000. It's on line ten.

17 CHAIRMAN GOLTZ: Right.

18 THE WITNESS: Line ten. So --

19 CHAIRMAN GOLTZ: That's \$16 million worth of
20 pipe.

21 THE WITNESS: Right.

22 CHAIRMAN GOLTZ: So to get to the overall
23 amount, you'd have to figure out how much overall pipe
24 there is in the ground.

25 THE WITNESS: Right.

0234

1 CHAIRMAN GOLTZ: Which is undepreciated, which
2 is not yet depreciated.

3 THE WITNESS: Depreciation is taken on your
4 gross plant, so accumulated depreciation offsets it. We
5 can provide that number. I just don't have it.

6 CHAIRMAN GOLTZ: We may ask for it.
7 Can you just give us that?

8 JUDGE KOPTA: This will be Bench Request No. 1.
9 Do you understand what it is that has been requested?

10 THE WITNESS: Yes. You'd like the total
11 depreciation expense associated with these three
12 programs.

13 JUDGE KOPTA: Yes.

14 CHAIRMAN GOLTZ: Why don't you go ahead and
15 throw in bare steel too as long as you're in the books.

16 I have no further questions.

17 JUDGE KOPTA: Any redirect?

18 MS. CARSON: Yes.

19 REDIRECT EXAMINATION

20 BY MS. CARSON:

21 Q. Mr. Story, earlier you stated that special
22 contracts customers would pay \$36,000 of the total
23 1.9 million. I'd like you to take a look at
24 Exhibit JHS-8, page 1.

25 A. Yes.

0235

1 Q. Can you confirm if that's the correct number?

2 A. No. It's only 10,715. The 36,000 was '86 and
3 '87 together. So 10,700 it would be special contracts.

4 Q. Is it the 10,715 or is it the number at the
5 bottom of the page, 8,574?

6 A. You're correct. It's 8,574.

7 Q. Mr. Story, earlier you testified that the PIP is
8 an attrition adjustment. Is that the purpose of the
9 PIP, an attrition adjustment?

10 A. No, it's not. The purpose of the PIP is to put
11 an emphasis on this program to enhance safety and
12 reliability of the system. One of the benefits of
13 having the PIP program makes it an earning asset
14 earlier, which helps us in both financing this
15 construction and other construction.

16 Q. Earlier in response to a question from
17 Mr. ffitich about recovery of replacement of pipes in
18 rates, you said 27 months after the fact. What did you
19 mean by that?

20 A. I believe that was Mr. Cedarbaum, but it's -- if
21 you were to take the first month of your test year, and
22 you inserted pipe in that first month, you would have
23 that, the value of that pipe for the full test year, so
24 that's 12 months. Generally it takes three to four
25 months to prepare a case to file before the Commission,

0236

1 so you're up to 15 to 16 months. And it takes 11 months
2 to resolve a rate case. So that's the 27 months before
3 it gets built into the rates.

4 Q. Thank you.

5 MS. CARSON: I have no further questions.

6 MR. CEDARBAUM: I just have one follow-up.

7 JUDGE KOPTA: Yes, one follow-up.

8 RE CROSS-EXAMINATION

9 BY MR. CEDARBAUM:

10 Q. On that last point, Mr. Story, during that
11 27-month period of time, there are rates currently in
12 effect that -- in which are embedded pipeline costs.
13 Correct?

14 A. That's correct. But they're not at the rate to
15 replace -- to cover the revenues required for the new
16 replacement. They are based on historical plant.

17 Q. But eventually they will be based on higher
18 costs if the company accelerates the replacement?

19 A. Eventually they get built in, up to 27 months
20 later.

21 Q. Again, during that 27-month period of time,
22 whatever is embedded in rates continues to get recovered
23 by the company?

24 A. Well, you got to recall that the pipe we're
25 talking about is '85 or older. Most of that, just from

0237

1 Chairman Goltz's questions, that's 25 years, it's mostly
2 depreciated, so what's in rate base is the depreciated
3 value. Some of that pipe is totally depreciated, and
4 some may even have a reserve against it that makes it a
5 credit amount. So if you look at those individuals
6 pipes, there's not very much money in there for recovery
7 on rate base.

8 You're also talking about pipe that's 30 years
9 old, much cheaper to put into service 30 years ago than
10 it is today. So when we replace pipe today, the revenue
11 requirement on the new pipe is much higher than what was
12 built in the rates.

13 MR. CEDARBAUM: Thank you.

14 JUDGE KOPTA: Anything further for this witness?

15 MS. CARSON: No.

16 JUDGE KOPTA: Thank you, Mr. Story. You are
17 excused. We appreciate your testimony.

18 I believe that concludes the company's
19 witnesses. Is that correct?

20 MS. CARSON: That's correct.

21 JUDGE KOPTA: All right. We would move on to
22 Commission staff. I note that, Ms. Carson, you said you
23 have no cross for any of the staff witnesses?

24 MS. CARSON: That's correct.

25 JUDGE KOPTA: I don't believe the commissioners

0238

1 have questions for Mr. Vasconi.

2 COMMISSIONER JONES: Correct.

3 CHAIRMAN GOLTZ: Correct.

4 JUDGE KOPTA: His testimony has already been
5 admitted.

6 We thank you for attending. You will not need
7 to stand for cross, for questioning.

8 I believe, however, staff has one other witness.
9 If you would like to call that witness, hopefully he is
10 available on the phone.

11 MR. CEDARBAUM: I hope so too.

12 MR. LYKKEN: I am.

13 JUDGE KOPTA: Excellent.

14 MR. CEDARBAUM: Before turning to Mr. Lykken I
15 would like to make one correction to Mr. Vasconi's
16 testimony for the record. We discussed this before we
17 went on the record this morning.

18 On page 1 of his testimony, line 9, the word
19 "acting" should be removed.

20 JUDGE KOPTA: We will make that correction.

21 CHAIRMAN GOLTZ: Then you have to change the
22 next sentence too, though.

23 MR. FFITCH: It's spiralling out of control.

24 JUDGE KOPTA: I think that is a fact of which we
25 can take official notice.

0239

1 MR. CEDARBAUM: I shouldn't have started.

2 Mr. Lykken, are you there?

3 THE WITNESS: Yes.

4 MR. CEDARBAUM: I'm not sure if he's been sworn
5 in.

6 JUDGE KOPTA: He has not.

7 Mr. Lykken, I will ask that you stand and raise
8 your right hand.

9 DAVID LYKKEN (Appearing via telephone)

10 Witness herein, having been first duly sworn on
11 oath, was examined and testified as follow:

12 THE WITNESS: I do.

13 JUDGE KOPTA: Thank you.

14 Mr. Cedarbaum?

15 DIRECT EXAMINATION

16 BY MR. CEDARBAUM:

17 Q. If you can please state your full name, spelling
18 your last name.

19 A. My name is David Lykken, L-Y-K-K-E-N.

20 Q. And you are the pipeline safety director for the
21 Commission?

22 A. Yes, I am.

23 Q. And you prepared direct testimony in this
24 proceeding. Is that correct?

25 A. Yes, I have.

0240

1 Q. Is that testimony true and correct to the best
2 of your knowledge and belief?

3 A. Yes, it is.

4 MR. CEDARBAUM: Your Honor, I think this
5 testimony has already been admitted, and I would like to
6 confirm that, and I'll make Mr. Lykken available for
7 questioning.

