

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
2 COMMISSION

3 In the Matter of the Proposal by)
4 PUGET SOUND POWER & LIGHT)
COMPANY)
5) DOCKET NO. UE-951270
to Transfer Revenues from PRAM)
6 Rates to General Rates.)
-----)

7 In the Matter of the Application)
of)
8)
PUGET SOUND POWER & LIGHT)
9 and)
WASHINGTON NATURAL GAS COMPANY) DOCKET NO. UE-960195
10) VOLUME 11
For an Order Authorizing the) Pages 1261 - 1511
11 Merger of WASHINGTON ENERGY)
COMPANY and WASHINGTON NATURAL)
12 GAS COMPANY with and into PUGET)
SOUND POWER & LIGHT COMPANY, and)
13 Authorizing the Issuance of)
Securities, Assumption of)
14 Obligations, Adoption of)
Tariffs, and Authorizations)
15 in Connection Therewith.)
-----)

16
17 A hearing in the above matter was held on
18 November 5, 1996, at 9:00 a.m. at 1300 South Evergreen
19 Park Drive Southwest, Olympia, Washington before
20 Commissioners RICHARD HEMSTAD and WILLIAM R. GILLIS
21 and Administrative Law Judges MARJORIE R. SCHAER and
22 JOHN PRUSIA.

23
24 Cheryl Macdonald, CSR
25 Court Reporter

1 The parties were present as follows:

2 WASHINGTON UTILITIES AND TRANSPORTATION
3 COMMISSION STAFF, by ROBERT CEDARBAUM, Assistant
4 Attorney General, 1400 South Evergreen Park Drive
5 Southwest, Olympia, Washington 98504.

6 FOR THE PUBLIC, ROBERT F. MANIFOLD,
7 Assistant Attorney General, 900 Fourth Avenue, Suite
8 2000, Seattle, Washington 98164.

9 PUGET SOUND POWER & LIGHT COMPANY, by JAMES
10 M. VAN NOSTRAND, Attorney at Law, 411 - 108th Avenue
11 NE, Bellevue, Washington 98004.

12 WASHINGTON NATURAL GAS COMPANY, by MATTHEW
13 R. HARRIS, Attorney at Law, 6100 Columbia Center, 701
14 Fifth Avenue, Seattle, Washington 98104.

15 NORTHWEST INDUSTRIAL GAS USERS, by EDWARD
16 FINKLEA, Attorney at Law, 101 SW Main, Suite 1100,
17 Portland, Oregon 97204.

18 WASHINGTON WATER POWER COMPANY, by DAVID
19 MEYER, Attorney at Law, 1200 Washington Trust
20 Building, Spokane, Washington 99204.

21 BONNEVILLE POWER ADMINISTRATION, by JON D.
22 WRIGHT, Attorney at Law, Routing LQ, P.O. Box 3621,
23 Portland, Oregon 97208.

24

25

1 I N D E X

2	WITNESS:	DIRECT	CROSS	REDIRECT	RECROSS	EXAM
	TORGERSON	1267	1269	1329	1333	1311
3	ABRAMS	1340	1342	1376	1366	1364
	STEPHENS	1378	1380	1395		1393
4	ALEXANDER	1397	1400	1459, 1482	1477	1447
	SCHNEIDER	1483	1491			1508

5

6	EXHIBIT	MARKED	ADMITTED
	T-109, TS-110	1266	1268
7	TS-111, 112, TS-113	1266	1268
	TS-114, TS-115, 116	1266	1268
8	117	1267	1269
	T-118, 119-123	1339	1341
9	TS-124	1339	1341
	T-125	1378	1379
10	126	1378	1380
	127	1378	1381
11	128	1378	1381
	83		1386
12	T-129, 130-133	1398	1399
	134	1398	1403
13	135	1398	1420
	136	1398	1428
14	137	1398	1430
	138	1398	1430
15	139	1459	1461
	T-140, 141-145	1483	1491
16	146	1483	1492

17

18

19

20

21

22

23

24

25

1 PROCEEDINGS

2 JUDGE SCHAEER: Let's be on the record. The
3 hearing will come to order. This is a hearing before
4 the Utilities and Transportation Commission in dockets
5 No. UE-951270 and 960195. Appearances are the same as
6 they were yesterday except that Mr. Meyer has joined
7 us. Would you like to make your appearance, please,
8 sir.

9 MR. MEYER: Yes. Thank you. Appearing for
10 the Washington Water Power Company David Meyer and you
11 have my address as previously entered. Thank you.

12 JUDGE SCHAEER: Thank you. Is it Mr. Harris
13 or Mr. Van Nostrand today?

14 MR. VAN NOSTRAND: Mr. Harris.

15 JUDGE SCHAEER: Mr. Harris, would you like
16 to call your next witness, please.

17 MR. HARRIS: Joint applicants call James P.
18 Torgerson.

19 Whereupon,

20 JAMES P. TORGERSON,
21 having been first duly sworn, was called as a witness
22 herein and was examined and testified as follows:

23 JUDGE SCHAEER: I have for Mr. Torgerson
24 rebuttal testimony which is JPT-10 and will be
25 numbered for identification as Exhibit T-109. And

1 then I believe that exhibit JPT-10 through 12 are top
2 secret. Is that correct?

3 THE WITNESS: I believe it's 11, 12.

4 MR. HARRIS: 11, 12, 13, 14, 15 and 16.

5 THE WITNESS: That's correct.

6 JUDGE SCHAER: I do not have a copy of
7 JPT-12. Do you have an extra copy of that? So that
8 is top secret?

9 THE WITNESS: Yes.

10 JUDGE SCHAER: That's JPT-11 is not secret?

11 THE WITNESS: It is.

12 JUDGE SCHAER: So we have as top secret
13 exhibits, Exhibit JPT-11 and JPT-12 and then as a
14 nonsecret exhibit we have JPT-13?

15 THE WITNESS: Right.

16 JUDGE SCHAER: And then we have as top
17 secret exhibits again JPT-14, JPT-15 and JPT-16?

18 THE WITNESS: Correct.

19 JUDGE SCHAER: And then not as top secret
20 JPT-17?

21 THE WITNESS: That's fine.

22 JUDGE SCHAER: So for identification we've
23 numbered JPT-11 as TS-110, JPT-12 as TS-111, JPT-13 as
24 112, JPT-14 as TS-113 and JPT-15 as TS-114, JPT-16 as
25 TS-115 and JPT-17 as 116.

1 (Marked Exhibits T-109, TS-110, TS-111,
2 112, TS-113, TS-114, TS-115 and 116.)

3 JUDGE SCHAER: Then I've had two documents
4 distributed I will mark for identification at this
5 time. Are these both from you, Mr. Cedarbaum?

6 MR. CEDARBAUM: Just the response to record
7 requisition No. 3 is.

8 MR. MANIFOLD: Your Honor, if I may, what's
9 denoted response to WUTC staff request No. 38 was
10 marked for identification and admitted yesterday as
11 Exhibit 108 and you asked that we provide copies this
12 morning.

13 JUDGE SCHAER: Okay. Thank you, Mr.
14 Manifold.

15 MR. MANIFOLD: That was the cover page to
16 the fairly thick response that came in as a top secret
17 response yesterday.

18 JUDGE SCHAER: Thank you. So the document
19 that says at the top Response to Record Requisition
20 No. 3 will be marked as Exhibit 117 for
21 identification. And has everyone heard Mr. Manifold's
22 explanation that the document that's been distributed
23 that states at the top Response to WUTC Staff Data
24 Request No. 38 is Exhibit 108 which was identified and
25 admitted yesterday.

1 Also distributed this morning was the
2 correction sheet to Mr. Talbot's deposition, which was
3 identified and admitted yesterday as a portion of
4 Exhibit 105. So your witness is sworn, Mr. Harris.

5 (Marked Exhibit 117.)

6

7 DIRECT EXAMINATION

8 BY MR. HARRIS:

9 Q. Good morning, Mr. Torgerson. Could you
10 state your name and spell your last name for the
11 record, please.

12 A. James P. Torgerson, T O R G E R S O N.

13 Q. What is your occupation, please?

14 A. I'm the executive vice-president and chief
15 administrative and financial officer at Washington
16 energy and Washington Natural Gas.

17 Q. Do you have before you what's been marked
18 for identification as Exhibit T-109?

19 A. Yes, I do.

20 Q. Is that your prefiled rebuttal testimony in
21 this case?

22 A. Yes, it is.

23 Q. Is it complete and accurate?

24 A. Yes.

25 Q. Do you have any corrections to make to it?

1 A. No.

2 Q. Do you also have what's been marked for
3 identification as Exhibits TS-110, TS-111, 112,
4 TS-113, TS-114, TS-115 and 116?

5 A. Yes, I do.

6 Q. Are those your prefiled exhibits in support
7 of your rebuttal testimony?

8 A. Yes, they are.

9 Q. Other than the corrections previously filed
10 with this Commission to Exhibits 114 and 115, do you
11 have any other corrections to make to those exhibits?

12 A. No, I do not.

13 Q. Are they complete and accurate to the best
14 of your knowledge?

15 A. Yes, they are.

16 MR. HARRIS: At this time, Your Honor, join
17 complicates would offer Exhibit T-109, Exhibits
18 TS-110, TS-111, 112, TS-113, TS-114, TS-115 and
19 Exhibits 116.

20 JUDGE SCHAER: Is there any objection?

21 MR. CEDARBAUM: Subject to Commission's
22 ruling last week on surrebuttal testimony, no.

23 JUDGE SCHAER: Those documents are
24 admitted.

25 (Admitted Exhibits T-109, TS-110, TS-111,

1 112, TS-113, TS-114, TS-115 and 116.)

2 MR. HARRIS: Mr. Torgerson is available for
3 cross-examination.

4 JUDGE SCHAEER: Mr. Cedarbaum, do you have
5 questions of this witness?

6 MR. CEDARBAUM: Yes, I do, Your Honor.

7

8 CROSS-EXAMINATION

9 BY MR. CEDARBAUM:

10 Q. Good morning, Mr. Torgerson.

11 A. Morning, Mr. Cedarbaum.

12 Q. First of all, referring you to what's been
13 marked for identification as Exhibit 117 do you
14 recognize that as response to record requisition No.
15 3?

16 A. Yes, I do.

17 Q. And this is a true and accurate copy of
18 that response?

19 A. Yes, I believe it is.

20 MR. CEDARBAUM: Your Honor, I would offer
21 Exhibit 117.

22 JUDGE SCHAEER: Any objection?

23 MR. HARRIS: No, Your Honor.

24 JUDGE SCHAEER: That document is admitted.

25 (Admitted Exhibit 117.)

1 Q. Referring you to your rebuttal testimony on
2 page 4, the answer that begins around line 14 has a
3 discussion on Commission basis and then on line 17 you
4 state that the changes that we made to the rating
5 agency forecast were an attempt to be consistent with
6 regulatory practice. Am I correct that that testimony
7 would imply that you believe a Commission basis means
8 being consistent with regulatory practice?

9 A. Yes, to the best we could we wanted to make
10 the Commission basis report reflect past Commission
11 practices to the best of our ability.

12 Q. Because of your discussion on Commission
13 basis reports, I assume you're familiar with the
14 Commission's rules concerning Commission basis
15 reports?

16 A. I have general knowledge. I am not an
17 expert on them by any means.

18 Q. Subject to check for electric companies
19 that would be the rule contained in WAC 480-100-031
20 and for gas utilities WAC 480-90-031. Would you
21 accept those subject to your check?

22 A. Subject to check, yes.

23 Q. Is it correct that the Commission basis
24 reports that are defined in those rules are in the
25 context of the company's semi-annual reports that are

1 filed on April 30 and October 31 with this Commission?

2 A. There are -- yes, subject to check. We did
3 in one of my exhibits put the most recent Commission
4 basis reports filed for each company.

5 Q. When you've prepared your testimony, did
6 you review the two rules that I just referenced you
7 to?

8 A. No, I did not.

9 Q. In both rules, would you accept subject to
10 check that it states as follows: "Commission basis
11 means that the rate base includes those standard rate
12 base components that have been historically accepted
13 by the Commission for ratemaking and further includes
14 restating actual adjustments which restate a company's
15 booked results of operations to a ratemaking basis
16 adjusting for out of period items."

17 A. Yes, I accept that subject to check.

18 Q. Would you also accept subject to check that
19 both rules state Commission basis does not include new
20 theories or new approaches which have not been
21 previously addressed and resolved by the Commission?

22 A. Yes, accept that subject to check.

23 Q. Now, the semi-annual reports that are filed
24 in compliance with these two rules are based on
25 historical results of operations; is that right?

1 A. Yes, suggested as you read.

2 Q. So there are new projections in those
3 reports; is that right?

4 A. That's correct.

5 Q. And so the reports would not reflect growth
6 in customers, is that correct, beyond the reporting
7 period that's included in the report?

8 A. It reflects historical results, so, no, it
9 would not reflect any growth in customers going into
10 the future.

11 Q. It would also not reflect any growth in
12 units of cost items beyond what's reflected in the
13 historic period?

14 A. That's correct.

15 Q. Is it correct or would you accept subject
16 to check that the Commission basis reports do not call
17 for proforma adjustments for known and measurable
18 factors as specified in the rule?

19 A. I will accept that subject to check.

20 Q. And proforma adjustments as we typically
21 refer to are made -- are adjustments made for known
22 and measurable factors, adjustment to the historical
23 test period; is that right?

24 A. Proforma factors -- can you repeat that
25 again?

1 Q. Is it correct that proforma adjustments are
2 adjustments to the historical test period for known
3 and measurable factors?

4 A. That is my understanding, yes.

5 Q. Just a couple of more questions for you.
6 On page 6 of your testimony, at the bottom you state
7 that only rating agencies are aware of the dollar
8 magnitude of the stretch goals and that analysts and
9 other members of the financial community, including
10 investors, have not had this information disclosed to
11 them. Do you see that testimony?

12 A. Yes, I do.

13 Q. Is it true, though, that the merger
14 synergies that Mr. Flaherty estimated, the power
15 stretch goals and the best practices goals, were also
16 part of the documentation utilized by Morgan Stanley
17 to prepare their opinion on the fairness of the
18 exchange ratio?

19 A. According to the proxy -- and Morgan
20 Stanley was not my investment banker so I am not
21 exactly certain what they looked at. I do know from
22 the proxy information what I was told, that they
23 looked at all the information, which would be the
24 synergy savings and then the stretch goals, the power
25 cost stretch goals and that they would have looked at

1 the best practices.

2 Q. So you're agreeing then that Morgan Stanley
3 in coming to their opinion on the fairness of the
4 exchange ratio did have -- was provided by the
5 companies -- the estimates of best practices and power
6 stretch?

7 A. Yes. They were identified as such.

8 MR. CEDARBAUM: Thank you. Those are all
9 my questions.

10 JUDGE SCHAEER: Mr. Manifold, did you have
11 questions of this witness.

12 MR. MANIFOLD: Yes, I do.

13 CROSS-EXAMINATION

14 BY MR. MANIFOLD:

15 Q. Mr. Torgerson, you're familiar, I assume,
16 with what I believe was admitted yesterday as Exhibit
17 TS-107 which is the company's response to the question
18 from staff and from public counsel of, do you have a
19 financial projection for the next five years. I think
20 that was staff's question and public counsel's was
21 give us all of your financial projections for the next
22 five years, either question Mr. Harris pointed out
23 yesterday was give us your best projection. Are you
24 familiar with that projection?

25 A. Yes, I'm familiar with those.

1 Q. Would you accept that included in that
2 specifically is the company's statement that it is of
3 course based upon financial projections which depend
4 on a number of assumptions that might turn out to be
5 wrong and that if you have financial performance of
6 the company, "may be significantly less or more
7 favorable than that shown." And I am referring
8 particularly to page F1, F15 and F24, for example.