8 JUDGE KOPTA: It has been admitted, thank you.

9 There is no cross for Mr. Lykken, but we may
10 have a question or two from the bench.

11 Commissioner Jones, do you have anything for
12 Mr. Lykken?

13 And I would caution Mr. Lykken if you would
14 speak close to the phone and speak up, because you're a
15 little bit faint.

16 THE WITNESS: Never been accused of that before.

17 JUDGE KOPTA: That's much better. Thank you.

18 COMMISSIONER JONES: Mr. Lykken, this is
19 Commissioner Jones. Can you hear me?

20 THE WITNESS: Yes, I can.

21 COMMISSIONER JONES: Okay. Do you have your
22 testimony in front of you?

23 THE WITNESS: I do.

24 COMMISSIONER JONES: I'm going to ask you a
25 couple of questions based on pages 6 and 7. Tell me

0241

1 when you're there.

2 THE WITNESS: I am there.

3 COMMISSIONER JONES: On line 20 of page 6, you
4 were talking about the PE pipe, or you are talking about
5 the PE pipe in that section, are you not?

6 THE WITNESS: Yes, I am.

7 COMMISSIONER JONES: And you state that the
8 level of exposure, quote/unquote, is unclear, since
9 historical documents such as material requisitions,
10 construction and maintenance records do not provide
11 sufficient detail to determine quantities purchased and
12 location of installations.

13 So can you explain that a little bit more in
14 detail? Is it poor data, is it the fact that the GIS
15 system is not properly in place? What's the reason for
16 this?

17 THE WITNESS: Well, based on my discussions with
18 the company, there are not adequate records to fully
19 understand the magnitude of the issue. I understand
20 from Mr. Henderson's testimony that they estimated
21 approximately a thousand miles of this pipe as being
22 installed, but yet he also goes on to say that there's a
23 hundred miles that they know definitively that have
24 potential issues.

25 My experience with working for the company while

0242

1 I was at Washington Natural Gas is that, you know, there
2 were many forms of pipe, various forms of pipe went into
3 the ground at that time; not just DuPont, you know,
4 Drisco pipe and other brands of pipe put in at that
5 time. I think the documentation needs to be more
6 closely scrutinized to determine exactly the extent of
7 the exposure of this pipe to the public.

8 COMMISSIONER JONES: So it's your
9 understanding -- so you base -- you base this statement
10 both on your experience in the industry working for WNG
11 and working here at the Pipeline Safety staff?

12 THE WITNESS: That's correct.

13 COMMISSIONER JONES: And so you go on to state
14 the DuPont pipe was not used exclusively and constitutes
15 only a fraction of the total mileage. So when you say
16 fraction -- so you are calling into question too this
17 calculation of, A, 100 miles of pre '86 PE pipe could be
18 in question.

19 THE WITNESS: No, I'm not questioning that.
20 This is actually the first time I've heard that they've
21 established a number of miles of this pipe. It was my
22 understand in the past that they didn't have a full
23 understanding of the quantity of pipe that was in the
24 ground with respect to the DuPont pipe.

25 COMMISSIONER JONES: And there are other high

0243

1 quality PE materials that were used during that time.

2 THE WITNESS: There are.

3 COMMISSIONER JONES: But you are stating that
4 you really don't know or the company doesn't know, and
5 the staff hasn't vetted exactly what's in the ground and
6 what vintage that pipe is?

7 THE WITNESS: I won't speak for the company, but
8 I know that I believe that those quantities could become
9 into question about exactly how much of this pipe has
10 been installed.

11 COMMISSIONER JONES: Okay. My last question is
12 on the risk model. On page 7, on lines nine through 16,
13 you go on to talk about the risk model. And I think the
14 commissioners had some questions on this before.

15 Mr. Henderson describes this as a very
16 complicated, large spreadsheet. Is that your
17 understanding as well?

18 THE WITNESS: It is my understanding.

19 COMMISSIONER JONES: Have you participated in
20 the development of this risk model?

21 THE WITNESS: I have not. Other engineering
22 staff within the organization, the pipeline safety
23 section, have been involved in that, in those
24 discussions, and evaluation of that risk model.

25 COMMISSIONER JONES: Is it the same sort of risk

0244

1 model that was used to rank the main segments for the
2 bare steel program?

3 THE WITNESS: There are elements that are
4 similar and it's -- the model is also consistent with
5 other models that I've seen with respect to other
6 companies, in particular interstate transmission
7 pipeline companies. They do follow similar
8 characteristics, although they're unique in that they
9 were involved with distribution piping.

10 COMMISSIONER JONES: Do you think that the
11 collaborative process proposed in this integrity tariff
12 would allow you to engage, quote, more proactively both
13 on the risk model and on the line segments to be
14 replaced in the PE program?

15 THE WITNESS: I believe our level of
16 collaboration really goes to evaluation of the DIMP
17 program and the risk model itself. We do have
18 familiarity with the risk model and what it's capable of
19 doing, but as Mr. Henderson noted in his testimony, we
20 will be challenging those projects where they come out
21 within the risk model.

22 He alluded to the top 100, and, you know, we
23 would want to check those others, that's all outside
24 that, to see why they didn't fall into the upper tier of
25 replacement program. So we won't evaluate every

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1 project, but we'll evaluate the high level, middle
2 level, and the lower level ones and make a determination
3 of whether the model is working the way we think it
4 should be.

5 COMMISSIONER JONES: And in the processes
6 proposed by the company in this integrity tariff, you
7 would be working with the company upfront in a
8 collaborative way to work out those line segments and
9 both the data inputs into the risk model and what came
10 out of the risk model. Correct?

11 THE WITNESS: That's correct. We'd be
12 evaluating the model itself and make a determination
13 that it's working as designed to do, knowing the
14 different characteristics of the different projects, and
15 why they fall out where they do, but, you know, once
16 we've made a determination that the model is working for
17 us, if there's certain projects that rise to the top,
18 and then we'll be comfortable that those are the ones
19 that the company will be moving forward with.

20 COMMISSIONER JONES: That's the end of my
21 questions, Judge.

22 JUDGE KOPTA: Thank you, Commissioner Jones.
23 Commissioner Oshie, do you have any questions?

24 COMMISSIONER OSHIE: I just have a couple of
25 follow-up questions for Mr. Lykken.

0246

1 Now, you went into some detail about describing,
2 you know, staff's participation in the company's
3 evaluation of the safety of the pipeline system. So are
4 you testifying that without approval of their proposal
5 staff would not conduct the same investigation that you
6 described in your earlier testimony this afternoon?

7 THE WITNESS: No, that evaluation would happen
8 regardless of what happens as a result of this hearing.

9 COMMISSIONER OSHIE: Thank you.

10 No further questions.

11 JUDGE KOPTA: Thank you Commissioner Oshie.

12 Mr. Chairman?

13 CHAIRMAN GOLTZ: So, Mr. Lykken, that answers
14 part of my question about the staff participation. In
15 what you described in response to the questions from
16 Commissioner Jones, was that the participation that's
17 going on now with their current plastic pipe replacement
18 efforts, or is that what you would do if the PIP is
19 approved?

20 THE WITNESS: We would do that regardless of
21 whether or not the tariff filing was approved or not.
22 Mr. Henderson alluded to the fact that the DIMP
23 regulations went into effect in August. We have yet to
24 fully evaluate that program and how the risks, existing
25 risk model will roll into the more global DIMP program.