9 A. Can I have a copy of that? Mr. Manifold,
10 what were the pages?

11 Q. F1, F15 and F24.

12 A. Yes. I see where you're reading.

13 Q. Would you accept that?

14 A. Yes.

15 Q. Is that a sort of standard caveat that
16 would be included in such presentations to a rating
17 agency or to top management within the company, for
18 that matter?

19 A. To rating agencies or -- rating agencies
20 are the only people that saw this financial forecast.
21 It was done specifically for them, and yes, we will
22 generally put that caveat in there that these are
23 financial projections. They're inherently uncertain
24 and they could be significantly different than what's
25 projected.

1 Q. And the difference could be either on the
2 upside or the downside?

3 A. Yes.

4 Q. What were the internal corporate purposes
5 for which this report was prepared?

6 A. I'm sorry, I didn't hear.

7 Q. What were the internal corporate purposes
8 for which the report was prepared?

9 A. Well, let's go back. The stand-alone
10 forecasts, specifically for Washington Energy and
11 Washington Natural Gas, was prepared, if I remember
12 correctly, about August of '95, around that time frame,
13 and we typically did a long-range projection and
14 strategic plan for our company. Then once the
15 merge was announced we needed to visit the rating
16 agencies, and that was done pretty soon right after the
17 merger, and we put together a forecast using Washington
18 Natural's projections which they had done for the
19 strategic plan and then Puget Power had put some
20 together which were utilized in the merger, and then we
21 just took the same ones, put them together for the
22 rating agency, enumerated, put together a NewCo or
23 Puget Sound Energy company combined forecast. And
24 specifically we enumerated the things that were in
25 question, like the stretch goals, showed them

1 separately with the intention, and I specifically had
2 them shown separately because I told when we were going
3 to visit with the rating agencies I felt it was very
4 important to show the true nature of those stretch
5 goals. Had they been something we were so assured of
6 that we were going to get I would have just put them in
7 the O and M costs and shown them as productivity
8 improvements and not highlighted them separately, so I
9 felt it was very important to show those specifically
10 separately.

11 Q. So the question was, what was the internal
12 corporate purpose for preparing the reports, which
13 we've wandered from a little bit here, but I
14 understood your answer to that to be that the
15 Washington Energy company had done its report in the
16 normal course of business in August of '95 and that
17 Puget did its portion of the projections in its
18 preparation for the -- in its merger preparations and
19 then the two were subsequently put together to become a
20 NewCo projection for the purpose of presenting to
21 rating agencies?

22 A. Yes. And one other -- I mean, Puget Power,
23 my understanding is, would do a forecast more for
24 capital needs purposes to understand what their capital
25 needs would be on an ongoing basis, not so much as a

1 forecast or strategic plan but for capital purposes,
2 and I think that was their starting point, but then, as
3 you said, it was to provide a basis for some forecasts
4 that went for Washington Natural for strategic planning
5 purposes and then when we announced the merger for that
6 purpose, and then to be utilized for the rating
7 agencies.

8 Q. Who prepares such a report for Washington
9 Energy? Is that prepared by you or under your
10 supervision?

11 A. Under my supervision. We have a group
12 that's headed by Mr. Davis that does the strategic
13 planning and rates, and we have them combined in one
14 area specifically so that we can reflect regulatory
15 impacts on our strategic plan, and from Puget Power's
16 perspective it's done I believe by a Mr. Elsie, his
17 group, which is under Don Gaines, their treasurer, I
18 believe.

19 Q. Would these be reports which management
20 above the levels at which it was prepared would review
21 and use for, for instance, purposes of evaluating
22 whether or not to engage in a merger, the merger? In
23 other words -- let me restate that. Let's start
24 within your company. So it was prepared at a level
25 lower than yourself in the company. Is this something

1 that then was presented to you and which you shared
2 with Mr. Vittitoe and other senior management and the
3 board in evaluating whether the decision to merge
4 should be made?

5 A. No. Not related to whether or not we
6 wanted to merge. That was an entirely separate
7 process.

8 Q. It was used by those management for other
9 purposes?

10 A. When we put the Washington Natural Gas
11 strategic plan together it's done by a small group of
12 people in the strategic planning area. I have input
13 into it but it's done by that group. I review it.
14 Then all of the officer team of Washington Natural Gas
15 reviews it, but only the officer team which includes
16 obviously Mr. Vittitoe. And we all look at it and
17 review it, and as far as Puget Power's process I'm
18 just not familiar with that.

19 Q. Would you expect it would be something
20 similar?

21 A. I just don't know.

22 Q. Is there anyone who is going to be
23 testifying who would be able to respond to that for
24 the Puget side of it?

25 A. Mr. Story probably can or Mr. Sonstelié, I

1 would assume.

2 Q. Gee, this is an opportunity for you to
3 refer a question to Mr. Sonstelie?

4 A. I've been dying to do that. Never had that
5 opportunity.

6 Q. Seems like payback?

7 A. That's right.

8 Q. We've talked -- there's been quite a bit of
9 mention about this presentation also being made to
10 rating analysts. Would you tell me something more
11 about that? How many rating analyst firms are there
12 that this was presented to and was this done all in
13 one or did you visit several different firms?

14 A. It was only presented to two firms, Moody's
15 and Standard and Poor's. It was never provided to
16 anybody else in the investment community. To do that
17 would be irresponsible. We cannot put these out. So
18 only Moody's and S and P saw this.

19 Q. Had you finished?

20 A. I just wanted to say, it was for the
21 purpose of providing a future rating in anticipation
22 of getting a rating for Puget Sound Energy.

23 Q. And that's a rating of the bonds, the debt
24 of the company?

25 A. Yes.

1 Q. Not --

2 A. And preferred stock.

3 Q. Would that include a rating of the common
4 stock?

5 A. No. The only people who are in the room
6 and who see this are bond -- people who rate the debt,
7 and it's a very limited group. They have a credit
8 committee who may see it at each rating agency but the
9 people who review it are analysts assigned to our
10 company.

11 Q. And would that have been two separate
12 presentations, one to each of those companies, one to
13 Moody's and one to S and P?

14 A. Yes. It was on two successive days, I
15 believe, in New York.

16 Q. Were you part of that presentation?

17 A. Yes.

18 Q. Has either company, either Puget or
19 Washington Natural, provided in response to any record
20 requisition or data requests any other material
21 relating to that presentation besides what's in
22 Exhibit TS-107? Would you accept subject to --

23 A. Not to my knowledge. That was the entire
24 amount of the information we provided them, other than
25 when we sat down and met with them. As I said last

1 time I testified, we spent considerable amount of time
2 meeting with the rating agencies and going over the
3 assumptions that are in the forecast and try to point
4 out where we see challenge, where we see
5 opportunities, go over our strategies and what we're
6 trying to accomplish and we want to make sure they
7 understand what's in there so we have extensive
8 meetings with them with the executives. Then we also
9 generally follow up beforehand and afterwards on the
10 phone with the analysts of the rating agencies. We
11 will have people spend many hours talking to them
12 about this.

13 Q. I don't suppose you were down here for the
14 Commission's last open meeting when U S WEST made a
15 presentation on its service quality situation?

16 A. No, I was not.

17 Q. I will represent to you that a number of
18 people made presentations and they had a view graph or
19 a view chart thing and they projected a whole lot of
20 view graphs on to the wall here as part of their
21 presentation. Did you use that sort of presentation
22 mode with the rating agencies or was the only written
23 material you gave them what we have in that exhibit?

24 A. We did not have any slides or overheads.
25 We used the printed material which we had sent to them

1 in advance and we walked through that with them. That
2 was the only medium we had.

3 Q. The ratings that Moody's and Standard and
4 Poor's do of debt and preferred stock, that
5 information is provided to investors?

6 A. Yes.

7 Q. The ratings?

8 A. The ratings are published by both firms.

9 Q. A little academic, I suppose, but just to be
10 clear, could you explain why that is done?

11 A. Sure. Moody's and S and P are in the
12 business of providing to potential investors or
13 existing investors in bonds or in debt what they
14 believe the credit quality of the people who are
15 issuing that debt, what their credit quality is, and
16 they have specific ratings to say how good of a credit
17 those different companies are, and they have ratings
18 that reflect that.

19 For example, the best rating would be AAA
20 and then you get down to -- keeps going down to AA,
21 single A with variations of plus and minus on those,
22 and then the lowest investment grade category would be
23 BBB. Then below that it becomes more speculative as
24 far as the ability of the firm to repay its debt or its
25 capability to do that based on the opinions of the

1 rating agencies. So their job, their role and what we
2 pay them to do, is to rate the debt and provide
3 investors in debt with an opinion of what the credit
4 quality of the company is relative to many others.

5 Q. So Moody's is paid by the company?

6 A. Yes.

7 Q. So investors who rely upon that information
8 don't pay for receiving it?

9 A. No. They may subscribe to Moody's or S and
10 P services, but all the companies who issue debt in
11 order to get a rating, you make a payment to them
12 based on the amount of the debt.

13 Q. Does this mean that Moody's and S and P and
14 the people for whom the ratings are developed are
15 primarily interested in the coverage ratios of the
16 company, that is, the ability of the company to pay
17 its debt?

18 A. Not entirely. I mean, that is one aspect
19 of it. The coverage ratios obviously are a key. The
20 capitalization of the company, cash flow, there are a
21 number of ratios that they look at. Also, they look
22 extensively and evaluate management's abilities. They
23 consider management to be one of the keys to the
24 company in what the rating could be. Also the business
25 environment that the company is operating in. For an

1 example, the service territory, is it growing, is it
2 contracting.

3 They evaluate a number of qualitative
4 factors other than just looking at the ratios, the
5 financial factors. Now, the financial factors
6 obviously have great weight but they even say in their
7 reports that probably the single most important factor
8 they will look at is management because management can
9 be -- can change things about the company. They can
10 have a commitment to credit quality. They can have a
11 commitment to making sure the debt is sound, that it's
12 progressing, that it's recognizing changes in the
13 industry, and those are the things that are going to
14 drive the financial wherewithal of the company over the
15 long-term is management's ability to operate in an
16 environment.

17 Q. Preparation you can help me out here. My
18 next question to you would be to go into which ratios
19 the company -- the rating agencies look at, but I have
20 a feeling that may be already covered in Mr. Abrams's
21 testimony. Do you know if that's the case?

22 A. If it's not -- it may be in his but if it's
23 not, in my direct testimony I have information about
24 what the rating agencies look at specifically and
25 those are articles from Standard and Moody's as to

1 what they look at.

2 Q. That was months ago?

3 A. I don't think it's changed since then,
4 though.

5 Q. Okay, good. You say in your testimony at
6 page 7 and you mentioned just now that you think it
7 would be irresponsible to disclose the sort of
8 information that was in the rating agency
9 presentation, quote, more broadly I think is the term
10 you used. By more broadly you mean to investors?

11 A. Yes.

12 Q. Please explain what you mean by more
13 broadly.

14 A. No, I think I understand what you mean. We
15 only disclosed it to the rating agencies, and to say
16 we would disclose it more broadly when there's a lot
17 of inherent uncertainty in those forecasts
18 specifically related to those stretch goals, and not
19 only that but also it didn't include the competitive
20 pressures we're facing, like the revenue reductions
21 we're going to see under schedule 48, other
22 competitive pressures. It didn't -- well, so those
23 are things that aren't included, and we didn't know
24 about them at the time we prepared the rating agency
25 forecast to begin with. We didn't even know schedule

1 48 -- it was only a dream -- it wasn't even a dream.
2 We didn't even know it so we couldn't have disclosed
3 it. We knew there were going to be competitive
4 pressures.

5 Q. May I suggest it was more of a nightmare?

6 A. Perhaps, but we recognize it's going to
7 continue. And to say that we would give out a
8 confidential forecast that included a number of things
9 that were management's goals and things we were going
10 to be trying to accomplish without any certainty that
11 it could be accomplished, to me that's irresponsible
12 to the general public, to the general financial
13 investing public. It's important for the rating
14 agencies because they need to see what management is
15 doing. That is, as I said, one of the keys to how
16 they evaluate the company, where management is going,
17 what their intentions are, and we can do some of that
18 within the broader community, but we can't get very
19 specific about it.

20 Q. The question I have -- and I will state it,
21 it's a sort of broad one -- is that I don't really
22 understand the distinction you're making between
23 telling a small number of people who are going to
24 create a rating for a company's debt some information,
25 but then the people who are actually going to make

1 investments based upon those ratings you don't think
2 ought to have the underlying information upon which
3 the ratings are based, and it appears to me that your
4 belief is that the people who actually put their money
5 on the line it would be irresponsible for those people
6 to have the more detailed information than the rating
7 agency that you hire to create the rating creates, and
8 perhaps you could speak to, why more information to the
9 public who makes or to the investors, which is the
10 public, is not a good idea?

11 A. Well, the rating agencies in particular
12 are very well equipped to evaluate what we're telling
13 them. They see companies making projections all the
14 time, because that's what every company that I am aware
15 of does. They provide rating agencies with projections
16 or forecasts and -- call them projections, but
17 forecasts -- and they talk about their goals and they
18 know what to discount, especially when we highlight it
19 for them. We tell them what's soft, what isn't, what
20 are challenges.

21 When you start talking about the general
22 public, in some instances where you're talking
23 specifically about raising debt and you're doing, let's
24 say, a private placement you would provide some
25 forecast or some discussion, and in previous companies

1 I've done that, where we would sit down with their
2 people under confidential arrangements and go through a
3 lot of the plans and discussions and goals, aspirations
4 of the companies, and these have to be very
5 confidential. To release it very broadly to all people
6 without having the in-depth discussion that we have
7 with the rating agencies they wouldn't see the
8 difference and the nuances of these forecasts and know
9 what was so soft and what was such a challenge to us.
10 Without having that additional discussion, and it's
11 very difficult to do that, to have that discussion with
12 everybody, where we spend hours with the rating
13 agencies, we couldn't do it individually with everybody
14 so that it wouldn't be clear what really we
15 were trying to accomplish and what was in those
16 numbers. That's why we don't release it broadly.

17 Q. Isn't there another level of investor
18 analysts between the rating agencies and the investors
19 themselves? There are a number of trade publications,
20 there are a number of organizations who are
21 institutional investors, there are a number of, if you
22 will, highly knowledgeable people not Rob Manifolds
23 out there buying debt, which I don't, by the way.

24 A. Neither do I.

25 Q. Aren't there other people besides just the

1 rating agencies that the company could disclose its
2 projections, if you will, its hopes for the future,
3 its plans for the future in order to aid the general
4 investing public in having a better idea where the
5 company is going?

6 A. And there are bond analysts and security
7 analysts who evaluate stocks. We don't do that. We
8 do not -- again for the same reasons. We would have
9 to spend an awful lot of time with them and when you
10 start talking about investors who are advising other
11 people to buy or sell, the rating agencies don't
12 advise anybody to buy or sell. All the other analysts
13 do. They will make a recommendation specifically to
14 stock analysts to brokers and to individuals to buy or
15 sell the stocks or debt securities of companies, so
16 then you have -- if you wanted to disclose, let's say,
17 our rating agency forecast to everybody, first off, you
18 would have to do it in such a manner that everybody got
19 the same information at the same time and which would
20 mean you would have all these hours of conversations
21 with everybody at exactly the same moment so that
22 everybody was on the same footing. We can't do that.
23 It's not practical nor do we feel that this kind of
24 forecast would aid that much in the investment
25 decisions. We need to communicate to individual

1 analysts some of our strategies and some of our goals
2 but not specific like best practices or power cost
3 stretch goals which rely on, you know, litigation in
4 the future and renegotiating power contracts. That
5 could put us at a competitive disadvantage in the first
6 place in doing that.

7 Secondly, the outcome of that is so
8 uncertain that I wouldn't know what to tell them, and
9 with best practices, you know, we spent three years
10 re-engineering our companies, both of us. I don't know
11 how much is really left there in the form of best
12 practices, but we set those as goals for the companies
13 through this merger to help us offset or to mitigate
14 some of these competitive pressures we're going to be
15 seeing.

16 Q. Could you turn to page F26 of Exhibit
17 TS-107. I will obviously avoid any numerical
18 information here. We don't have a TV camera here
19 today anyway which is so much the better. Is it my
20 understanding that in order to put the Washington
21 Energy Company financial projection and the Puget
22 Power financial projection together there were certain
23 additional pieces of information or assumptions that
24 were made rather than just adding the two together and
25 that that's what's set forth under merger assumptions

1 at the bottom of that page?

2 A. Those are the basic ones. In Puget Power's
3 forecast they had a significant rate increase that
4 they had planned and then these were the synergy
5 savings. Those are the -- again, those are the
6 savings that Deloitte and Touche, Mr. Flaherty came up
7 with and then our targets, goals, for best practices
8 and the power cost stretch goals.

9 Q. So those are the four adjustments that were
10 made to -- the four principal ones I guess you're
11 saying?

12 A. Right. There may be some others that were
13 made.

14 Q. Since the presentation was made to the
15 rating agencies, have you revisited with them and made
16 a subsequent presentation? I'm speaking of corporate
17 you.

18 A. We haven't made a formal presentation to
19 the rating agencies. We will do that once there's an
20 order in the merger, assuming it goes forward.

21 Q. There will be an order?

22 A. There would be an order, correct. We have
23 met with them since then but not providing them a new
24 forecast or a new presentation. We've discussed
25 things with them where they've had additional

1 questions. As I said, there was follow-up. I just
2 saw the people from the rating agencies just this last
3 week at an EEI financial forum and we had an
4 opportunity to talk to them, and they had, again,
5 questions for us mainly about how things were going,
6 but it gives us an opportunity to talk about any
7 issues they have or we have. So we talked to them
8 frequently.

9 Q. What did you tell them when they asked you
10 how things were going?

11 A. We told them what the process was and what
12 still had to transpire and it was pretty much it.

13 Q. Just process?

14 A. More process. We talked a little bit about
15 our rebuttal filings, staff and public counsel's
16 filings. That was definitely a topic of interest, but
17 more the process and where we were, when we might
18 expect something to occur.

19 Q. You said in response to an earlier question
20 that at the time these forecasts, financial
21 projections were prepared, the company -- let me start
22 over here. We need to take the company separately for
23 some of these issues. Has the competitive position or
24 competitive pressures for Washington Energy Company
25 changed materially since this was prepared or choose

1 your other word if you want to modify materially?

2 A. I wouldn't say materially. I think the
3 impending merger of Enron and Portland General
4 Electric has probably gotten us a little more
5 concerned, but Enron was already selling gas in this
6 part of the country as are many other marketers. So I
7 wouldn't say it's changed materially for Washington
8 Energy.

9 Q. It's on the electric side that changes in
10 competition are what you're referring to, schedule 48,
11 for instance?

12 A. Yes. When we put this together we knew
13 there were going to be competitive pressures. We
14 didn't realize I guess how fast they were going to
15 come about, schedule 48, the Bellingham Cold Storage,
16 the Georgia Pacific, all of these companies wanting
17 market oriented market costs. So that had to be
18 responded to very quickly. I think we knew there were
19 going to be competitive pressures because we obviously
20 see all the things and the publications and what's
21 going on in other states and it was a matter of how
22 fast was it going to come. Well, I think it came
23 faster than we probably anticipated back when this was
24 being done.

25 Q. Would you say that the merger itself from

1 the perspective of Puget Power is a response to
2 competitive pressures?

3 A. You might be better asking Mr. Sonstelie
4 but I will answer it from my perspective. I think it
5 probably was. I think they had -- they recognized, as
6 we did, too, that the industries were changing and
7 that competition was entering into it and a company
8 that could offer -- be one stop, be providing energy
9 services to customers or energy to customers was
10 probably what the customers were going to be looking
11 for, and from that perspective I think it was strategic
12 and I think, again, Mr. Sonstelie can address it from
13 Puget's perspective but I think it was looked at
14 as perhaps responding to some of these competitive
15 pressures.

16 Q. Can you refresh my recollection when the
17 rating agency presentation was made? Was that in
18 January?

19 A. I believe it was the end of January.

20 Q. And the testimony in this case was filed in
21 February or so?

22 A. I think it was February, latter part of
23 February.

24 Q. So the direct testimony by the companies
25 would reflect pretty much the same time frame of

1 understanding a competitive situation as the company's
2 understanding was at the time of the rating agency
3 presentation?

4 A. I would say that's fair. Knowing that the
5 rating agency was actually put together a little
6 earlier but --

7 Q. But then again, drafts of the company's --

8 A. It was close.

9 Q. Would you agree that drafts of the
10 company's pre-filing were made available in December?

11 A. No, I wouldn't.

12 Q. January?

13 A. Probably starting in late January or early
14 February. There were thoughts put together and
15 outlines, I think, but I don't remember doing my
16 drafts real early.

17 Q. In his direct testimony in this case, Mr.
18 Sonstelie, would you accept, proposed that sooner than
19 the end of the five-year rate plan period the merged
20 company would be proposing open access for all of its
21 customers, all of its electric customers?

22 A. In his direct testimony?

23 Q. Yes.

24 A. I can accept that subject to check, but I
25 know that that was something that we had talked about

1 and that I believe it was in the schedule 48 filing we
2 had specifically said -- I think it was there -- that
3 we wanted to do it at the latest 11 months before the
4 end of the five years and that we would certainly try
5 to do it if all parties could get together and try to
6 do something before that.

7 Q. So the point I want to make or see if you
8 agree with -- make it to, actually -- is that during
9 the same time frame that the companies were making
10 their presentation to the rating analysts they were
11 also anticipating that on the electric side of the
12 business, by their own actions, if by no others, there
13 would be significant movement towards an open access
14 environment within the period of the five-year
15 financial projections?

16 A. I think we had a discussion, but I don't
17 think it really evolved until the schedule 48 filing.
18 I mean, I would have to accept it subject to check in
19 Mr. Sonstelie's direct testimony. I know in the
20 schedule 48 filing we did say that.

21 MR. MANIFOLD: May I have just a moment?

22 JUDGE SCHAER: Yes.

23 Q. Perhaps we can go ahead while he's
24 scurrying for paper. My recollection, and let me see
25 if it's yours, is that Mr. Sonstelie at some point

1 filed supplemental direct testimony and that was
2 accompanying the schedule 48?

3 A. Yes.

4 Q. In that he proposed among other things a
5 collaborative to follow up on the merger on designing
6 open access and that was the time that he proposed
7 that the company would on its own file 11 months
8 before the end of the rate period if a collaborative
9 had not come up with open access proposal prior to
10 that time?

11 A. That's my recollection.

12 Q. That's fine. Washington Energy Company has
13 a portion of its business that is not Washington
14 Natural Gas?

15 A. Yes, that's correct.

16 Q. What's planned to happen with that portion
17 of its business under the merger proposal?

18 A. Under the merger proposal nothing. We
19 really didn't address the other parts of the business,
20 the merchandising business and the coal and the
21 railroad at the time of the merger. Now, since then
22 we've had discussions about it. As far as the coal
23 and the railroad our plans are to divest of it and
24 hopefully I can get that done by the end of this
25 calendar year. As far as the merchandising business

1 we still haven't made any final decisions on what
2 we're going to do with that business, whether it's
3 going to continue or we're just going to divest of it.

4 Q. The relationship between the merchandising
5 business and the regulated gas company has obviously
6 been the subject of much discussion in the regulatory
7 environment in the past. Is the relationship between
8 those that is currently in existence expected to
9 continue if the business is kept?

10 A. I think the current relationship, yes,
11 would continue. We've totally separated from the
12 utility. There are a few services that are provided
13 which are, in my mind, appropriately charged for
14 today, but I think if it were to continue it would
15 stay as an entirely separate operation away from
16 utilities.

17 Q. Shifting gears slightly. Would you agree
18 that public counsel's financial analyses and rate
19 analysis, that is, by Mr. Talbot and Mr. Lazar
20 respectively, have included revenue losses from
21 competitive pressures for the electric company?

22 A. I'm not certain if they have or not. If I
23 can do that subject to check. I would have to look at
24 it again. I just don't remember off the top.

25 Q. One of the criticisms you've made, as I

01300

1 understand it, of the use of -- the information in
2 TS-107 by staff and by public counsel has been that
3 it's not on a Commission basis but rather on a
4 financial basis; is that correct?

5 A. Yes.

6 Q. Why did you make the analysis for internal
7 corporate purposes and for rating agency presentation
8 on a financial basis rather than on a Commission
9 basis?

10 A. Well, first off, we weren't trying to
11 mislead anybody in this setting, I mean, with our
12 rating agency presentation. It was never intended to
13 be used for regulatory purposes. Keeping in mind that
14 when we do these for strategic planning purposes and
15 for the rating agencies we want to put in goals and
16 stretch goals to show that -- and to get our people
17 working on things into the future. I mean, so we
18 wouldn't do just a flat, a Commission basis, so to
19 speak, and I understand Mr. Cedarbaum's comment about
20 not really having projections in a Commission basis,
21 but to mimic that and to say that for regulatory
22 purposes we need to take out all these goals and
23 ambitions that the company may have, but on the other
24 hand, when we're talking to the rating agencies we
25 need to show the management's commitment to doing

01301

1 things and to moving things along and to responding to
2 competitive pressures. And I think a good example of
3 what we face, we are trying to reduce our capital
4 overhead charge at Washington Natural Gas. It's been
5 upwards of 50, 60 percent. We have a goal of getting
6 that down to 25 percent. We haven't done that yet.
7 We may have it down to about 40 now and this is after
8 a couple of years. My goal is still to get it down to
9 25 percent so we're not burdening all these capital
10 projects with overhead but it's going to take us time.

11 So we set these goals and if we didn't set
12 them where they're really stretching people to achieve
13 we probably never would get to the point where we're
14 even at today and that's what we do when we set these
15 stretch targets, and to give the rating agencies a
16 presentation that would just have what we call let's
17 say Commission basis, which has no stretch goals in it
18 would not give them the right impression that
19 management is trying to do things even though they may
20 take time and they're uncertain.

21 Q. Leaving aside for the moment, because
22 you've covered it, the stretch goals, are there other
23 reasons for providing financial basis reports to the
24 rating agencies rather than Commission basis? For
25 instance, are the rating agencies concerned with how

1 much money you actually take in as opposed to what
2 revenues are imputed?

3 A. I can't say that it's the latter. I think
4 it's more what I just told you about why we present a
5 forecast that's somewhat strategic to them as opposed
6 to the Commission basis.

7 Q. I just want to make sure you finished.

8 A. Yes.

9 Q. Did you or did members of the company
10 present the concept of the stretch goals to the
11 Commission or the Commissioners as well in the fall or
12 winter of '95, '96?

13 A. I'm not sure if we did or not. If we did
14 we may have said we had a lot of challenge regarding
15 -- I know the synergy savings, we probably -- I'm sure
16 we talked about when we talked to the Commissioners,
17 and those were -- those are just as much a challenge
18 as the others, except we have plans of how we're going
19 to accomplish them. I'm not -- I think we did talk
20 about power costs and our having to be able to reduce
21 those, but again, we didn't really have any plans or
22 know exactly how we're going to go about doing it.

23 Q. What was the context of those discussions
24 and who were they with?

25 A. I think at one point we met with Rich

1 Sonstelie, Ron Davis, Sheila Vortman and I
2 met with the Commissioners and I think some of their
3 policy staff but that was -- I don't even remember the
4 date. It was last fall or winter time frame.

5 Q. That would have been after the merger was
6 announced?

7 A. It was after the merger was announced, but I
8 believe before we actually filed anything.

9 Q. And what was the purpose of that meeting?

10 A. It was set up by the Puget Power people, and
11 I believe it was to talk a little bit about where the
12 industry was heading. Mr. Sonstelie had arranged a
13 meeting to talk about industry and that's really what
14 the purpose of the meeting was at that point in time.

15 Q. And did you discuss the goals in the
16 merger?

17 A. Not directly, I don't think. I don't
18 remember discussing them specifically.

19 Q. Were any materials prepared for that
20 meeting?

21 A. No, not to my knowledge. I think we were
22 just talking off some notes. It was primarily Mr.
23 Sonstelie.

24 Q. He's going to be really sorry he didn't go
25 ahead of you, isn't he?

01304

1 A. He probably is.

2 Q. Do you think that Washington Natural Gas
3 has any exposure for above market resources?

4 A. Washington Natural?

5 Q. Yes.

6 A. No. At this point all of our gas supply
7 contracts are based on index, so they're all at market
8 today.

9 Q. Do you think the --

10 A. The only thing that -- I can't say that
11 it's above or below market -- are the pipeline
12 capacity charges and demand charges, but those are
13 tariff rates that we've contracted for and I can't say
14 that they're above market today.

15 Q. Same question for Puget Power. Do you
16 think Puget Power has an above economic or above
17 market resource problem?

18 A. Yes. Their PURPA contracts, I think they
19 are above market today.

20 Q. Do you see the merger as a part of dealing
21 with those problems?

22 A. In one way, yes. I think specifically with
23 the PURPA contracts where we can provide some
24 expertise on gas supply arrangements, even though the
25 contracts are with the cogenerators and not with the

1 gas suppliers necessarily, but they're a lot of the
2 same people we would be dealing with and I think we
3 can help provide some expertise on gas supply
4 arrangements.

5 Q. I don't mean to denigrate at all the
6 expertise that your company has, because I assume it
7 does, but would that expertise be available to Puget
8 in other ways than buying a company?

9 A. Sure. They could hire consultants to help
10 them out, yes. But I think we're probably a little
11 more uniquely positioned to assist them in that we know
12 these markets probably better than most. We know a lot
13 of the suppliers better than most because we're dealing
14 in it on a daily basis.

15 Q. Do you believe that the merged company
16 would be better positioned to compete in the coming
17 energy -- in the energy markets in the future?

18 A. I think from the standpoint that we can
19 provide energy and not just electricity or gas and
20 provide what a customer really wants and not do it
21 like we're just trying to sell electricity or trying
22 to sell gas. We're trying to do what's in the best
23 interests of the customer. I think that will help us
24 be better positioned in the future because I think
25 that's what customers are going to be looking for.

1 They're going to be looking for not buying electricity
2 or gas. They're going to be looking to buy either
3 power or they're going to be looking to buy heat or
4 steam. They're looking to buy their processes or
5 their comfort, and that's what we need to be provided,
6 not electricity. Most customers don't care where it
7 comes from if they plug into the wall or turn the
8 light on. They just want to know that it works.
9 That's kind of my sense of how we'll be better
10 positioned in the future by providing what the
11 customer needs.

12 Q. Let me perhaps anticipate a question from
13 Commissioner Gillis and suggest that isn't what some
14 customers want really is warmth and they don't care
15 whether it comes from electricity, gas or
16 installation?

17 A. That could very well be. That's why I said
18 comfort. They're looking for home comfort.

19 Q. So how would the company's plans or
20 abilities to participate in what have been called
21 demand side management or conservation programs fit
22 into the concept of a one stop shopping energy
23 company?

24 A. I believe that if demand side management is
25 economically viable, that it makes sense economically,

1 that it should be done. I think we've had said that
2 all along that economic demand side management should
3 fit in and does fit in.