0247

1 So regardless of what happens here, we'll be doing a
2 thorough review of the DIMP program overload.

3 CHAIRMAN GOLTZ: In the course of that review,
4 at least your current, how you currently envision it,
5 would that involve approval of proposed pipeline
6 replacements, or just involve an understanding of the
7 plans?

8 THE WITNESS: It would essentially involve
9 approving the understanding of the plans themselves, and
10 whether they meet the intent of the regulation.

11 CHAIRMAN GOLTZ: Okay. But were you
12 envisioning -- or do the Federal Rules envision state
13 regulator approval of these replacement? Or state
14 regulator involvement in the process is I guess what I'm
15 asking.

16 THE WITNESS: No. There's nothing in the rules
17 that require outright replacement of pipes. It's one of
18 the mitigating measures or strategies. We will, as part
19 of distribution integrity management, but nowhere in the
20 regulation is there a requirement to replace pipe
21 outright.

22 CHAIRMAN GOLTZ: No, but I mean is there a
23 requirement where there is pipeline replacement, that
24 the state regulators approve that replacement?

25 THE WITNESS: No.

0248

1 CHAIRMAN GOLTZ: A couple of just clarification
2 questions starting on page 5 of your testimony, where
3 you talk about serious pipeline incidences associated
4 with plastic pipe. I see that on lines 13 and 14. And
5 these are serious incidents -- this does not include
6 San Bruno or the Pennsylvania explosion that have been
7 referred to earlier today. Correct?

8 THE WITNESS: It does not.

9 CHAIRMAN GOLTZ: You state on line 20 and 21, or
10 starting on 21, that operators in several states, and
11 you list six, had replaced thousands of miles of this
12 higher risk plastic pipe. I believe Mr. Henderson said
13 that generally it's a million dollars a mile. So are
14 you saying that in those states there have been billions
15 of dollars spent replacing this pipe?

16 THE WITNESS: I can't answer that question as
17 far as the costs associated with those projects.
18 Obviously the cost per foot, if you will, has a lot to
19 do with the environment that the existing pipeline
20 resides in, if there's hard surface across the board --
21 I mean, it just depends on the situation.

22 CHAIRMAN GOLTZ: And then on the top of page 6,
23 you reference in the same paragraph where -- let me just
24 compare the first sentence and the last sentence of that
25 carryover paragraph from page 5 to 6. The first one

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1 says: The vulnerability of this material to premature
2 cracking represents a serious hazard to public safety.
3 And the last sentence says: Failures associated with
4 incidents in these states have been tied back to poor
5 construction practices at the time of installation.

6 So my question is is this a high -- this serious
7 hazard to public safety, to what extent is it a function
8 of poor construction practices and what would those
9 practices be?

10 THE WITNESS: Well, it has been a testament to
11 the companies in this state that do have this pipe in
12 the ground that at the time of original installation
13 they took care to properly bed the pipe, that it wasn't
14 exposing -- the pipe wasn't exposed to rocky soil that
15 may cause rock impingement, that do in turn cause these
16 crack growth defects. So that's a testament to the
17 companies for doing the correct thing at the time of the
18 original installation. However, this stuff -- excuse
19 me, this material is susceptible to any kind of
20 excessive bending, other point loading issues, that come
21 down to other people working around this pipe.

22 The company has control over what it does when
23 it installs this pipe. It doesn't have that control
24 when there's others working around these pipes. Later
25 on that's where we typically find these other damages.

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1 And lately, the last couple that have been related,
2 federally reported incidents, have been related to
3 others that work around this pipe.

4 The Odessa incident, and also there was another
5 one in Spokane, where there were sewer work going on,
6 and they crossed over the service, put undue loading on
7 the pipe when they backfilled it in, eventually caused a
8 failure later on.

9 CHAIRMAN GOLTZ: I guess standing alone, the
10 first sentence of that paragraph, the vulnerability of
11 this material to premature cracking represents a serious
12 hazard to public safety, standing by itself, that's a
13 scary statement.

14 THE WITNESS: It is.

15 CHAIRMAN GOLTZ: But I don't know if that's an
16 accurate reflection of what your real testimony is
17 because in the same paragraph you talked about in these
18 other states that the failures had been associated with
19 poor construction practices, and you said that's not --
20 that poor construction practices issue is not an issue
21 in this state.

22 THE WITNESS: Well, what I'm alluding to is the
23 volatility of the pipe itself. We should be glad that
24 we don't have the construction-type issues that the
25 other states are seeing; nonetheless, the pipe is

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1 susceptible to these kinds of failures, and not at the
2 hands of the operator themselves, but there's other
3 opportunities for this pipe to fail that are outside the
4 control of the pipeline operator.

5 If I can, since everybody is using the driving
6 analogy, that, you know --

7 CHAIRMAN GOLTZ: Actually, only Mr. DeBoer is
8 using it.

9 THE WITNESS: Only Mr. DeBoer. I'll use one.
10 I've had some time to think about this.

11 My apologies to the Ford. But if you think
12 about the Pinto, you know, I'm sure a fine vehicle for
13 most of those folks that owned them. No issues with the
14 vehicles unless you got rear-ended. Yes, maybe if you
15 got rear-ended it would develop a leak in the gas tank.
16 Even worse, maybe the vehicle caught fire.

17 But the analogy is we have some pipe here, on
18 the face it's fine, it's in an environment where there's
19 no harm to be done to it, but nonetheless, we recognize
20 across the country where there's other people having
21 issues with this pipe that it is susceptible to
22 problems.

23 CHAIRMAN GOLTZ: Just one other nitpicky sort of
24 question. You refer, for example, in several places,
25 and one example is on page 5, line 9, to pre-1985 PE

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1 pipe. And then over on page 7, line 14, you talk about
2 pre-1986 PE pipe. Mr. Henderson also talked about
3 pre-1986. Is that just a typo or is there a distinction
4 there?

5 THE WITNESS: You know, I can't answer that,
6 Mr. Chairman. Typically we refer to pre-1985 pipe, but
7 I don't think there's a distinction there that that's
8 important.

9 CHAIRMAN GOLTZ: Okay. That's fine.

10 I have no further questions.

11 COMMISSIONER OSHIE: I have a follow-up
12 question, Judge.

13 JUDGE KOPTA: All right. Mr. Oshie?

14 COMMISSIONER OSHIE: So, Mr. Lykken, given, you
15 know, your testimony, both in response to cross and also
16 your written testimony, which I agree with the chairman
17 seems to be sending out kind of mixed messages here,
18 but, you know, if staff is really concerned about the
19 quality of the PE, the DuPont pipe that's in the system,
20 pre-'85, pre-'86, whatever it may be, but let's just
21 say, you know, if it's pre-'86 it covers '85, so we'll
22 just go with that one. Why doesn't the staff just
23 recommend that the company replace it and then let the
24 Commission decide based on the evidence and the risk
25 presented that they would be ordered to do it? Why

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1 leave it up to the company to decide whether it's going
2 to do it or not and then you always questioning whether
3 or not it's actually being accomplished? Why not just
4 tell them to do it? Or order them to do it.