4 Q. I'm getting close to finished. Washington
5 Energy Company just announced, I think on Friday, 1996
6 fiscal year end results of year end operations; is
7 that correct?

8 A. Yes.

9 Q. Is it correct that 1996 -- is that a
10 calendar? What's the fiscal year period?

11 A. It runs from October 1 through September
12 30th.

13 Q. The period that's sometimes call the rainy
14 season in Seattle?

15 A. Could be.

16 Q. Is it correct that that year was slightly
17 warmer, about 3 percent warmer than usual?

18 A. Yes, that's my recollection.

19 Q. And does warmer weather tend to depress
20 earnings for a gas distribution utility such as
21 Washington Natural?

22 A. Yes.

23 Q. Does that mean that if it had been average
24 weather your sales and income would have been
25 presumably better than it actually was?

1 A. Yes, it would have been closer to normal,
2 and I believe we said in the press release that if
3 weather had been normal we estimated, and again it's an
4 estimate, that our earnings per share would have been
5 about 22 cents a share higher, but most of the good
6 weather that we had that was very warm was in the first
7 quarter. It was very warm during -- well, last
8 October, November and December, and it really had a
9 significant impact on our earnings whereas the balance
10 of the year was pretty much close to normal, but we had
11 a lot of ups and downs.

12 Q. The warmest period was during the period
13 when you would normally have most of your sales?

14 A. That's correct.

15 Q. Am I correct that your net income per share
16 overall was 96 cents and net income from continuing
17 operations was \$1.03?

18 A. That's correct.

19 Q. The year end booked value per share was
20 \$8.21 compared with the beginning year value of \$8.17.

21 A. Yes.

22 Q. If I divide 96 cents per share net income
23 by the \$8.21 share booked value I get 11.7 percent.
24 First of all, would you accept that subject to check?

25 A. I can do it right here. The 8.17 or 8.21?

01309

1 Q. 8.21. 96 cents divided by 8.21.

2 A. 11.69.

3 Q. Is that an accurate calculation of return
4 on equity for fiscal year '96 for the company?

5 A. For Washington Energy it would be -- that's
6 a way to calculate, sure.

7 Q. What would it be on a weather normal basis?
8 Are you able to do that?

9 A. Well, if you just add 22 cents to 96 cents.

10 Q. Could you do that?

11 A. Yeah, sure. I just want to say one thing
12 that the booked value for Washington Energy is a whole
13 lot less than the booked value for Washington Natural.
14 You got to remember that Washington Energy took
15 significant write-offs of about \$100 million over the
16 last couple of years so it would be 14.37.

17 Q. This would be on a normal basis adding the
18 22 cents?

19 A. Just adding 22 cents. But again, that's
20 using Washington Energy's equity not Washington
21 Natural's.

22 Q. The continuation operations number was
23 \$1.03. If I divided that by the \$8.21 per share I
24 would get about 12 and a half percent return from
25 continuing operations?

01310

1 A. Yes, again for --

2 Q. For Washington Energy?

3 A. Which obviously is not on a Commission
4 basis.

5 Q. Do you know what the ROE comparable for
6 Washington Natural is on a '96 as-reported basis is?

7 A. I just looked at that and if I remember
8 right I believe it was over 10 percent, but I don't
9 remember exactly. We have about -- we don't have our
10 balance sheet done yet. That's why I'm not -- we
11 haven't released that yet, but if I remember right the
12 equity is about \$280 million or so, which is
13 significantly more than Washington Energy's, but I
14 recall it was mid ten's, something like that.

15 Q. That is between 10 and 11?

16 A. About 10 and a half. I just don't remember
17 the exact number, I'm sorry.

18 Q. What will the weather normalization do to
19 that number?

20 A. It would raise it somewhat, sure. I would
21 have to go through and look at it. I can do it if you
22 like, but I don't have the numbers right here. I'm
23 sorry.

24 Q. Could you provide that to Mr. Vittitoe and
25 refer that question to him?

01311

1 A. Sure.

2 Q. Just so you can treat each of your bosses
3 equally, your bosses to be?

4 A. Mr. Vittitoe is my boss right now.

5 Q. I understand.

6 JUDGE SCHAEER: So he only gets one
7 question.

8 MR. MANIFOLD: Thank you. No other
9 questions.

10 JUDGE SCHAEER: Mr. Wright, did you have any
11 questions for this witness?

12 MR. WRIGHT: No, Your Honor.

13 JUDGE SCHAEER: Mr. Meyer.

14 MR. MEYER: No.

15 JUDGE SCHAEER: Commissioners, did you have
16 questions?

17

18 EXAMINATION

19 BY COMMISSIONER HEMSTAD:

20 Q. Mr. Torgerson, on page 10 -- perhaps this
21 is found elsewhere in the testimony -- at line 12 and
22 a half there's a reference to the exchange ratio
23 differential. Would you give me an explanation of
24 that?

25 A. Sure. When the merger was announced the

01312

1 stock of Washington Energy was traded at \$17 a share
2 and Puget Power's was at 23 and five-eighths, I
3 believe, and it subsequently went up. I mean,
4 Washington Energy's went up. The exchange ratio then
5 was for .86 shares of Puget Power, which would
6 translate at 23 and three-eighths to a little over \$23
7 a share, so that differential between the market price
8 at that time of \$17 and a little over \$20, that's
9 really what we're referring to. That's the exchange
10 rate differential, and it's just -- it's not that the
11 companies were requesting to recover any of that, it
12 was just a point that the companies also, to their
13 shareholders, have to overcome that implicit cost
14 because the merged company actually is going to have
15 more shares that are -- which would make this somewhat
16 dilutive otherwise, so we have to overcome those
17 implicit costs of that exchange ratio.

18 Q. Thank you. And then at lines 17 and 18 you
19 criticize Dr. Lurito for failing to update his
20 authorized rate of return to reflect current market
21 realities. Do you expect or what is the expectation
22 of the impact of the competitive forces on the
23 company's ability to earn authorized rate of return
24 that the company would believe it is entitled to have
25 during a five-year period?

1 A. I think we need to recognize that with the
2 competitive pressures it's going to be difficult to
3 earn, and you can argue what the rate of return should
4 be, you know. Washington Natural's rate is 11 to 11
5 and a quarter. Puget's is 10 and a half. I think
6 what I was saying here is Dr. Lurito just somewhat by
7 averaging the two didn't take into account the changes
8 in the competitive environment which, in my mind,
9 would require a higher rate of return simply because
10 there are more risks the companies are going to be
11 taking on, particularly in an electric I business, and
12 that's really the gist of my comment there.

13 Q. Well, if there's a higher risk from greater
14 competition, how relevant or how important is rate of
15 return in that kind of environment, an authorized rate
16 of return?

17 A. As long as we're regulated it's obviously
18 very important. When we get into a situation where,
19 for example, let's say the generation business becomes
20 deregulated, which are things many people are talking
21 about, then an authorized rate of return probably
22 doesn't matter. If it's not being regulated obviously
23 it doesn't because the market will determine what
24 those assets can be, what revenues can be derived from
25 the assets. In the event that -- and in my mind the

1 transmission and distribution assets will continue to
2 be regulated. It's important. And I think those are
3 discussions that we'll obviously have to look at how
4 the markets are treating these regulated companies and
5 what kind of market price the shareholders or investors
6 are going to require.

7 Q. Well, if you would expect to be able to
8 earn, then, an enhanced authorized rate of return,
9 doesn't it follow that there is not a significant
10 increase in risk?

11 A. If we're allowed to earn a higher rate of
12 return?

13 Q. Yes.

14 A. I think the risk is going to go up, but if
15 we're allowed to earn more, then, for example, let's
16 say there's a rate increase that would allow us to
17 earn more. Then obviously we've mitigated that risk
18 somehow. If there isn't other competition coming in
19 or something else that's going to affect that, if we
20 differentiate between the different business segments
21 that could occur, the distribution and transmission
22 business may not have significantly more risk other
23 than we'll be competing for customers, I mean, which
24 obviously there's some risk there. If we do what we
25 did in the gas business, which was basically with this

1 Commission's help we ended up having transmission or
2 transportation rates for our large customers that made
3 us indifferent as to margin. If the same thing occurs
4 in the electric business then maybe we've mitigated
5 the risks somewhat. But I hope I'm answering your
6 question. If we're allowed to earn more than, yes, the
7 risk has had an impact on what we're allowed to earn
8 more. Otherwise it wouldn't be there so I think the
9 two kind of go hand in hand.

10 Q. On page 15, there's a discussion about best
11 practices and power cost stretch goals. Is it my
12 understanding that -- well, the company's position is
13 that neither the best practices nor the power cost
14 stretch goals savings, if that's the way to put it,
15 should be taken into account. Is that correct?

16 A. Yes, and I think that's really what it gets
17 down to that's the basis of what all the parties are
18 arguing about right now.

19 Q. And as part of that, you would say that
20 neither meter reading nor billing saving then should
21 be taken into account, because that's part of the best
22 practices?

23 A. Yes. What I'm saying is that's a good
24 example of a best practice. We didn't take those into
25 account in the synergy savings for the merger

1 specifically because we're already doing them and those
2 are a good example of a best practice. In the case of
3 Washington Natural we have actually put some of those
4 savings into our budgets. We had already, in my mind,
5 factored them in, but I think they are a good example
6 of what a best practice would be.

7 Q. Well, are you saying, for example, like
8 billing savings from the merger has been taken into
9 account?

10 A. What I was trying to draw the conclusion to
11 show here was that public counsel was saying we ought
12 to subtract that away and what I am saying is those
13 are good examples of what best practices would be, and
14 I would say they're included in the number that we had
15 for best practices, because they weren't included as
16 synergies, so there are things that companies can do
17 that are best practices. It just so happens that we
18 had identified those. We were already working on
19 those even before the merger was announced so that's
20 why they weren't included as synergy savings. I'm
21 just saying it would be double counting, in my mind at
22 least, if you subtract them out, and that just gives
23 me one other thing that I have to accomplish through
24 best practices.

25 Q. But none of the best practices including,

1 then, potential billing savings and meter reading
2 savings have been identified explicitly as a cost
3 reduction for the merger?

4 A. Those two have been, I believe, quantified,
5 and there were some data requests that we submitted
6 that said, yes, those are two. All I'm saying is they
7 weren't included in the \$370 million synergy savings,
8 and the reason being we had started on them before the
9 merger so they couldn't say it was but for the merger.

10 Q. Well, assuming a point, surely there will
11 be -- there are known or knowable cost reductions from
12 consolidated billings?

13 A. Yes. No, I agree. There would be, there
14 are. There are going to be savings from those. Doing
15 one bill -- as a matter of fact, our customers want
16 that, and I agree. There will be savings from those
17 and joint meter reading can provide savings. So far
18 we've had some costs of doing it, putting in new
19 software and those type of things, but, yes, I fully
20 agree there will be savings from it and it's a matter
21 of where it gets characterized.

22 Q. But is it your position that that is
23 inappropriate for public counsel or for the staff to
24 take those savings into account in considering the
25 advantages or disadvantages of the merger?

1 A. I think you can take them into account. My
2 only point was you take those into account and then
3 the amount I would -- I would have characterized them
4 as best practices. Now, let's say the number -- and I
5 don't know what the number is. Let's say it was a
6 million dollar savings. Now I have to get another
7 million dollars in savings in additional best practices
8 because this has been taken away. It's just another
9 million in savings I have to come up with somewhere.

10 COMMISSIONER HEMSTAD: That's all I have.

11

12 EXAMINATION

13 BY COMMISSIONER GILLIS:

14 Q. Morning, Mr. Torgerson.

15 A. Morning.

16 Q. I wanted to explore a little further this
17 topic of business risks that you were discussing with
18 Commissioner Hemstad. Assume that the merger were
19 approved and that the rate plan that was proposed by
20 the company in the direct case were adopted. Would
21 you review briefly for me what business risks the
22 company would face over the next five years?

23 A. Sure. The ones that I see that we probably
24 know the most about today are the competitive
25 pressures we're going to get from large industrial

1 customers, specifically like what was done in schedule
2 48. We're going to have more competition, I think, at
3 all levels. We're going to be seeing --

4 Q. If I could just break in. I wasn't so much
5 interested in the forces as what the company's
6 responsibility would be for business risks. What is
7 your financial exposure to business risks? Maybe
8 financial risk is a better term. Given assumptions
9 that your full plan is adopted, what is your
10 responsibility for business risk or financial risk?

11 A. Assuming our full plan is adopted we would
12 take on those business risks. Whatever they are, they
13 are our responsibility and within the context of our
14 plan as we proposed it, those are for us to make sure
15 that we mitigate somehow over this five-year period,
16 so the financial risks of all those are ours.

17 Q. Would it be fair to say that the rate plan
18 provides a cap to the investor's exposure to business
19 and financial risk?

20 A. I'm not sure the rate plan would provide a
21 cap to the exposure to the risk because there could be
22 things that come up that we don't anticipate right now.
23 I think it provides some assurance or some certainty as
24 to what the rates will be for customers right now.
25 There may have to be other things like schedule 48

1 where we may have to discount for other customers. I
2 hope not. I hope we can find ways not to have to do
3 that. So those risks that occur, those financial
4 consequences, I believe, are ours.

5 Q. But it does provide some assurance that a
6 certain amount of revenue would be recovered, an
7 agreed upon revenue?

8 A. Primarily I would agree.

9 Q. And wouldn't the right to come in for
10 emergency rate relief also provide I guess a cap, if I
11 can call it that?

12 A. I would say it gives us a floor.

13 Q. Maybe that's a better term?

14 A. I think the emergency rate relief, sure.

15 Q. And is it fair to say that this agreement
16 among the parties is partly over where that floor
17 should be or whether it should be one at all as far as
18 protection of the investors from risk?

19 A. I think that's fair. The disagreement to
20 me comes really down to how do we treat these stretch
21 goals that we're talking about, and I just need to
22 say, we never intended when we put this together to
23 try to over earn significantly. That wasn't our plan.
24 That's why we offered this performance-based mechanism
25 which was subsequently taken out. We had talked to

1 staff and public counsel about that before we even
2 filed our direct case, and they gave us feedback and
3 said it's really complex. We suggest you not do that.

4 When we filed our rebuttal, we said we
5 wanted to demonstrate that we weren't trying to over
6 earn dramatically and we wanted to put something in
7 place to show that. Let's put in a mechanism that if
8 we start overearning it goes back to the customers.
9 And the only thing we really had available at the time
10 that we had fully developed was this PBR proposal,
11 which I agree, is fairly complicated. But it was the
12 best we had and we had such a short time when we saw
13 staff and public counsel's case until when we had to
14 file rebuttal. We didn't really have time to file
15 something else.

16 Q. One last question. How would you evaluate
17 the business risks to investors with the merged
18 company and as supported by your direct case rate
19 plan versus the business risk of a stand alone
20 Washington Natural Gas over the next five years?

21 A. I think there's more opportunity from an
22 investor standpoint because of the -- as I said being
23 able to sell energy. I think Washington Natural Gas
24 isn't, I don't think, going to have a lot more
25 business risk than they have today. We've already had

1 things opened up. The question becomes one of how are
2 people like Enron/PGE going to affect us in this
3 marketplace. I think we can compete very well with
4 those type of people, because, as I said, we have good
5 expertise in acquiring the resources. We try to work
6 with our customers to make sure that we're providing
7 them good service and providing them the best possible
8 cost we can, so I think we may have some, I won't say
9 advantage, but at least we can compete there with
10 these people. So I don't see that Washington
11 Natural's business risk is going to be a lot higher.
12 I think it's a little higher. I think it's more on
13 the electric side where things are pretty uncertain
14 right now.