5 THE WITNESS: Well, you -- I'm sorry. I talked
6 over you.

7 COMMISSIONER OSHIE: Excuse me. Or tell them to
8 do it equals order them to do it.

9 THE WITNESS: That's certainly a mechanism that
10 can be considered. What I struggle with is the fact
11 that there aren't a high number of leaks associated with
12 this pipe, nor is there a high rate of incidence with
13 this pipe in this state. So I try to balance that with
14 the need to get other pipe replaced, such as the bare
15 steel and the cast-iron which the company has been
16 working on, and which has devoted primarily, most of
17 their resources at this time. Now we're getting into
18 the end of that program, and we're seeing where there's
19 other opportunities to tackle, and this is one of them.

20 COMMISSIONER OSHIE: Do you think the company
21 would be where it's at in its current bare steel
22 replacement program if it weren't ordered to do it by
23 the Commission?

24 THE WITNESS: You know, I have a hard time
25 answering that. I wasn't here at the time that that

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1 order was put into place, or I was just beginning to
2 work here.

3 COMMISSIONER OSHIE: Okay. So do you think it's
4 better to -- as a general rule, are you more comfortable
5 for the purpose of replacement of any kind of pipe in
6 the system if the Commission leaves it to the discretion
7 of the company to get it done, or the Commission orders
8 them to do it on a regulated schedule to accomplish that
9 task? What gives you more assurance as a regulator that
10 that task will be completed?

11 THE WITNESS: Good question. I guess the
12 assurance would come in the Commission order.

13 COMMISSIONER OSHIE: All right. Thank you,
14 Mr. Lykken. No other questions.

15 JUDGE KOPTA: Anything further from the bench?
16 I think not.

17 Mr. Cedarbaum, do you have any further?

18 MR. CEDARBAUM: (Shakes head in the negative.)

19 JUDGE KOPTA: Thank you, Mr. Lykken. You are
20 excused. We appreciate your testimony.

21 This concludes staff's witnesses.

22 Which leads us to Public Counsel, Mr. Ffitch.

23 MR. FFITCH: Your Honor, I understand there's
24 some questions for Ms. Crane, and I would call her to
25 the stand.

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1 JUDGE KOPTA: All right. Ms. Crane, raise your
2 right hand.

3 ANDREA CRANE

4 Witness herein, having been first duly sworn on
5 oath, was examined and testified as follow:

6 THE WITNESS: Yes, I do.

7 DIRECT EXAMINATION

8 BY MR. FFITCH:

9 Q. Good afternoon, Ms. Crane.

10 A. Good afternoon.

11 Q. Could you please state your full name and spell
12 your last name for the record.

13 A. Yes. My name is Andrea C. Crane, C-R-A-N-E.

14 Q. Could you please provide your business address?

15 A. Yes. My business address is the Columbia Group,
16 90 Grove Street, Suite 211, Ridgefield, Connecticut,
17 06877.

18 Q. Were you retained by Public Counsel to review
19 the company proposal in this case?

20 A. Yes, I was.

21 Q. Did you prepare the testimony that's been marked
22 as ACC-1 and the exhibit that's been marked as ACC-2 in
23 the case?

24 A. I did.

25 MR. FFITCH: Your Honor, those have already been

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1 admitted by previous stipulation.

2 JUDGE KOPTA: They have.

3 BY MR. FFITCH:

4 Q. Ms. Crane, do you have any corrections or
5 changes to that exhibit?

6 A. I do not.

7 Q. Or those exhibits?

8 A. I do not.

9 MR. FFITCH: Your Honor, Ms. Crane is available
10 for questions.

11 JUDGE KOPTA: All right. There is no
12 cross-examination, but there may be some questions from
13 the bench.

14 Mr. Jones?

15 COMMISSIONER JONES: No questions.

16 JUDGE KOPTA: Mr. Oshie?

17 COMMISSIONER OSHIE: Ms. Crane, welcome.

18 THE WITNESS: Thank you.

19 COMMISSIONER OSHIE: You know, I guess my only
20 question, and I'll -- it's going to be very broad. I
21 just want to get a better sense of the Public Counsel's
22 objection to this proposal. And, you know, is it that
23 the -- is it that there aren't -- maybe -- it is -- it's
24 captured by the bullets, but what's really the driver in
25 your opinion of Public Counsel's position here in this

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1 case? Is it that the safety concerns do not rise to the
2 level of creating this particular mechanism, or -- I
3 think that's how I really took it. And then there were
4 objections about the mechanism itself and how it
5 operated.

6 So let's start with the first. I mean, can you
7 describe what you believe in developing this testimony,
8 what is the most significant weakness of the proposal
9 that Puget has made, which we're reviewing this
10 afternoon?

11 THE WITNESS: Yes. And it certainly is not the
12 safety issue, because we feel very strongly that safety
13 is very important. I feel that personally, and I think
14 Public Counsel also feels that safety is a concern.

15 I do not feel that this mechanism as structured
16 provides really any benefit to rate payers, nor does it
17 really adequately address the safety issue. For
18 example, we just went through one of Mr. Story's
19 exhibits that showed that out of \$1.9 million that you
20 would collect from rate payers only 580,000 of that is
21 actually going to replacement of the plant. The bulk of
22 that is going to return on investment or to the IRS.

23 Now, the IRS probably needs all the help it can
24 get, but frankly the bulk of that is going into return
25 or taxes on that return. It's not going into plant on

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1 the ground.

2 In fact, out of that -- if they are going to put
3 16.4 million of plant in the ground, and I recognize
4 that that is based on the average of the monthly
5 averages, but let's just use that number as an example.
6 If they're going to put \$16.4 million of plant in the
7 ground in year one, the bulk of that, frankly, is being
8 financed through the same -- with the same pot as
9 Mr. Story acknowledged that all their other capital
10 expenditures are being financed from.

11 The fact is that, you know, dollars are
12 fungible. They're not labeled, they're not color coded
13 as to what programs they are to be used for. So I think
14 there's a basic flaw with the surcharge as structured.
15 It's really an accelerated recovery for investors as
16 opposed to an accelerated replacement program for pipe.
17 And that's my primary concern.

18 The other thing is he's talking about a cap of
19 \$25 million, capital -- a cap on capital expenditures of
20 \$25 million a year. The total budget we heard today, I
21 think it was in 2011, is \$1 billion. Now, you know,
22 frankly, I don't believe that if they have an entire
23 budget of \$1 billion that they're constrained from a
24 capital perspective to making the improvements that they
25 feel need to be made.

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1 I mean, if replacements have to be made, they
2 should be made, you know. And rate payers should pay
3 for them if they're prudent. But when you're talking
4 about budgets that are of a billion, certainly the
5 funding for this replacement program can be found
6 through normal channels.

7 This is a company also that comes in almost
8 every year for a rate case. This isn't a company that
9 comes in every five years. You know, if that were the
10 case then I think some of the concerns about regulatory
11 lag, for example, might be more valid. This is a
12 company that's going to be before you basically every
13 year anyway.

14 This is also a company that has managed large
15 replacement programs in the past and is in the process
16 of managing a large one right now through the normal
17 rate making process. And by all accounts, they're doing
18 it very well.

19 So, you know, I view this as the tip of the
20 iceberg. There's been talking about expansion. This is
21 in my view a way to expand shareholder return to get
22 that return on plant that isn't even providing service
23 yet, isn't even used and useful, and they're going to
24 start collecting that from rate payers. I just don't
25 think, A, it's appropriate, and, B, I don't think it's

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1 necessary. There hasn't been any proof in this record,
2 and I'm not an attorney, but as a financial analyst and
3 as a person who testifies a lot on regulatory policy,
4 there has not been any evidence that I have seen that
5 would indicate that they need this program in order to
6 replace pipe and make the system safe.

7 COMMISSIONER OSHIE: All right. I don't think I
8 have any other questions.

9 Maybe just one on your testimony. There's
10 spending in the capital budget that they must accomplish
11 for a variety of reasons, and in particular those two
12 comply with the regulatory requirements, whether imposed
13 on them by the state or by FERC or any other regulatory
14 body that may have jurisdiction. Then there's
15 discretionary funds. And my impression from the
16 company's testimony, both in this record, the written
17 record, and on cross-examination, that there's -- that
18 this, you know, that the monies that are being described
19 here as -- that could be spent for safety improvements
20 are being treated as discretionary monies, and that's
21 why they have to compete with the other funds in their
22 capital, in that discretionary capital pot, so to speak.

23 Is that your impression from listening and
24 reading the testimony as well, or do you think I'm maybe
25 misreading what has been expressed or stated or written?

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1 THE WITNESS: Right. Well, I have heard that.
2 I mean, certainly that is part of their argument, that
3 they want to pull these programs, these replacement
4 programs out of their normal budgeting process so that
5 these programs don't have to compete.

6 I guess I'm a little confused by that statement
7 for two reasons. I mean, one is we've also had
8 testimony today that, in fact, they do more than the
9 absolute minimum level that is required. You know,
10 Mr. Henderson testified that, in fact, they do more than
11 that minimum level already. So there's already some
12 discretionary spending in that regard.

13 The other thing that I'm curious about, as a
14 finance person, is going back to this issue of you have
15 to finance these replacements somehow. I mean, the fact
16 of the matter is rate payers, even if you approve this,
17 are only going to be providing \$1.9 million in year one,
18 for example, in a program that they're going to spend
19 16.4 million to put plant in the ground. They've got to
20 get that money from somewhere. Where are they going to
21 get it from? Because only \$586,000 of that 1.9 million
22 is going to actually be used for plant, as I indicated
23 earlier. The rest of that has to come from their normal
24 financing process.

25 I mean, that has -- plant is financed through --

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1 in the short term you can use short term debt.
2 Ultimately, generally that short term debt is replaced
3 with long term debt, and then you also use equity. And
4 that equity can come from either an outside source or it
5 can come from retained earnings, it can come from the
6 cash that's generated by the business, the -- the
7 earnings generated by the business. But there's no
8 separate financing process for these capital
9 expenditures.

10 They're not going to go out and they're not
11 going to, you know, necessarily say to their
12 shareholders, well, you know, you provide me \$10 million
13 so that I can do this replacement program, you know, and
14 you provide me a separate pot so that I can take care of
15 my -- the other parts of my distribution system.

16 I mean, their financing all comes basically from
17 the same sources, and so frankly I don't think that when
18 you have a rider you really are eliminating the need to
19 consider those costs in your overall budgeting process,
20 because you still have to get the funds from someplace,
21 and ultimately that comes from either your debt
22 investors or your equity investors.

23 COMMISSIONER OSHIE: You do a lot of work in
24 other jurisdictions, at least based on your written
25 testimony. And have you testified on, you know,

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1 specifically about, you know, about pipeline safety
2 issues and the management practices that are used to
3 accomplish that?

4 THE WITNESS: No. I have testified on the
5 financial implications of pipeline safety programs, but
6 I've not testified on the management of the programs
7 themselves or the engineering aspects of the programs.

8 COMMISSIONER OSHIE: Okay. My question -- maybe
9 you may know this. Are there other commissions that
10 approve pipeline safety projects prior to their
11 construction and in that way get actively involved in
12 the management of the pipeline safety program of the
13 company?

14 THE WITNESS: There are several commissions that
15 approve projects, and I'm thinking primarily, though,
16 things like generation projects that are preapproved.

17 COMMISSIONER OSHIE: Excuse me. If I can
18 interrupt. Are those states that have a requirement for
19 the company to come in and seek a certificate of
20 necessity -- or, you know, convenience and necessity is
21 another way of expressing it. They have to come to the
22 Commission and say here's what we want to do, here's our
23 need, here's why we want to build it, where we want to
24 build it, how we want to finance it, and here's what we
25 want to accomplish that?

1 THE WITNESS: I'm actually thinking more of
2 states that have statutes that permit although do not
3 require a utility to come in literally for preapproval
4 of like a large generating facility. Some states also
5 will permit preapproval of things like renewable
6 generation resources, you know, in order, frankly, to
7 reduce the risk to shareholders, and to give
8 shareholders some added assurance that those costs,
9 provided they come in within the budget that was
10 presented to the Commission, will ultimately be included
11 in rates. So it's a preapproval. Rate payers don't,
12 however, start to actually pay for those projects until
13 those projects are actually in service.

14 Now, there is -- you know, I have seen, as I
15 believe I may have mentioned in my testimony, I am
16 familiar with a situation, for example, in New Jersey,
17 where the governors, the former governor, in an attempt
18 to stimulate the work force there, introduced a \$500
19 million program whereby he encouraged infrastructure
20 acceleration by the utilities. It's a limited program
21 with a set number of programs and a number of full-time
22 equivalent employees that must be -- that must be added
23 to the work force associated with those programs.

24 Those types of infrastructure programs are due
25 to expire. They have a limited life. In that case,

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1 however, the costs are based on estimates, so there was
2 some recovery, you know, prior to all of that plant
3 being completed. That's -- it's usually on an annual
4 basis those programs are approved.

5 COMMISSIONER OSHIE: Thank you.

6 I don't have any other questions, Judge.

7 THE WITNESS: Thank you.

8 CHAIRMAN GOLTZ: I just have a couple, since you
9 brought your umbrella to the Pacific Northwest. Thanks
10 for coming.

11 You had testified just now in response to a
12 question that you saw no reason -- that there's no
13 evidence to demonstrate the necessity of this recovery
14 mechanism. I understand your testimony on that. We
15 talked a lot about that today. But you also, on page 14
16 of your testimony, in the last sentence on that page, go
17 beyond that, as I read it, and you say there there is no
18 evidence to suggest that any increase over currently
19 projected expenditures is even necessary or desirable.

20 And there it sounds like you're saying that on
21 the -- that sounds like you're testifying as a pipeline
22 engineer, which you're not. You heard Mr. Lykken say
23 that some of this pipeline was like driving a Pinto.

24 I guess my question is is that really your
25 testimony, or is it based on some sort of review, your

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1 professional opinion on the status of pipelines in the
2 state of Washington, or is it based on your review of
3 the testimony that you read, and if that's true, would
4 that testimony change based on the testimony you've
5 heard.

6 THE WITNESS: Well, in the interests of full
7 disclosure, I must tell you my first car was a red
8 Pinto, and it treated me very well.

9 But in terms of that, in terms of that sentence,
10 I was basing that sentence on the testimony, and I would
11 stand by that sentence today. It's important to recall
12 that all the numbers that have been provided by the
13 company in terms of either their budget or their planned
14 expenditures for this program are the costs that are
15 already projected by the company, even if you -- even if
16 you deny the program. Okay. So the company has not
17 provided you, or us, with any estimate or with any
18 quantitative program as to what the PIP -- what the PIP
19 would look like.