15 Q. Higher under the merged company, you mean?

16 A. I think under the merged -- I think the
17 merged company provides a vehicle that allows you to
18 probably compete because you're selling energy, you're
19 providing more of what the customer is going to want,
20 so I think the merged company does give you a little
21 lower risk than you would if we were two stand alone
22 companies.

23 Q. But for Washington Natural I thought I
24 heard you say that the business risk might be slightly
25 higher for the merged company compared to --

1 A. No, I'm sorry. I'm saying Washington
2 Natural's business risk might be slightly higher. As
3 a merged company I think it's lower than the two stand
4 alone.

5 Q. But as an individual company?

6 A. Washington Natural's I don't see -- if we
7 were -- Washington Natural was stand alone for the
8 next five years I don't see a lot more business risk,
9 maybe a little but not a lot more than what we have
10 today. Everything has been opened up already. We're
11 competing today.

12 Q. And for Puget Power, though, on the
13 electric side I think I hear you saying that the
14 merger could substantially lower their business risk?

15 A. I think it does lower the business risk,
16 because I think their business risk is going up a lot
17 now, so I think merged it could bring it down. I
18 think it does.

19 COMMISSIONER GILLIS: Thank you.

20

21 EXAMINATION

22 BY JUDGE SCHAEER:

23 Q. Mr. Torgerson, following up on the
24 discussion of risk, on page 12 of your rebuttal
25 testimony, have you or can you quantify the risk of

1 the PRAM termination and the effect it will have on
2 Puget Sound Energy's rate of return?

3 A. I have not. I have not tried. All I know
4 is that when you eliminate a certainty where you're
5 recovering all these costs and now you're going to be
6 subjected to weather conditions, water conditions and
7 there's going to be more volatility in the earnings
8 that the risk has gone up, but as to what it is, I
9 don't know if it's 50 basis points, 100 basis points.
10 I haven't tried to quantify it.

11 Q. Have the joint applicants or any other
12 entity conducted an analysis of the achievability of
13 the synergy savings, best practices goals, and power
14 stretch goals that were included in the company's
15 forecasts?

16 A. The only one that I can say where we really
17 have a plan are the synergy savings, and to say that
18 the probability of achieving those, we didn't put down
19 a probability of achieving those. Those are going to
20 be a challenge to achieve, but I believe we can
21 achieve those. The \$370 million, we have a plan.
22 It's not to be exactly as Mr. Flaherty's team put
23 together, but I think the numbers are probably there
24 in the aggregate.

25 As far as the best practices, I have no

1 sense of what it is. I believe the best practices and
2 power cost savings it's going to be something more
3 than zero. I know that it has to be. We need to
4 mitigate the competitive pressures which alone from
5 schedule 48 are like \$30 million annually. I know
6 that if you look at Exhibit 28 which talked about
7 power costs and the increases in those costs and we
8 were offsetting that with the 1 percent increase and
9 the synergy savings in total, we were still about \$80
10 million short over the five-year period with those.

11 So, we haven't -- I can't say that we can
12 quantify the probability. I think it's going to be
13 greater than zero as far as achieving the best
14 practices. Timing is another issue especially with
15 the power cost stretch goals. Those are going to rely
16 on litigation and negotiation of -- renegotiation of
17 existing contracts, which are highly uncertain.
18 That's what it's going to take to get those -- on
19 those PURPA contracts, the cogeneration contracts and
20 even if you look at the Montana Power litigation right
21 now, I don't know how that's going to come out. We
22 could go to jury trials and it's really uncertain. So
23 I don't have a probability estimate, but I can tell
24 you we have a challenge to get all these things done
25 and we have to mitigate a lot of costs, and that's how

1 we're planning on doing it.

2 Q. Do either Washington Energy Company or
3 Puget have their data included in Value Line or IBES?

4 A. Sure. Value Line does a report on both
5 companies. IBES is just an aggregation of all the
6 analysts that follow the companies and they publish
7 what the earnings estimates are for each one, each
8 analyst and for each company, so, yes, IBES has a
9 report and so does Value Line.

10 Q. What types of information are provided to
11 these organizations?

12 A. Just publicly available information. We
13 don't go into any more detail than that.

14 Q. Are meetings held with them to explain or
15 amplify the written information provided?

16 A. Sure. Value Line -- IBES is just
17 aggregates earnings estimates. Value Line, their
18 analyst was at the EEI financial forum last week and
19 we met with him and talked to him about what's going
20 on with the company, the process, but we stick
21 strictly to publicly available information.

22 Q. One thing I've really had trouble
23 understanding -- I hope you can help me -- is how did
24 the companies prepare your case in chief five year rate
25 plan without any forecast for the merged companies over

1 that five-year period?

2 A. Well, we had -- we did have the
3 presentation we gave to the rating agencies. That was
4 what we had done for the merger.

5 Q. So is that the forecast you used in putting
6 together your case in chief?

7 A. No.

8 Q. What did you use?

9 A. We looked at mainly -- that Exhibit 28 was
10 mainly what we looked at where the costs associated
11 with producing and delivering the power we knew those
12 were going up, and if you're talking about the 1
13 percent increase that's how we looked at that, and
14 what we expected to get from the synergy savings, and
15 then factored in a 1 percent increase to try to
16 mitigate that. Then we knew we would have to get some
17 other savings and that's really what we looked at.
18 Now, we had those goals, and obviously they were
19 there. They've been done before we did our case in
20 chief. So we looked at that, but I can't say that we
21 utilized that directly in putting together our direct
22 case: It's a factor, sure.

23 Q. If the stretch goals and best practices
24 goals were speculative, why were they included in the
25 five year forecast provided to the parties in response

1 to a request for your forecast?

2 A. It was a very broad request. It said
3 provide us any forecasts you have. That was the only
4 one you had so we felt we had an obligation under
5 discovery to send it to them. That is the only one we
6 had.

7 Q. Well, that brings me to a question I will
8 take a little out of order, but I believe in your
9 conversations with Mr. Manifold this morning you've
10 indicated that Washington Energy Company had done a
11 five-year financial projection that was part of this
12 and that Puget had done some projections. Why weren't
13 those provided to public counsel who asked you for all
14 projections?

15 A. They were. It's part of the rating agency
16 presentation. There's three sections to it. One has
17 the Washington Energy strategic plan and all the
18 schedules that go along with that and then another
19 part was the Puget Power individual forecast which was
20 done and then the combined.

21 Q. And finally, looking at page 10 of your
22 rebuttal, you discussed with Commissioner Hemstad what
23 you've indicated as Dr. Lurito's failure to update his
24 authorized rate of return, and you meant by update
25 that he should have increased it; is that correct?

1 A. I think he should have. What I was talking
2 about there is at the time Puget Power's 10 and a half
3 percent rate of return was established, at the same
4 time Washington Natural got 10 and a half percent rate
5 of return. Since that time, Washington Natural has
6 moved to 11 to 11 and a quarter. Cascade recently was
7 moved to 11 and a quarter. I'm just saying it wasn't
8 adjusted. They hadn't had the opportunity because
9 Puget hadn't filed a general rate case. That's what I
10 was referring to, that the authorized says it was 10
11 and a half but it doesn't reflect circumstances of
12 today.

13 Q. Wasn't one of the identified merger
14 benefits in your case in chief that capital cost of
15 the merged company would be lower than the individual
16 companies?

17 A. Yes. They will be a little bit lower.

18 JUDGE SCHAEER: That's all I have. Is there
19 anything on redirect?

20 MR. HARRIS: Just a few questions.

21

22 REDIRECT EXAMINATION

23 BY MR. HARRIS:

24 Q. Mr. Torgerson, in response to questions by
25 Mr. Cedarbaum you talked about the Commission basis

1 nature of the projections provided as part of your
2 rebuttal testimony. I take it those projections are
3 not intended to replace your normally filed Commission
4 reports?

5 A. No.

6 Q. What do you mean, then, when you say that
7 they were prepared on a Commission basis?

8 A. The Commission basis forecast was done to
9 take out items such as the stretch goals, which are
10 goals. They're nothing that's in my mind known and
11 measurable and it didn't include the competitive
12 pressures. So it's just they're different than what a
13 forecast might be.

14 Q. You also have questions about who received
15 these reports, and you mentioned that investment
16 bankers involved in the merger also received copies of
17 these projections and these stretch goals; is that
18 correct?

19 A. The investment bankers who are working on
20 the merger with us actually have worked with us on
21 these forecasts to some extent, and they received
22 input from us and Goldman Sachs and Morgan Stanley
23 took what we gave them and I believe Morgan Stanley
24 actually did their own forecast based on our input,
25 based on the forecasts we provided to them.

1 Q. Were the investment bankers working as
2 agents of the companies at that time?

3 A. Yes. They were hired and they signed
4 confidentiality agreements and they could not disclose
5 that even to their own people and the people on the
6 merger team were allowed to see that information.

7 Q. You were also asked questions about whether
8 management rely on these projections and on these
9 stretch goals by Mr. Manifold. To your knowledge, is
10 there anyone on your management team who didn't
11 understand the risks associated with the stretch
12 goals?

13 A. No. They were all advised as to what they
14 were. We set challenges in stretch goals every year
15 for the company. As a matter of fact, in the budget
16 we're looking at for '97 we have stretch goals in that
17 of about, I think it's like \$5 million for Washington
18 Natural Gas alone, so we always are setting stretch
19 goals and the management team participates generally
20 in setting those stretch goals.

21 Q. You were also asked questions about current
22 earnings. In your rebuttal testimony you state that
23 the companies are currently underearning. Could you
24 explain, please?

25 A. The Commission basis reports that I have in

1 my -- as an exhibit show that both companies are not
2 earning their currently allowed rates of return as of
3 those dates.

4 Q. Just two more questions. You were asked
5 about will the company or whether you believed that
6 stretch goals should be considered as part of the
7 merger or pass part of the rate plan coming out of the
8 merger. Is the company through its rate plan taking
9 responsibility for achieving savings in excess of the
10 synergy savings?

11 A. Yes. As I think I said, when we looked at
12 that Exhibit 28 it showed that we had about 300 -- I
13 think it shows like \$380 million or so of increases in
14 power costs -- not just power costs but the cost to
15 deliver the power and transmit it and distribute it.
16 We were offsetting that in that schedule by
17 approximately I think it was \$140 million of synergy
18 savings and -- \$160 million of synergy savings and
19 \$140 million from the 1 percent rate increase which
20 left I believe about \$80 million that we had to
21 recover using the stretch goals. So the company is --
22 does have to come up with savings from other sources
23 other than just the synergy savings to meet not only
24 those pressures but other competitive pressures and
25 other pressures on A and G costs, union wage increases

1 and so forth.

2 Q. Finally, what would be the risk to the
3 company or the companies if they were to disclose
4 publicly projections and things such as stretch goals?

5 A. Well, I think I talked a little bit about
6 that, but the risks to the company are obviously
7 getting sued for -- if you don't live up to them and
8 if you don't have the proper disclosures about what
9 these are. I've been involved in a suit already once
10 which was dismissed and I'm very careful about
11 disclosing certain things to the public, and we just
12 have to make sure that what we disclose are legitimate
13 and things that -- not stretch goals and not ambitions
14 of the company.

15 MR. HARRIS: Nothing further. Thank you.

16 JUDGE SCHAEER: Is there anything else for
17 this witness?

18 MR. CEDARBAUM: Can I just ask a few
19 questions?

20 JUDGE SCHAEER: Yes.

21

22 RE-CROSS-EXAMINATION

23 BY MR. CEDARBAUM:

24 Q. Just three or four short areas for you, Mr.
25 Torgerson. On page 12 of your testimony, starting at

1 the bottom and on to the top of page 13 you refer to
2 Mr. Elgin's -- you quote Mr. Elgin from his testimony
3 in docket UE-901183-T with respect to PRAM. Would you
4 accept subject to check that Mr. Elgin did not
5 quantify the reduction business risk that PRAM would
6 allow?

7 A. Yes.

8 Q. Second area. You referred to -- and this
9 is with respect to power stretch goals -- you referred
10 to litigation and renegotiation of contracts. Would
11 it be correct to say that the companies, either Puget
12 or Puget Sound Energy, will intend to vigorously
13 litigate and renegotiate those contracts?

14 A. I think, yes, the companies whether we say
15 vigorously litigate I think we need to renegotiate,
16 and I think litigation is an option.

17 Q. I guess my question is, it is the company's
18 intent to do whatever is necessary legally to reduce
19 the costs of power contracts either through litigation
20 or renegotiation?

21 A. Yes, we are, and I think the -- looking at
22 the intervention that was proposed by Texaco and March
23 Point to show how difficult this is going to be.
24 They're not going to just sit back and give us a
25 renegotiation or change the price to Puget Sound

1 Energy. So I think, yeah, we're going to do what we
2 can legally but it's going to be a challenge.

3 Q. Is it correct that the companies are
4 currently negotiating with Tonaska -- currently
5 renegotiating with Tonaska the displacement provisions
6 of that contract?

7 A. As I understand it, Puget Power people are
8 having discussions with Tonaska. I have not been
9 involved, so I really don't know the extent of those.

10 Q. Third subject, you referred to Exhibit 28.
11 That was Ms. Lynch's exhibit.

12 A. Yes.

13 Q. That's not a fully adjusted historical test
14 year analysis; is that right?

15 A. I don't believe it is. I don't know. I
16 would suggest you may want to ask Ms. Lynch.

17 Q. Would you accept subject to check that it
18 is not?

19 A. Sure.

20 Q. And finally, with respect to Commission
21 basis reports, is my understanding correct based on
22 your questions from Mr. Harris that your exhibits are
23 not presented on a Commission basis as stated in the
24 Commission's rules that I discussed with you earlier
25 this morning?

1 A. Yes. To the extent that the Commission's
2 rules say that you're not to look into the future, I
3 would agree because they are forecasts. They are
4 looking into the future.

5 MR. CEDARBAUM: Thank you.

6 MR. MANIFOLD: I have just a couple of
7 questions.

8 JUDGE SCHAEER: All right.

9

10 REXCROSS-EXAMINATION

11 BY MR. MANIFOLD:

12 Q. Referring to page F25 of Exhibit TS-107,
13 we're obviously not going to mention the numbers that
14 are there, but the numbers that are there for
15 additional savings from best practices and power
16 stretch, were you involved in creating either of those
17 estimates?

18 A. Yes. As far as the power stretch and the
19 best practices, I was a member of the team that was
20 working on the merger. That's where they came from.

21 Q. How did you go about coming up with those
22 numbers?

23 A. They were fairly arbitrary, to be honest.
24 The power stretch goals we looked at a -- what the
25 costs of all the PURPA contracts were and just took a

1 percent and said, we would like to challenge ourselves
2 to get it down that much. As far as best practices we
3 just said, well, what are reasonable? What do we
4 think we might be able to get without doing any
5 research or any estimating -- we did provide some
6 estimate but it was just more a guess to say, well, we
7 think we might be able to do this, and the discussions
8 among the team -- and there were, I think, four or
9 five people from each company, that's about the extent
10 of it. I mean, we had a lot of discussion over it,
11 but we didn't have things that we could specifically
12 point to of how we were going to do it. We had gone
13 through a lot of discussions, oh, about how we are
14 going to manage the company going forward, which was
15 could we have joint electric and gas crews and so
16 forth where we would have maybe a fitter and a lineman
17 on one crew and maybe one helper. Those are things
18 that obviously are going to take negotiation with the
19 unions, so those are the type of discussions we had,
20 but then when it came down to providing a number, it
21 was fairly arbitrary.

22 Q. I'm struck by the fact that the numbers are
23 not round numbers, if you will. They are down to the
24 exact million not an even number as we have often used
25 as estimates when we've been talking in this case. Is

1 there some particular reason that they're not just a
2 round number, that they're down to a very specific
3 number?

4 A. Well, I think they're rounded somewhat.

5 Q. Well, they're rounded. Can we say the
6 range?

7 A. Within a hundred thousand. In one case the
8 power costs are within a million.

9 Q. Right. On one other issue. Are there
10 increasing number of customers and use per customer
11 for both the gas company and the electric company?
12 Well, let's take them separately. The gas company's
13 business is growing?

14 A. Yes. We're adding more customers for the
15 gas company.

16 Q. And same thing for the electric company,
17 its business is growing?

18 A. Yes.

19 Q. And those would be factors that would
20 influence how its actual revenues would be over the
21 coming period?

22 A. Sure.

23 MR. MANIFOLD: Thank you.

24 JUDGE SCHAEER: Anything further for this
25 witness? Thank you for your testimony. Let's take

1 our morning recess at this time and be back at 11:10
2 and at 11:10 let's have Mr. Abrams on the stand and
3 let's have everyone who has exhibits for Mr. Abrams
4 have those passed out to everyone, please.

5 (Recess.)

6 JUDGE SCHAEER: Let's be back on the record
7 after our morning recess. Would you call your next
8 witness, please, Mr. Van Nostrand.

9 MR. VAN NOSTRAND: Thank you, Your Honor.
10 The joint applicants call William A. Abrams.
11 Whereupon,

12 WILLIAM A. ABRAMS,
13 having been first duly sworn, was called as a witness
14 herein and was examined and testified as follows:

15 JUDGE SCHAEER: I have the following
16 exhibits for Mr. Abrams, which I will mark for
17 identification. Marked as Exhibit T-118 is the
18 rebuttal testimony of Mr. Abrams. Marked as Exhibit
19 119 is Exhibit WAA-2. Marked as Exhibit 120 is
20 Exhibit WAA-3. Marked as Exhibit 121 is Exhibit
21 WAA-4. Marked as Exhibit 122 is Exhibit WAA-5.
22 Marked as Exhibit 123 is Exhibit WAA-6, and marked as
23 Exhibit TS-124 is Exhibit WAA-7.

24 Are those all of the exhibits that you have
25 for this witness, Mr. Van Nostrand?

01340

1 MR. VAN NOSTRAND: Yes, it is, Your Honor.

2 (Marked Exhibits T-118, 119 - 123 and
3 TS-124.)

4 JUDGE SCHAEER: And I do not have any
5 exhibits from other parties that have been distributed
6 for this witness. Please proceed, Mr. Van Nostrand.

7 MR. VAN NOSTRAND: Thank you, Your Honor.

8

9 DIRECT EXAMINATION

10 BY MR. VAN NOSTRAND:

11 Q. Mr. Abrams, could you state your name and
12 spell it for the record, please?

13 A. My name is William A. Abrams, A B R A M S.

14 Q. Do you have before you what's been marked
15 for identification as Exhibit T-118 and Exhibit
16 TS-124?

17 A. Yes, I do.

18 Q. Do you recognize that as your prefiled
19 rebuttal testimony in this proceeding?

20 A. Yes, sir, I do.

21 Q. If I asked you the questions set forth in
22 those documents, would you give the answers as stated
23 therein?

24 A. Yes, sir.

25 Q. Do you also have before you what's been

1 marked for identification as Exhibits 119 through 123?

2 A. Yes, sir.

3 Q. Do you recognize those documents as the
4 exhibits accompanying your prefiled rebuttal
5 testimony?

6 A. Yes, sir.

7 Q. Do you have any additions or corrections to
8 make to those exhibit?

9 A. No, sir, I do not.

10 Q. Are they true and correct to the best of
11 your knowledge?

12 A. Yes, sir.

13 Q. Were they prepared under your direction and
14 supervision?

15 A. Yes, sir.

16 MR. VAN NOSTRAND: Your Honor, I would move
17 the admission of Exhibit T-118, 119 through 123 and
18 Exhibit T-TS-124.

19 JUDGE SCHAER: Any objections? Those
20 documents are admitted.

21 (Admitted Exhibits T-118, 119 - 123 and
22 TS-124.)

23 MR. VAN NOSTRAND: Mr. Abrams is available
24 for cross-examination.

25 JUDGE SCHAER: Mr. Cedarbaum.

1 MR. CEDARBAUM: Yes, I have a few.

2

3 CROSS-EXAMINATION

4 BY MR. CEDARBAUM:

5 Q. Morning, Mr. Abrams. My name is Robert
6 Cedarbaum. I'm representing Commission staff.

7 A. Good morning, sir.

8 Q. On page 4 of your testimony you refer to an
9 exhibit of Mr. Torgerson's from his direct case. It's
10 Exhibit JPT-6.

11 A. Yes, sir.

12 Q. Would you accept subject to your check that
13 on pages 2 and 7 of Mr. Torgerson's exhibit JPT-6 it
14 indicates that Puget is characterized by Standard and
15 Poor as high average in terms of both its business
16 position and its utility business position?

17 A. That is what it says in there, but Standard
18 and Poor's after this was published lowered them to an
19 average. I think that's in another exhibit of Mr.
20 Torgerson's, if I'm not mistaken.

21 Q. Can you find that exhibit for me, please.

22 A. I think we can find it.

23 JUDGE SCHAEER: Mr. Abrams, I'm going to ask
24 you to pull that microphone closer to you and try and
25 speak directly into it because people in the back of

1 the room are not able to hear you, sir?

2 THE WITNESS: Fine. Thank you.

3 Q. Do you know if that's part of his rebuttal
4 testimony or his direct testimony?

5 MR. VAN NOSTRAND: It would be Exhibit 116,
6 the Standard and Poor's report of October 4.

7 Q. I'm looking at Exhibit 116. Maybe you can
8 just help Mr. Abrams where on this exhibit does it
9 show Puget being characterized as average for business
10 position and utility business position.

11 A. I don't think this is it. I believe
12 there's a downgrade report by S and P that changes
13 that business risk status, and I know I have seen it
14 and I will find it for you if I may.

15 MR. VAN NOSTRAND: We don't believe it's an
16 exhibit in the case.

17 MR. CEDARBAUM: It is.

18 MR. VAN NOSTRAND: It is not.

19 JUDGE SCHAEER: Is it something that's
20 available in the hearing room, Mr. Van Nostrand?

21 MR. VAN NOSTRAND: Yes.

22 MR. CEDARBAUM: Maybe a good way to handle
23 it is I can take a look at it off the record and we'll
24 figure out at that time how to deal with it.

25 Q. I don't believe you were here yesterday,

1 but yesterday we discussed a response by Mr. Story to
2 a staff data request 236, which is now in the record
3 as Exhibit TS-96. And in that document Mr. Story
4 calculated some coverages excluding AFUDC, and if you
5 need to take a look at the exhibit, that's fine. I'm
6 not sure you do. Would it be correct to say that if we
7 were to include AFUDC in the calculation that the
8 coverages that are shown on that exhibit would
9 increase?

10 A. I don't know what AFUDC is in terms of
11 amount for the companies. I imagine it's relatively
12 small, and I do not imagine the increase would be very
13 great if at all.

14 Q. But it would increase by some magnitude?

15 A. Possibly, but those coverages are not
16 counted any more anyway. We do not count coverages
17 including AFUDC.

18 Q. On your exhibit, it's WAA-4, which is
19 Exhibit 121, on page 1 you show Puget's coverage
20 adjusted for purchased power over the 1990 to 1995
21 period along with a number of other companies; is that
22 right?

23 A. I'm sorry, WAA-4?

24 Q. Yes, page 1. It's been marked and admitted
25 as Exhibit 121.

1 A. I'm sorry. I'm looking at the wrong thing.
2 I have it now.

3 Q. And again, what's shown there for Puget's
4 and other companies are coverages adjusted for
5 purchased power for the period 1990 through '95; is
6 that right?

7 A. Yes.

8 Q. Is it correct that Puget during that time
9 period was rated A minus by Standard and Poor's?

10 A. Yes, sir.

11 Q. Again, just referring back to Mr.
12 Torgerson's Exhibit JPT-6, on sheet 9, is it correct
13 that for attribution with above average business
14 position the total debt to total capital ratio for an A
15 rating is shown as 52 percent. Would you accept that
16 subject to your check?

17 A. I'm sorry, on which exhibit now?

18 Q. JPT-6 which you referenced in your own
19 direct testimony, but on page 9. Would you accept that
20 52 percent figure that I gave you subject to your
21 check?

22 A. On page 9. I'm sorry, in my copy I don't
23 find a reference on page 9 to a specific coverage
24 ratio. I must have.

25 Q. I'm looking at --

1 A. We're looking at the electric utility
2 business positions detailed.

3 Q. I'm looking at Exhibit No. 9 in this case,
4 which is Mr. Torgerson's JPT-6 on page 9. Would you
5 accept subject to your check that for electric
6 companies with above average business position the
7 total debt to total capital ratio for an A rating is 52
8 percent?

9 A. Yes.

10 Q. And for a BBB rating is 59 percent?

11 A. Yes, that's what it says.

12 Q. Do you know what Puget's total debt to
13 total capital ratio not adjusted for purchased power
14 has been on average for the 1990 to 1995 period?

15 A. No, I don't know that offhand.

16 Q. Would you accept subject to your check 48
17 percent?

18 A. Yes, I would.

19 Q. Finally turning to page, to your exhibit
20 122, which is WAA-5 on page 1. For Puget Sound Power
21 and Light in the adjusted debt ratio 1995 column
22 there's a blank. Do you know what that number ought to
23 be?

24 A. I did not have it at the time and I don't
25 know that I know what it is now, but I can get that

1 number for you.

2 Q. Well, I will give that a try when I look at
3 this other material maybe while you're still on the
4 stand I will be able to ask you those questions, but
5 why don't we leave it at that for now. Thank you.
6 That was it.

7 JUDGE SCHAEER: Mr. Cedarbaum, did you have
8 questions of this witness -- I mean Mr. Manifold. I
9 was looking at the right person.

10 MR. MANIFOLD: Yes. I knew who you meant.

11

12 CROSS-EXAMINATION

13 BY MR. MANIFOLD:

14 Q. Mr. Abrams, you say that you remain
15 affiliated with Duff and Phelps. What does that mean?

16 A. Well, I gave up my division when I turned 65
17 two years ago, and I remained with the company in an
18 executive consulting basis and have been since that
19 time but on a reduced time basis. I don't consult with
20 them all the time. That gives me the opportunity, has
21 given me the opportunity, to start my own financial
22 consulting firm.

23 Q. And so are you still --

24 A. It's not an unusual retirement arrangement
25 at all.

1 Q. So are you still considered an employee of
2 Duff and Phelps or are you a contractor?

3 A. I'm under contract.

4 Q. And what do you do for them as a management
5 consultant?

6 A. I consult with executive committee and with
7 the board on various issues that they might have,
8 special problems that they might have, things that
9 they might want me to give my opinion about, analyze
10 for them. I represent them occasionally at functions
11 where they want me to represent them, and then they --
12 I review some of their material that they're
13 publishing from time to time.

14 Q. What do you see as the primary
15 responsibility of a credit rating agency?

16 A. To assess the risks inherent in the debt
17 and other fixed income securities, which is the debt
18 and the preferred stock of a company based upon
19 historical data and looking out into the future in
20 terms of realistic possibilities up or down as to where
21 that company is going to go and advising the -- by
22 virtue of issuing a credit rating the investing public
23 of the agency's opinion of what the risks are in a bond
24 investment, the risk of principal and interest being
25 paid on time and as promised.

1 Q. So the customers of the credit rating
2 agency, such as Duff and Phelps, are the investing
3 public?

4 A. No, sir. The clients of Duff and Phelps or
5 Fitch or Moody's or Standard and Poor's are the
6 companies that are being rated themselves. Now, we all
7 have a printed service that we put out which shows our
8 credit rating and discusses principal factors about the
9 company and gives a rationale for the opinion on that
10 rating and that service is sold to a number of
11 institutional investors, so there's a dual -- a dual
12 customer base, if you will, but the second one is for a
13 printed service. It's not for a credit rating. Our
14 credit ratings are published -- are public information.

15 Q. I take it that Puget Power is not a
16 customer of Duff and Phelps for this purpose?

17 A. Not currently, no.

18 Q. And the same for Washington Energy Company?

19 A. That's right.

20 Q. Is it fair to say that for the first
21 purpose you mentioned, the client who is the
22 corporation that is asking you to do the rating, the
23 purpose of the rating is for investors to have
24 accurate information?

25 A. Yes, sir.

1 Q. As a rating agency officer, do you take
2 into account financial basis or Commission basis
3 reporting? First of all, you're familiar with both of
4 those terms, I presume?

5 A. Well, I'm familiar with the terms. We do
6 our own forecasts, number one, and I cannot speak for
7 Moody's or S and P or Fitch. I would assume that they
8 do also.

9 We use our forecasts to compare that with
10 whatever the company might present to us. Different
11 companies present different types of forecast formats.
12 Often they present a base case and then they present a
13 possibility case, what they might call an optimistic
14 case, and they might present a pessimistic case.
15 Others present one case.

16 Now, we are not necessarily concerned with
17 whether or not this is technically a Commission basis
18 or a rating agency basis. What we are concerned with
19 is the realism of the forecasts being accomplished for
20 the bottom line results that we are looking for a
21 particular credit rating for that company, and the
22 differences in this particular case I confess are some
23 that I had not heard before. I realize there's a
24 Commission basis that is not used for reporting basis
25 and that's because you have rate base, you have certain

1 things that have been disallowed by different
2 Commissions so those are no longer included in a
3 Commission basis.

4 Also, a Commission basis is based upon --
5 what is the term you used this morning -- known and
6 measurable. So when you are going into a situation
7 like this, which is a merger, you have certain things
8 that are not known and measurable, so this is where
9 the company in this case has made a distinction
10 between the Commission basis and what they presented
11 to the rating agencies, and of course that was to
12 Moody's and S and P.

13 Q. As a rating agency, is it correct that what
14 you're concerned about is the actual cash the company
15 gets to cover its debt and preferred stock
16 obligations?

17 A. Well, we're concerned about the actual
18 cash. We're also concerned about total reported
19 earnings. I mean, there may be some difference, there
20 is a difference between the two, but we are concerned
21 about both of those, and you are concerned about --
22 you are probably concerned about total reported
23 earnings more in a utility company than you are in a
24 nonutility company, because total reported earnings go
25 to the creation of an increase in retained earnings,

1 which goes into your capital base, and your capital
2 base, your equity ratio, is what is used for the
3 determination of earning power. That's not true in a
4 nonutility company. Nonutility company earns out of
5 the market and what comes down is profit with no
6 restriction or limitation based upon a return on a
7 given equity ratio, so for a utility company we're
8 concerned very much with both. (Inaudible)
9 calculations are made on the basis of earnings.

10 Q. In a rating agency consideration, do you
11 look to see whether the company -- utility -- has
12 entered into a special rate arrangement, special
13 contracts at below tariff rates with any of its
14 customers?

15 A. Well, we certainly -- we want to know that
16 because that's -- there's two reasons why we want to
17 know that. One is how is that going to affect their
18 future revenue base and two what are they doing to
19 remain competitive to retain their business. You have
20 a hard time, over years, to show a continuing
21 prosperous company with a shrinking business basis
22 unless that shrinkage can be demonstrated to be
23 getting rid of customers who are undesirable because
24 they don't pay their bills or something like that.

25 Q. What if the shrinking customer base was a

1 result of losing customers and obligations that went
2 along with serving those customers so that you lost
3 some from each column. Would that be a concern? In
4 other words --

5 A. You lose revenue and you lose an equal
6 amount of expenses, assume customers had not given you
7 any profit whatever, not contributed anything to
8 overhead or to depreciation or any of that sort?