20 They have not indicated how much their
21 replacement would actually be accelerated. All they've
22 really shown is that their recovery of certain costs
23 that they have already projected, you know, the recovery
24 of that would be accelerated. All -- so I have not
25 seen -- I'm just by looking at the testimony in this

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1 case, I have not seen anyone say, okay, right now we're
2 planning to spend, you know, \$5 million, but if you give
3 us the PIP we're going to spend another \$10 million, and
4 here's the way we're going to spend it, and here's why
5 we need to spend that \$10 million, and here's why we
6 can't get that through our normal capital channels, and
7 here's what's going to happen to our bond rating if you
8 don't give us this recovery mechanism.

9 I mean, that is, you know, none of that is in
10 the testimony in this case. And so I'm saying they have
11 not demonstrated -- even though I'm not an engineer, you
12 know, just by reading what's in the record, they have
13 not demonstrated that they need additional amounts over
14 and above what they have already planned for.

15 In fact, we heard that, A, it may be very
16 difficult for them to ramp up. It's going to probably
17 take them a couple of years to ramp up to an accelerated
18 program. We heard that it may be difficult to get labor
19 to implement the program.

20 We also heard that their bare steel project,
21 which is very expensive, frankly -- I mean, it is,
22 they're spending a lot of money on that program. We
23 heard that that program is going to be completed soon,
24 and presumably that would free up a rather large source
25 of capital that could then be directed towards some

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1 other program, like replacement of the older plastic
2 pipe.

3 So I have seen nothing that would indicate that
4 this program is actually necessary from a safety
5 perspective at this point in time.

6 CHAIRMAN GOLTZ: But you also said desirable,
7 which seems to me to be a stretch, because what you're
8 saying there, I think, in that language, would be, as
9 Commissioner Oshie said to Mr. Lykken, you know, well,
10 what if the Commission ordered them to
11 accelerate replacement and didn't do anything about the
12 cost recovery. The cost recovery would be under
13 existing law. I read in your statement there as saying
14 even if it was an order, and there's no change in the
15 recovery mechanism, they'd still have all this up to
16 27-month lag, you'd say that's not desirable. That
17 sounds like you're making a safety judgment on that.

18 THE WITNESS: Uh-huh. Well, if they can
19 demonstrate that they, A, have, you know, have to do
20 additional capital programs, and, B, that they can do
21 them, that they have the work force out there, that they
22 have the materials, that would enable them to actually
23 implement those programs. If they can demonstrate that,
24 then I do think that certainly those costs and that
25 acceleration should be considered. Obviously I believe

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1 that with annual rate cases there's already a mechanism
2 in place that would allow you to consider that.

3 So, you know, I would certainly be willing to
4 entertain an acceleration of the program, you know,
5 provided they quantified what they wanted to do, and
6 demonstrated that they had the resources to actually
7 implement it.

8 CHAIRMAN GOLTZ: Thank you. I have no further
9 questions.

10 JUDGE KOPTA: Mr. Jones?

11 COMMISSIONER JONES: Ms. Crane, have you ever
12 advised a company on how to manage a capital expenditure
13 program? Or is the basis of your testimony as a
14 consumer advocate?

15 THE WITNESS: The basis of my testimony is as a
16 consumer advocate.

17 COMMISSIONER JONES: So you aren't disputing the
18 fact -- I think it was one of the data requests from
19 Public Counsel, that the company is a very aggressive
20 capital program? I think it was in the Moody's.

21 THE WITNESS: Absolutely, they have an
22 aggressive capital program, and they have the means to
23 fund that.

24 COMMISSIONER JONES: Well, I'm not asking the
25 latter. I'm asking the former.

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1 I think in the Moody's exhibit -- just read
2 through a few of these -- Lower Snake River project.
3 I'm reading from TAD-8. This is your data request.
4 Lower Snake River project, 840 million, Snoqualmie Falls
5 redevelopment, 240 million estimated cost.

6 MR. FFITCH: Your Honor, excuse me. Could I
7 hand the witness the exhibit?

8 COMMISSIONER JONES: Sure.

9 JUDGE KOPTA: I believe this is TAD 9.

10 COMMISSIONER JONES: Is it 9?

11 MR. FFITCH: I think that's correct.

12 COMMISSIONER JONES: You are correct, Judge, not
13 8, but 9.

14 THE WITNESS: I have it, thank you.

15 COMMISSIONER JONES: I'm on page 411.

16 MR. FFITCH: Your Honor, I just wanted to point
17 out for the record, that although the witness' copy is
18 on yellow paper, that is not confidential. It's a
19 function of what came out of our copy machine. And
20 that's just my personal working copy, so the Standard &
21 Poors' report is not confidential.

22 JUDGE KOPTA: So noted.

23 CHAIRMAN GOLTZ: Does it ever go the other way,
24 where white paper comes out when you think it's yellow?

25 JUDGE KOPTA: That's really scary.

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1 COMMISSIONER JONES: You're not contesting that,
2 are you?

3 So have you had a chance to review this, what
4 their total capital expenditure program is?

5 THE WITNESS: I have, actually.

6 COMMISSIONER JONES: Because you made a
7 statement, something to the effect that capital is
8 abundant or it's fungible, it's one pot of money that
9 comes from debt, equity, internal cash flow, and seemed
10 to be a conclusion that they have an abundance of money,
11 and why do they need a PIP program. That was your
12 testimony.

13 THE WITNESS: Sure. I'd love to respond to
14 that.

15 The fact of the matter is we're talking here
16 about, as you have indicated, a very large capital
17 program, independent of these replacements. They need
18 to -- they're going to have to spend quite a bit. \$1
19 billion in 2011 was the number. That's a lot of money.
20 \$25 million as a percent of that is a very small number.

21 Now, if they can finance a million dollars, I've
22 never seen a company -- I'm sorry, a billion. Never
23 seen a company that can finance a billion dollars but
24 can't find an extra \$25 million. So in my view the fact
25 that they have a large program to finance actually

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1 indicates they probably can absorb that \$25 million as
2 well.

3 In addition, if you read these, you'll see that
4 they also discuss some of the funding that's available.
5 For example, Puget Energy's \$1 billion committed cap X
6 facility is available through February of 2014 to
7 support the planned utility investments as well. And it
8 goes on. As of December 31st, 2010, there was \$742
9 million of unused capacity under the parent's cap X
10 facilities.

11 COMMISSIONER JONES: Sure.

12 THE WITNESS: We've also heard that the parent
13 has failed to provide any additional equity in the
14 utility since the merger. So I'm not denying that they
15 face a huge capital program. They absolutely do. What
16 I'm saying is the fact that they are facing a huge
17 capital program in my view does, you know, does not mean
18 that they need a special rate making mechanism for
19 another \$25 million a year.

20 COMMISSIONER JONES: I'm aware of all that. But
21 the question was the competing needs of capital in the
22 company. We had a discussion today of competing needs
23 of capital within the company. So are you portraying
24 yourself as an expert today of how internal, not
25 external, but internally how a company manages a capital

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1 expenditure budget?

2 THE WITNESS: For a utility, in terms of utility
3 financing, yes, I am. I do testify on cost of capital.
4 I'm very familiar with the way that a utility finances
5 its capital investment.

6 As I indicated earlier, Commissioner, this
7 program actually won't finance the replacements. What
8 it will do is it will accelerate return and actually
9 only -- I keep going back to this -- but only \$586,000
10 of that \$1.9 million is actually going to be plant in
11 the ground.