9 Q. Well, there could be a variety of ways in
10 which you could lose expenses.

11 A. Well, I mean it depends upon --
12 it's important to what extent you are losing. If you
13 were selling to a customer at no more than your fuel
14 costs and you were able to shut your plant down and
15 not do anything or at least reduce your output -- have
16 a hard time doing that also in the electric utility
17 industry, proportionately so that you did not have
18 that fuel cost, that would not be a concern. But if
19 that customer were producing some margin above fuel
20 costs and that margin was -- that was contributing to
21 offsetting a portion of the company's fixed costs,
22 without that customer you were going to have to look
23 to other customers raising their prices for other
24 customers to recover that then you have a negative
25 effect of losing that customer.

1 Q. What if when that customer left they were
2 obligated to pay you, pay the company some compensation
3 for the fixed charges that they had otherwise been
4 paying for?

5 A. Assuming it was total compensation, then
6 you would be, I would believe, earnings neutral. If
7 it were anything less than that you would have a
8 negative effect.

9 Q. What if it were more than the contribution
10 they were otherwise making?

11 A. I doubt that that would happen.

12 Q. At page 10 of your testimony, line 13 --

13 A. Yes, sir.

14 Q. -- you referred to a gradual and much
15 needed improvement in capital structure, i.e., common
16 equity ratio, and a reduction in the debt ratio?

17 A. Yes, sir.

18 Q. What did you mean by this?

19 A. Well, what I meant was that the company's
20 -- the company's debt ratio in this forecast is
21 decreasing and the company's equity ratio is
22 increasing and that in my opinion it is necessary for
23 that condition to prevail in terms of the market and
24 the added risks from competition that all companies,
25 virtually all companies in the electric utility

1 industry, including Puget, are going to be facing.
2 When you have added business risks you must have added
3 financial strength to maintain equilibrium.

4 Q. In drawing your conclusions regarding
5 interest coverage ratios, what forecasts did you rely
6 upon?

7 A. I used the forecasts that I have in -- this
8 would be the staff's plan. This would be JHS-12 and
9 JHS-11.

10 Q. These were from -- what assumptions did you
11 make about dividend level? Did you assume that it
12 would stay at the current \$1.84 for Puget?

13 A. I did not make an assumption about dividend
14 level. Dividend level is in the forecast and I just
15 accepted what that was and a resultant equity ratio as
16 a result of that.

17 Q. Does the dividend payout affect the
18 capitalization of a company?

19 A. Well, it affects a number of things about
20 the company. Certainly if you raise -- given a flat
21 level of earnings, if you raise the dividend rate you
22 will have less retained earnings and you will increase
23 your capitalization more slowly. But if you don't pay
24 a dividend commensurate with what the market expects
25 then you're not capital attractive then you cannot

1 raise funds readily in that market.

2 Q. Would you accept subject to check that the
3 majority of the electric utilities in the west have in
4 fact reduced their dividend and have continued to be
5 able to attract capital?

6 A. I would accept that they had attracted
7 capital.

8 Q. To limit that, in the past ten years or so.

9 A. They've had trouble at times when they have
10 cut the dividend and for a period of time they had had
11 trouble attracting capital, and I would venture to say
12 that in terms of attracting common equity capital
13 they've probably had to pay more or they get a lower
14 price. Their price for common stock went down when
15 the market value of the common stock went down when
16 they cut the dividend. That's true in every one of
17 the cases, I believe, west, east, wherever the
18 dividend has been cut or passed. And it's taken time
19 then for that to be increased, and during that period
20 when the price is very low, if they had had to sell
21 common stock they would have had to sell common stock
22 probably at possibly below booked value, or certainly
23 at a lower price than if they had been maintaining the
24 dividend rate.

25 Q. If the company doesn't have to sell any

1 stock during that time, does that matter?

2 A. Well, I don't think we can ever say that a
3 company doesn't have to sell common stock. You don't
4 know. One of the ingredients in credit analysis is
5 making sure that a good credit rating company has the
6 ability to sell common as necessary to take care of an
7 emergency so that you don't have a problem in meeting
8 your debt service requirements or that you can do
9 whatever the corporation needs to do.

10 Let us take, for example, a case of
11 renegotiating purchased power contracts or buying out
12 purchased power contracts. You have to raise money
13 often to do that if you don't have any legal reason to
14 terminate the contract the other way, and the most
15 predictable way is to say, well, we're going to buy
16 out the contract, and to do that you have to -- you're
17 not going to buy out the contract and have the seller
18 accept a forfeiture of his profit potential. He's
19 going to get his profit potential if he has a good and
20 binding contract. So the way that you accomplish this
21 is because the utility company's credit rating is
22 generally higher than the IPP's credit rating.
23 Therefore, the utility companies have been doing this,
24 have been able to buy out the contract with lower cost
25 money than is -- than the IPP had borrowed.

1 There are other factors, too, that enter
2 into it. You have the IPP assumption, the IPP no
3 longer having any operating expenses, so that goes
4 into it, but if you don't have a spread between the
5 IPP credit rating and the utility company credit
6 rating then you don't have any interest cost reduction
7 to factor into it and you don't have that basis for
8 making a beneficial buyout of a contract all you're
9 doing is trading even. It's going to cost you as much
10 buying it out as it cost you to buy the contract.
11 Even to buy out a contract you may not want to sell
12 debt. The debt markets may be very adverse at the
13 time you want to do this. You have to have the option
14 also to sell common stock.

15 Q. Does Puget Power or Puget Sound Energy
16 forecast the issuance of any stock other than through
17 its dividend reinvestment program during the next five
18 years?

19 A. No, sir, we do not. That doesn't mean that
20 they shouldn't have the opportunity to do it if the
21 situations change. This is a forecast. This is not a
22 backward view of reality. This is a forecast, and we
23 don't know what is going to happen. Five years ago,
24 in 1990, we did not know that things that are present
25 today were going to be happening. We did not know

1 that Pacific Gas and Electric was going to be selling
2 3,000 megawatts of its capacity. Lots of things we
3 did not know.

4 Q. Future is uncertain?

5 A. Future is uncertain so you must provide so
6 that you have the ability to handle anything that
7 could reasonably come up in the future. Now I'm not
8 saying that you're expected to handle, that Puget is
9 expected to handle having to finance a flight to the
10 moon or something like that, but to maintain
11 reasonably good financial flexibility so that
12 techniques its options over time. It's very
13 important.

14 Q. Do you have an opinion about the
15 sustainability of the dividend that PSE projects?

16 A. Well, I don't --

17 Q. You can start with a yes or no.

18 A. No. I mean, I don't have an opinion about
19 the dividend. I haven't formed any opinions about the
20 sustainability of the dividend. It doesn't take a
21 genius to know that if you don't have the earnings
22 you're not going to be able to maintain a dividend
23 over time, so you're going to have to have the
24 earnings that are going to permit that dividend to be
25 paid, and I think it's the company's strategy in this

1 total merger to achieve that sort of an earnings and
2 maintain that earnings level. You will have to talk to
3 Mr. Sonstelie about the dividend.

4 Q. What do you think of -- do you know if the
5 combined -- do you know if the payout of the combined
6 companies currently would be over 100 percent,
7 dividend payout ratio?

8 A. I don't believe it would be. Certainly
9 there's not that in the forecast.

10 Q. Would that alarm you if there were?

11 A. If the payout were over 100 percent? If I
12 were a common shareholder and I saw for a sustained
13 period of time that the dividend were over 100 percent,
14 you would have to question whether that's going to be
15 continued. There are a lot of factors that go into
16 that, though, and companies often will have more than
17 100 percent dividend payout ratio. It's nice if they
18 don't but, for example, if you have a cool weather year
19 you might have a situation where you have more than 100
20 percent payout ratio and the board elects to maintain
21 the dividend because they expect that condition to be
22 only temporary.

23 Q. So you're really sustainable is the key
24 word there?

25 A. I think that's every effort of the company

1 in this proceeding.

2 Q. Have you looked at the dividend payout
3 ratio for Puget Power existing or PSE projected as it
4 compares to an average electric or combined utility?

5 A. No, sir, I have not.

6 Q. Do you know what the dividend payout ratio
7 of PSE, Puget Sound Energy, is under its proposal in
8 '96?

9 A. In '96?

10 Q. 1996. '96 proposal for '97.

11 A. For '97 and I did not look at that. I
12 mean, I don't know. I will accept whatever you
13 suggest. It's less than earnings, if I recall
14 correctly.

15 Q. Did you look at the increase in dividend to
16 current stockholders of Washington Energy Company as a
17 result of the merger?

18 A. No, sir, I did not. That would not be part
19 of credit analysis.

20 Q. I think you previously stated that the
21 dividend level by definition affects the retained
22 earnings. They're sort of a complement of each other?

23 A. Assuming a given earnings level, yes.

24 Q. So reduced dividend payout would tend to
25 increase the equity ratio?

1 A. Yes.

2 Q. Other things considered?

3 A. Other things equal.

4 Q. And it would tend to reduce the debt ratio
5 other things equal?

6 A. Depending upon its level -- depending upon
7 the dividend's level relative to a given level of
8 earnings, yes.

9 Q. Any reduction in the dividend payout, other
10 things held constant, would tend to reduce the debt
11 ratio?

12 A. Yes.

13 Q. And would, other things equal, tend to
14 increase the coverages?

15 A. Other things equal, no. It would not
16 necessarily increase the coverages. You have to do
17 other things to increase the coverages.

18 Q. Could you explain that?

19 A. Well, you would have to assume that you had
20 also at the same time as you had more retained
21 earnings that you had in addition more cash retained
22 earnings.

23 Q. So you would have to specify whether the
24 retained earnings were cash or not cash?

25 A. Yes. And then if you had more cash retained

1 earnings what did you do with that cash? Did you
2 reinvest it in the business? Did you increase your
3 liquidity by having more cash reserves in the bank or
4 did you retire debt? That's only if you retire debt
5 that reduced your interest expense and all other things
6 being equal would you then change your coverage ratio.

7 Q. Isn't there more cash available for your
8 coverage if you just retain the cash?

9 A. No, no. Cash is a balance sheet item not
10 an income statement item.

11 Q. Are you aware of the projected issuances of
12 debt by the company in the next five years, projected?

13 A. I've seen the schedule in here, yes.

14 Q. Would you agree those are considerable?

15 A. Well, they have considerable debt. They
16 have refundings and all of those sort of things and a
17 major construction program, yes.

18 Q. So if they retain cash by, for instance,
19 reducing the dividend that would enable the company to
20 reduce its issuance of debt? That's one option?

21 A. If those earnings were all true cash, yes.

22 Q. In other words, you don't have to buy back
23 debt. You could avoid issuing more debt?

24 A. Well, you could -- yes, you could avoid
25 issuing somewhat more debt if you reduced the

1 dividend, but you still -- please bear in mind your
2 own statement that the company has considerable debt
3 to sell, that in order to sell that debt
4 advantageously in the marketplace at a strong credit
5 rating they will have to be able -- whether they do it
6 or not they will have to have the ability to sell
7 common stock, and in order to have the ability to sell
8 common stock they will have to have a satisfactory
9 dividend rate. It's not just all do one thing.
10 Everything hinges sort of together.

11 Q. I do understand from both your answers here
12 and your testimony that you think it would be
13 desirable for the company to increase its equity
14 ratio?

15 A. Yes, sir.

16 MR. MANIFOLD: Thank you. No other
17 questions.

18 JUDGE SCHAEER: Commissioner, did you have
19 any questions?

20

21 EXAMINATION

22 BY COMMISSIONER HEMSTAD:

23 Q. What equity ratio do you think is desirable
24 for a merged company?

25 A. Well, I think, sir, that you have to look

1 upon this from the standpoint of the credit rating
2 that you want to achieve, and I think that you should
3 have as strong a company as you can have in the state
4 of Washington. Companies that pass the dividend or
5 companies that lower the dividend, utility companies
6 that do that, it's regarded as a weakness. It's not
7 regarded as a strength. I mean, it's regarded as sort
8 of a bail-out situation. It's an admission, we don't
9 have the ability to earn enough money over a period of
10 time, so that's a weakness and it's a regrettable
11 weakness, but it's there. You hope it doesn't happen
12 with Puget and in the state of Washington, but for a
13 -- I mean, I like to see a company with an adjusted
14 equity ratio in the low 40s percent. I'm talking
15 about adjusted for purchased power company --
16 purchased power contracts. Somewhere in the low 40s,
17 and I like to see a company at least in the -- I like
18 to see a company in the A credit rating not BBB. You
19 have a lot of -- you look at your neighbors in the BBB
20 credit ratings, you have a lot of companies that have
21 a lot of problems, and you're also stigmatized
22 by all of those problems that those companies have even
23 though you might not have the same ones. And it's a
24 very short drop from a BBB to a BBB minus and then it's
25 go to double B plus, you're in the speculative junk

1 bond category. That is not where a company that must
2 serve the public should be. You wouldn't want your
3 state's credit rating to be down at that level.

4 Q. Your presentation was made to -- and was
5 referred to as I think a rating agency presentation
6 TS-107, to Moody's and Standard and Poor's. It wasn't
7 made to Duff and Phelps?

8 A. No, we don't have a rating relationship
9 with Puget or with Washington Gas.

10 Q. So Duff and Phelps, what, doesn't publish a
11 rating for Puget or WNG?

12 A. No, sir. We did formerly but we don't now.

13 COMMISSIONER HEMSTAD: I see. That's all I
14 have.

15 JUDGE SCHAEER: Is there any redirect for
16 this witness?

17 MR. VAN NOSTRAND: No.

18 JUDGE SCHAEER: Anything further?

19 MR. CEDARBAUM: Can I just ask a couple of
20 questions in followup.

21 JUDGE SCHAEER: Yes.

22

23 CROSS-EXAMINATION

24 BY MR. CEDARBAUM:

25 Q. Mr. Abrams, you were just asked some

1 questions both by Mr. Manifold and in response to
2 Commissioner Hemstad about dividend policy and you
3 indicated you thought that was a sign of weakness for
4 management to cut the dividend. Are you aware that
5 Pacific Gas and Electric Company, Florida Power and
6 Light Company and Texas Utilities Company have all
7 recently cut their dividends or do you accept that
8 subject to your check?

9 A. I am aware of that and Florida Power and
10 Light Corp cut the dividend because of the losses that
11 they had in their insurance subsidiary.

12 Q. Would you accept subject to your check that
13 Pacific Gas and Electric's dividend was cut 40
14 percent?

15 A. Yes, and they cut that dividend because
16 they're going to have to sell off plant and they are
17 going to be in an openly competitive marketplace and
18 they are going to have to husband their resources and
19 they weren't going to be able to see that they would
20 have the kind of earnings that would sustain that
21 dividend. It's a weakness. It's not the former
22 utility strength that they had.

23 Q. Would you accept subject to your check that
24 at least as reported in the Wall Street Journal on
25 Friday, October 19, 1996, it is stated that these cuts

1 in dividend by Pacific Gas and Electric Company and
2 Florida Power and Light and Texas Utilities were seen
3 as a vote of confidence by management in the growth
4 prospects of their businesses? Would you accept that
5 subject to your check?

6 A. I did not see that article. I was
7 traveling at the time, but I would say that we don't
8 necessarily in the investment community --

9 Q. My question was would you accept that
10 subject to check?

11 A. Yes, I would accept that.

12 MR. CEDARBAUM: Thank you. That's all I
13 have.

14 JUDGE SCHAEER: Anything further for this
15 witness.

16 MR. MANIFOLD: I'm not clear on how the
17 information that Mr. Cedarbaum was going to get over
18 lunch is going to be handled, and in that light I
19 would like, if the witness is going to be here after
20 lunch, if he would be able to provide us with what the
21 projected dividend payout ratio is for PSE in 1997.