12 They have got to finance, even by their own
13 accounts, \$15.8 million -- and I'm rounding -- through
14 some other mechanism. What is that mechanism? That
15 mechanism is the same mechanism they're going to use to
16 finance any other capital project for the utility. It's
17 the same mechanism, it's going to be the same, you know,
18 the same sources of capital, be it debt capital or
19 equity capital.

20 So this program doesn't even do what they're
21 telling you it's going to do. All it's going to do is
22 put -- you know, is return earnings to shareholders
23 faster, and to debt holders. And a little bit, it will
24 give them a little bit, that one year depreciation
25 expense. That's what they're really getting in terms of

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1 dollars that they can put in the ground.

2 The rest, you know, the rest, it just doesn't do
3 what even, you know, what you may want it to do. You
4 know, we may want it to be a good financing vehicle to
5 accelerate replacements, but this program doesn't get
6 you there.

7 COMMISSIONER JONES: I understand your
8 perspective. But my point was in the context of a
9 billion dollar cap X program, in a 12 to 25 million
10 dollar pipeline integrity program, you could have two
11 responses. One is, in my view, one, it's significant,
12 one, it's not significant. And couldn't another
13 response be that 20 million out of a billion dollars is
14 not much to worry about? Why all this fuss?

15 THE WITNESS: Exactly. I agree with you. Why
16 all this fuss? Why do we need a special -- why do we
17 need, A, to set up a collaborative process, which is
18 going to take a lot of resources for a lot of parties,
19 why are we going to set up another rider on somebody's
20 bill? Why are we going to have to come before the
21 Commission, not only to approve, A, an initial rider,
22 but then to do a true-up, you know, 12 months later?

23 I mean, why are we going to undertake a process
24 for \$25 million when the bulk of that is going to be
25 directed back into the investors' pockets as opposed to

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1 being directed in the ground in terms of plant?

2 COMMISSIONER JONES: I was going the other way
3 with that, but -- my answer, Ms. Crane, would be safety,
4 but I'll leave it at that.

5 Thank you, Judge.

6 JUDGE KOPTA: Anything further from the bench?

7 Mr. ffitch, do you have anything further?

8 MR. FFITCH: No redirect, Your Honor.

9 JUDGE KOPTA: Thank you, Ms. Crane. I
10 appreciate your testimony. You're excused.

11 THE WITNESS: Thank you.

12 JUDGE KOPTA: And last but not least,
13 Mr. Brooks?

14 MR BROOKS: The Northwest Industrial Gas Users
15 would call Donald Schoenbeck.

16 DONALD SCHOENBECK

17 Witness herein, having been first duly sworn on
18 oath, was examined and testified as follow:

19 THE WITNESS: Yes, I do.

20 JUDGE KOPTA: You may be seated.

21 Mr. Brooks?

22 DIRECT EXAMINATION

23 BY MR. BROOKS:

24 Q. Mr. Schoenbeck, can you state your name and
25 affiliation for the record, and spell your last name,

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1 please.

2 A. Certainly. My name is Donald W. Schoenbeck.
3 That's S-C-H-O-E-N-B-E-C-K. I'm president of Regulatory
4 and Cogeneration Services. I'm here representing the
5 Northwest Industry Gas Users.

6 Q. Do you sponsor the response testimony of Donald
7 W. Schoenbeck which is now labeled as DWS-1T?

8 A. Yes, I did.

9 Q. That's been admitted to the record already.
10 Do you have any corrections or changes you'd
11 like to make to that testimony?

12 A. No, I do not.

13 MR. BROOKS: Your Honor, Mr. Schoenbeck is
14 available for questions.

15 JUDGE KOPTA: All right. Thank you. No cross.
16 But questions from the bench?

17 Mr. Jones?

18 COMMISSIONER JONES: The time is getting late,
19 and I do want to get home as well, Dr. Schoenbeck. Nice
20 to you. Spokane and now Olympia.

21 THE WITNESS: Good to see you too, Commissioner
22 Jones.

23 COMMISSIONER JONES: On page 6 of your testimony
24 you talk about the fundamental differences between the
25 Northwest Natural in Oregon and the program proposed

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1 here. But also in the fundamental, I'm going to just --
2 I think you supported the program, ICNU supported the
3 Northwest Natural program in Oregon, did you not?

4 THE WITNESS: Yes, they did.

5 COMMISSIONER JONES: Did you support the bare
6 steel that was initiated in 2001?

7 THE WITNESS: Even before that, I believe we
8 did, and of course as we said in the testimony, the
9 major part for supporting the 2003 program was because
10 of the eight-year stayout period.

11 COMMISSIONER JONES: So part of your objection
12 to this particular mechanism is that because the company
13 has the ability to come in frequently, every year, year
14 and a half, it's perhaps not necessary?

15 THE WITNESS: Yes, we certainly look at it as
16 just an accelerated investment return to their
17 shareholders, and we don't see a commensurate
18 quantifiable benefit for rate payers.

19 COMMISSIONER JONES: But if Puget would agree to
20 do a stayout, or if other elements of the Oregon
21 program, like an O&M offset were included in a cap X
22 tracker mechanism, could you possibly support such a
23 program?

24 THE WITNESS: We'd definitely would consider
25 such a program if it did contain a substantial stayout

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1 period, absolutely.

2 COMMISSIONER JONES: Just on the gas side or the
3 electric side?

4 THE WITNESS: Well, this is speaking on behalf
5 of the Northwest Industrial Gas Users. I'm talking just
6 gas. I'm not here on behalf of the Industrial Customers
7 of Northwest Utilities.

8 COMMISSIONER JONES: I know you wear many hats.

9 I think that's it. I had a few more questions,
10 but they're related more to safety and uncertainties in
11 the process, so I will end my questions here.

12 JUDGE KOPTA: All right. Thank you,
13 Commissioner Jones.

14 Commissioner Oshie?

15 COMMISSIONER OSHIE: Now that the can has been
16 opened. So how long of a stay would you like,
17 Mr. Schoenbeck? Is eight years sufficient?

18 THE WITNESS: Well, eight years certainly worked
19 with respect to Northwest Natural. We haven't had any
20 focus discussion, but just in my mind it certainly would
21 be refreshing not to see PSE for three years.

22 COMMISSIONER OSHIE: I accept that. Thank you.

23 No more questions.

24 JUDGE KOPTA: Thank you, Commissioner Oshie.

25 Mr. Chairman?

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1 CHAIRMAN GOLTZ: Mr. Schoenbeck, thanks for
2 patiently waiting all morning and afternoon.

3 So you testified that this is not similar to
4 Oregon's program. Can you refer us to a good
5 description of the Oregon program?

6 THE WITNESS: It's described rather briefly and
7 succinctly in their 10-K application before the SEC, but
8 I don't think it goes into the detail that you're
9 probably looking for. So I don't think there is a
10 publicly available document I could point you to at this
11 moment that would contain it. I'm sure we could come up
12 with a settlement and provide it to if you'd be
13 interested in seeing a detailed description.

14 CHAIRMAN GOLTZ: I assume that settlement was
15 approved by Commission order, Oregon Commission order.

16 THE WITNESS: Yes, it was.

17 CHAIRMAN GOLTZ: We could probably find that.
18 Is that what you're referring to?

19 THE WITNESS: Yes, uh-huh.

20 CHAIRMAN GOLTZ: Just a couple of questions.
21 Does the Oregon program include plastic pipe?

22 THE WITNESS: There's been, with respect to the
23 northwest -- focusing on Northwest Natural, there was
24 originally a bare steel program. If you go back to
25 about 2000, then in around 2003 you had the transmission

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1 program come in, and then with respect to 2006, '7 and
2 '8 you had the distribution program come in. So now
3 there's been consolidation of all three of those
4 separate pipeline integrity programs into a single
5 program. So when you say in terms of there is a
6 distribution integrity program, that would include all
7 their distribution mains, which would certainly include
8 plastic pipe as well.

9 CHAIRMAN GOLTZ: Okay. But this is a pipeline
10 infrastructure replacement program, the Oregon one.

11 THE WITNESS: Both transmission and distribution
12 is what I'm trying to say. Again, Northwest Natural has
13 a substantial transmission segment, as opposed to PSE
14 who has less than 30 miles.

15 CHAIRMAN GOLTZ: That is one of the points you
16 make as to why they're different proposals.

17 THE WITNESS: That's correct.

18 CHAIRMAN GOLTZ: Presumably because the
19 transmission element, the transmission pipeline has a
20 higher -- higher potential hazard.

21 THE WITNESS: Higher pressure.

22 CHAIRMAN GOLTZ: Higher hazard.

23 THE WITNESS: I'd say higher pressure. You'd
24 look more at different federal regulations applied to
25 the pressure of the lines.

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1 CHAIRMAN GOLTZ: So when you said on page 7 of
2 your testimony, as I recall it, this does not treat rate
3 payers fairly relative to shareholders, I assume that
4 Mr. Henderson or Mr. DeBoer or Mr. Story would say,
5 well, from a dollar perspective you just can't look at a
6 dollar perspective, you have to balance a little bit
7 apples and oranges, it's imprecise quantification of
8 safety benefits with dollars for shareholders. Were you
9 just, in your testimony were you just talking about sort
10 of dollars or were you talking about safety as well?

11 THE WITNESS: I was primarily focused on the
12 dollars, because I'm not a safety engineer. But when
13 you do look at their testimony, it is basically just
14 asking for an accelerated capital recovery of an
15 individual single-issue program. They clearly state
16 that their existing level of cap X expenditures for
17 pipeline replacement is within the guidelines to
18 maintain a safe system. So that's what I'm relying on.
19 I'm relying on their characterization of how safe their
20 system is.

21 CHAIRMAN GOLTZ: Just one more question with the
22 Oregon program. Did you say that the Oregon settlement
23 also included an agreement by Northwest Natural to stay
24 out for eight years?

25 THE WITNESS: The 2003 settlement did that, yes.

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1 CHAIRMAN GOLTZ: And so was there anything else
2 in the settlement as well? Was it basically just the
3 infrastructure replacement program plus the stayout, or
4 were there other elements as well?

5 THE WITNESS: Well, there were other elements.
6 Giving, you know, to the extent there might be
7 extraordinary circumstances, they could come in and ask
8 for rate relief. The basic deal was an eight-year
9 stayout program. Eight year stayout period.

10 CHAIRMAN GOLTZ: But I guess I'm asking is that
11 basically it. It was the pipeline replacement program,
12 eight-year stayout, those are the two elements of the
13 deal done?

14 THE WITNESS: Well, again, there is some
15 additional elements, but those were the significant
16 ones.

17 CHAIRMAN GOLTZ: Thank you. I have nothing
18 else.

19 JUDGE KOPTA: Anything further?

20 Mr. Brooks?

21 MR. BROOKS: Only to note that before this
22 docket was suspended I think we had submitted to the
23 Commission the Northwest Natural -- a description of
24 that program, which was both in their tariff and the
25 settlement agreement. If that's something we need to

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1 resubmit as part of the bench request to get that into
2 the record, we can do that.

3 JUDGE KOPTA: Yes, I think that would be wise.
4 Just because it's in the docket doesn't mean it's in the
5 evidentiary record.

6 MR. BROOKS: Right.

7 JUDGE KOPTA: We'll make that bench request
8 No. 2. All right.

9 MR. BROOKS: That's all I have.

10 JUDGE KOPTA: Thank you, Mr. Brooks.

11 Thank you, Mr. Schoenbeck. You are excused. We
12 appreciate your testimony.

13 I believe that concludes the evidentiary portion
14 of this hearing. We have a couple of housekeeping
15 matters we need to take care of on the record, but we'll
16 go off the record right now so the commissioners can go
17 on to other things. So we'll be off the record.

18 (Discussion off the record.)

19 JUDGE KOPTA: The commissioners are no longer on
20 the bench, and we have a few administrative items that
21 we need to take care of.

22 First, from an evidentiary standpoint, Puget
23 Sound Energy -- or let's start first with saying Public
24 Counsel designated an excerpt of Public Counsel Data
25 Request No. 35, a response from the company that has

1 been admitted as TAD-9, and the company requested that
2 the entire response be included as an exhibit, which we
3 will do. It will be TAD-9 supplemental, which is the
4 entire response from the company to the Public Counsel
5 Data Request No. 35. This will be admitted, so that
6 there will be both the original document that Public
7 Counsel designated and the full response given, that
8 with the examination that Public Counsel did with the
9 witness it will be too confusing to have just one
10 document given the page number references.

11 The second issue has to do with
12 cross-examination Exhibits DAH-24, 25, 27, and 28,
13 clarifying which exhibits have been admitted and which
14 are not offered because they're duplicative of other
15 documents. Given the lateness of the hour, we will not
16 address that at this point, but will take care of that
17 tomorrow, hopefully, but subsequently, so that we can
18 get that correct, so that we have the accurate list of
19 exhibits that are part of the record. Mr. Cedarbaum is
20 going to undertake to identify which exhibits should be
21 in the record and which should be excluded.

22 Third, there was one record requisition and two
23 bench requests during the hearings. Discussing off the
24 record, we established a date of Tuesday, November 23rd,
25 for those to be submitted to the Commission. They will

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1 be given exhibit numbers and admitted into the record.

2 And finally, post hearing briefs. The parties
3 agreed on opening, simultaneous opening and simultaneous
4 reply briefs. The opening briefs would be due on
5 December 16th, 2011, the reply briefs would be due on
6 January 6th, 2012.

7 And I believe Public Counsel also had a
8 statement to make to tie up an issue that we had
9 discussed before we engaged in our evidentiary portion
10 of the hearing.

11 MS. CARSON: Your Honor, before we do that, I
12 believe that you said for the records requisition and
13 bench requests Tuesday the 23rd of November. I believe
14 it's the 22nd.

15 JUDGE KOPTA: All right. Then I stand
16 corrected. You can have until the 23rd if you'd like.

17 MS. CARSON: I believe the 22nd will work.

18 JUDGE KOPTA: Then let's correct that to having
19 both the record requisition and the bench requests
20 submitted on Tuesday, November 22nd.

21 Now, Mr. ffitch?

22 MR. FFITCH: Thank you, Your Honor. Public
23 Counsel's request to make an offer of proof with respect
24 to documents from the 2006 general rate case is
25 withdrawn. The issue has been addressed in testimony.

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1 JUDGE KOPTA: Thank you. I believe that takes
2 care of all of the issues that I had to discuss.

3 Anything further before we adjourn?

4 Hearing nothing, we are adjourned. Thank you.

5 (Proceedings concluded at 5:26 p.m.)

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