22 MR. CEDARBAUM: And I guess my question was
23 how do we handle my getting Mr. Abrams information on
24 the S and P guideline information without having to
25 keep him this afternoon if he's planning on leaving.

1 JUDGE SCHAER: Is that information that the
2 companies have available?

3 MR. VAN NOSTRAND: It's in Mr. Abram's
4 book?

5 THE WITNESS: And I confess, I have
6 forgotten where it was.

7 JUDGE SCHAER: So would it make sense to
8 briefly recall Mr. Abrams to the stand after the lunch
9 hour to provide that information and to answer Mr.
10 Manifold's question.

11 MR. MANIFOLD: If he has a plane to
12 catch --

13 JUDGE SCHAER: Does he have a plane
14 to catch?

15 MR. VAN NOSTRAND: No. I wasn't aware
16 there was a pending question from Mr. Manifold. I
17 believe he asked has that been calculated and I
18 believe Mr. Abrams, it wasn't within the scope of his
19 assignment to calculate that and he would accept that
20 number subject to check and I don't believe he's been
21 asked to perform that calculation.

22 JUDGE SCHAER: Let's back up. I believe
23 that you just did and I also believe that there's
24 something pending from Mr. Cedarbaum.

25 MR. VAN NOSTRAND: That's right.

1 JUDGE SCHAER: When would you like to
2 present that? Do you want to take a few minutes now
3 to let him find that information and let him come back
4 or do you want to find that over the lunch hour.

5 MR. VAN NOSTRAND: I think Mr. Cedarbaum
6 needs to look at it over the lunch hour. We said we
7 would make that document available to review and like
8 to give him as much time as he needs to look at it.

9 JUDGE SCHAER: Mr. Abrams, there are still
10 two questions posed to you and we're going to take our
11 lunch recess at this time and recall you to the stand
12 at 1:15 and ask that you share that information with
13 Mr. Cedarbaum over the lunch hour and ask that you be
14 prepared to respond in those two areas.

15 Anything else that we need to respond to
16 before the lunch break? Please be back at 1:15 p.m.

17 (Lunch recess at 12:00 noon.)

18

19

20

21

22

23

24

25

1

AFTERNOON SESSION

2

1:15 p.m.

3

JUDGE SCHAEER: Let's be back on the record after our lunch recess. Mr. Abrams is still on the stand, and I believe you had some matters to clarify with him, Mr. Cedarbaum. Is that correct?

7

MR. CEDARBAUM: Yes, I do, Your Honor.

8

9

CROSS-EXAMINATION

10 BY MR. CEDARBAUM:

11

Q. Mr. Abrams, prior to the lunch break you did provide me with a couple of documents with respect to Puget's business position as recorded by Standard and Poor and with respect to S and P changing Puget's business position from high average to average, is it correct that S and P affirmed Puget's ratings of A minus for senior secured debt and BBB plus for preferred stock?

19

A. That was published in 1995, if I recall.

20

Q. Excuse me. I'm just asking you, is it correct that in the document you provided me upon which you based your statement about S and P changing the business position from above average to average, that in that same document S and P also affirmed its rating?

25

1 A. It is correct that in 1995, which is the
2 document that I gave you, that that is what S and P
3 did.

4 Q. Now, this document, as you indicated is
5 dated or specifically August 21, 1995; is that right?

6 A. Yes, sir.

7 Q. And so it was available to Mr. Torgerson
8 when he prepared his exhibit in this case that we
9 referred to earlier, Exhibit 9? He filed his
10 testimony in February of 1969?

11 A. Are you referring to that list of all the
12 different companies where Puget was rated --

13 Q. I'm referring to the document that you
14 provided to me prior to the lunch break.

15 A. I understand that, but which one of Mr.
16 Torgerson's exhibits are you talking about?

17 Q. His Exhibit No. 9 which was filed with the
18 Commission in February of 1996. The document that you
19 provided me which was published on April -- August 21,
20 1995 predated his filing; is that right?

21 A. I believe, sir, that there are other things
22 in that document that Mr. Torgerson was more concerned
23 with in that very list, and whether or not he had that
24 available or not, I don't know. I mean, I don't know
25 whether Mr. Torgerson would have received that

1 document. That would probably have been received by
2 Puget from S and P, and at the time it was published I
3 don't know that Mr. Torgerson would have been zeroing
4 in on Puget's business risks.

5 Q. Would you expect Mr. Torgerson or financial
6 officers of Washington Natural and Puget to be aware
7 of Standard and Poor's Credit Week publications.

8 A. I know they were aware because they told me
9 about it but, you see, I was not -- Mr. Torgerson was
10 not using that exhibit to illustrate Puget's business
11 risk. He was using it to discuss what S and P was
12 saying about business risk in the industry in general.
13 I don't know that he made a reference in his testimony
14 to Puget's having above average business risk but you
15 have to talk to him about that.

16 Q. He included Exhibit 9 in his direct
17 testimony?

18 A. Yes, sir, he did.

19 Q. With respect to Exhibit 122 which is your
20 WAA-5 I had asked you this morning why for Puget on
21 page 1 of that exhibit there was a blank, and my
22 understanding is that what we should write in in that
23 spot is an NA?

24 A. That's right, and I had not noticed that
25 when it was printed that it had slipped out.

1 Q. NA is not applicable?

2 A. That's right. I used the 1995 industry
3 data to compare with the forecasted debt ratios for
4 the merged companies.

5 Q. Finally, with respect to the questions I
6 had for you this morning about Florida Power and Light
7 and Texas Utilities, would you accept subject to check
8 that it's reported in that same Wall Street Journal it
9 stated that with the dividend cuts of those companies
10 they have been rewarded by the market with a higher
11 price? Would you accept that subject to your check?

12 A. Yes. That surprises me, but I would accept
13 that subject to check.

14 MR. CEDARBAUM: Thank you. That's all I
15 have.

16 JUDGE SCHAEER: Mr. Manifold, did you have a
17 matter to clarify also?

18 MR. MANIFOLD: Yes. Did you have, Mr.
19 Abrams, did you have an opportunity to perform the
20 dividend payout ratio calculation that we discussed
21 just before lunch?

22 THE WITNESS: I do not have the data to do
23 that, because you have to have -- I never calculated
24 dividend payout ratios and to do that dividend payout
25 ratio you would have to have the S and P formula for

1 1995, which is what I do not have. How they treated
2 the purchase power cost in 1995 and I do not know what
3 that is. I was using their forward data which was
4 supplied to me.

5 MR. MANIFOLD: We'll treat that as a
6 deferral to a subsequent company witness.

7 MR. VAN NOSTRAND: If I could clarify, the
8 question you were wanting an answer to was the payout
9 ratio for 1997; is that right?

10 MR. MANIFOLD: Right. And either based on
11 '97 projection or what the payout ratio would be based
12 upon '96 results of the companies being merged. You're
13 raising your hand?

14 THE WITNESS: I'm sorry. I forgot
15 something. The only data I do have is for '97 forward
16 and the data I do have is the top secret data, so I'm
17 not able to give to you, but you can calculate the
18 payout ratio in there yourself because you have the
19 data, but if I give you the payout ratio as it is
20 calculated it will reveal the earnings expectation.
21 All I can say is that based on these forecasts I have
22 here and excluding any benefit from the stretch savings
23 that the payout ratio would be slightly above one
24 times.

25 MR. MANIFOLD: Slightly above 100 percent?

1 THE WITNESS: A little over 100 percent.

2 JUDGE SCHAEER: Is there anything further
3 for this witness?

4 MR. VAN NOSTRAND: Yes, Your Honor, I have
5 a couple of questions.

6

7 REDIRECT EXAMINATION

8 BY MR. VAN NOSTRAND:

9 Q. This is in follow-up to Mr. Cedarbaum's
10 question to you before lunch regarding the dividend
11 cuts by the various utilities and how they were
12 characterized by management in the Wall Street Journal
13 article he referred you to. How would those dividend
14 cuts have been viewed by the credit rating agencies?

15 A. Well, we would have viewed them negatively.
16 You expect management to put a spin on something that
17 they're doing that the market is not necessarily going
18 to like, but we would have viewed them negatively in
19 that that would reduce -- there's a necessity for in
20 each one of those cases, and I don't say that, and I
21 am rather surprised, incidentally, that they would
22 have mentioned the Florida Power and Light dividend
23 because that was several years -- that was some time
24 ago, that was not a recent development, and my
25 substantive -- contradicting since we've talked, you

1 asked me the question, and my recollection is that the
2 shareholders in Florida Power and Light were very upset
3 and angry about that dividend, and I would want to
4 check what happened to the price very strongly in that
5 one because my recollection is that the price did go
6 down because it was a very unexpected event at the
7 time. I'm not saying it didn't come back up
8 subsequently but at the time it was issued -- I think
9 you have to look at that very closely. It was not done
10 on the 17th or 18th. That was done some time ago and
11 also with the Texas Utilities also.

12 MR. VAN NOSTRAND: I have no further
13 questions.

14 JUDGE SCHAEER: Anything further for this
15 witness. Thank you for being here, sir.

16 THE WITNESS: Pleasure being here.

17 JUDGE SCHAEER: Mr. Cedarbaum, would you
18 like to begin your next witness?

19 MR. CEDARBAUM: I believe we're going to
20 begin customer quality group and the staff witness for
21 that is Deborah Stephens.

22 JUDGE SCHAEER: Would any party having any
23 exhibits for Ms. Stephens please distribute them now.

24 Do you want these marked as three separate
25 exhibits.

1 Whereupon,

2 DEBORAH STEPHENS,

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

4 herein and was examined and testified as follows:

5 MR. CEDARBAUM: Can we go ahead and mark

6 Ms. Stephens's testimony for identification, please.

7 JUDGE SCHAEER: I'm going to mark for

8 identification as Exhibit T-125 Exhibit DLS-T which is

9 the testimony of Deborah L. Stephens. Also going to

10 mark for identification at this time as Exhibit 126

11 staff response to PSE data request No. 32, as 127 the

12 staff response to PSE data request No. 33, and as 128

13 the staff response to PSE data request No. 50.

14 (Marked Exhibits T-125, 126 - 128.)

15 COMMISSIONER HEMSTAD: Do we have them?

16 JUDGE SCHAEER: Those were just handed out

17 by Mr. Harris. Did you give copies to the

18 Commissioners?

19

20 DIRECT EXAMINATION

21 BY MR. CEDARBAUM:

22 Q. Will you please state your name and spell

23 your last name for the record, please.

24 A. Deborah Stephens, S T E P H E N S.

25 Q. And you're employed by the Washington

1 Utilities and Transportation Commission as a utility
2 rate research specialist; is that right?

3 A. Yes.

4 Q. Directing your attention to what's been
5 marked for identification as Exhibit T-125, is that
6 your prefiled testimony in this proceeding?

7 A. Yes,

8 Q. And this was prepared by you or under your
9 supervision and direction?

10 A. Yes.

11 Q. And it's true and correct to the best of
12 your knowledge and belief?

13 A. Yes.

14 Q. You have no accompanying exhibits to the
15 testimony?

16 A. No.

17 MR. CEDARBAUM: Your Honor, I would offer
18 Exhibit T-125.

19 JUDGE SCHAER: Any objection?

20 MR. HARRIS: No, Your Honor.

21 JUDGE SCHAER: That document is admitted.

22 MR. CEDARBAUM: Witness is available for
23 questioning.

24 (Admitted Exhibit T-125.)

25 JUDGE SCHAER: Mr. Harris, did you have

1 questions of this witness.

2

3 CROSS-EXAMINATION

4 BY MR. HARRIS:

5 Q. Good afternoon, Ms. Stephens.

6 A. Good afternoon.

7 Q. Could you take a moment and identify for
8 me, please, what's been marked for identification as
9 Exhibit 126.

10 A. Yes.

11 Q. Would you tell me what it is, please. Is
12 that the response to PSE data request No. 32 and was
13 it prepared by you?

14 A. Yes. It's my response to PSE data request
15 No. 32.

16 Q. Is it complete and accurate to the best of
17 your knowledge?

18 A. Yes.

19 MR. HARRIS: Move to admit Exhibit 126.

20 JUDGE SCHAEER: Any objection?

21 MR. CEDARBAUM: No.

22 JUDGE SCHAEER: Document is admitted.

23 (Admitted Exhibit 126.)

24 Q. Ms. Stephens, could you identify what's
25 been marked for identification as Exhibit 127?

1 A. It will be my response to PSE data request
2 No. 133.

3 Q. And that was prepared by you or under your
4 direction?

5 A. Yes.

6 Q. Is it complete and accurate to the best of
7 your knowledge?

8 A. Yes, it is.

9 MR. HARRIS: We would offer Exhibit 127.

10 MR. CEDARBAUM: No objection.

11 JUDGE SCHAEER: That document is admitted.

12 (Admitted Exhibit 127.)

13 Q. Finally, could you identify what's been
14 marked for identification as Exhibit 128.

15 A. My response to PSE data request No. 50.

16 Q. Was it prepared by you?

17 A. Yes.

18 Q. Complete and accurate to the best of your
19 knowledge?

20 A. Yes.

21 MR. HARRIS: We would offer Exhibit 128.

22 MR. CEDARBAUM: No objection.

23 JUDGE SCHAEER: That document is admitted.

24 (Admitted Exhibit 128.)

25 Q. It's our understanding, Ms. Stephens, that

1 staff supports public counsel's proposed service
2 quality plan with some minor variations. Is that
3 accurate?

4 A. It's accurate to say that I fully support
5 the service quality index that's outlined in public
6 counsel's testimony.

7 Q. Do you propose any modifications to the
8 index?

9 A. No, no, I don't.

10 Q. And where you differ with public counsel on
11 the issue of service quality is with respect to the
12 amount of the penalty; is that correct?

13 A. We used different methods to calculate what
14 will be an assessment that would occur in the case of
15 deterioration of service quality, and some minor
16 difference in how those assessments would be
17 distributed.

18 Q. So, you came up with a different number for
19 the potential penalty, a slightly different number; is
20 that correct?

21 A. Yes.

22 Q. Your number is 7 million, public counsel's
23 is 7 and a half million?

24 A. That's correct.

25 Q. And what were the other differences that

1 you mentioned that you have with public counsel, if
2 any, or public counsel's service quality proposal?

3 A. I believe the way in which the assessment
4 would be distributed among customers differs slightly.

5 Q. Any other differences?

6 A. I don't believe there are.

7 Q. In your direct testimony you testify at
8 page 6, lines 18 to 19 that the plan is "based on
9 historical service quality data."

10 A. Yes.

11 Q. You're talking about the historical service
12 quality data for the two companies, the joint
13 applicants?

14 A. Yes.

15 Q. Did you perform any analysis of what
16 results would have been produced under this plan had
17 it been applied during the previous five years to
18 these two companies?

19 A. I think that in coming up with the baseline
20 levels the historical numbers and the trends of the
21 data were considered and outliers were also considered,
22 and I don't think it's relevant to assess what the
23 penalty would have been in prior years.

24 Q. You don't think it's relevant -- the
25 question was did you do it.

1 A. I think that during the discussions that
2 occurred where the data was discussed I think there
3 was knowledge that some of the baselines were either
4 higher or lower than some years in the past, yes.

5 Q. So there was a general understanding that
6 this program would have imposed penalties during the
7 prior five years on these two companies had it been in
8 place but you didn't calculate any precise amounts.
9 Is that fair?

10 A. That's fair.

11 MR. HARRIS: I have no further questions.

12 JUDGE SCHAEER: Mr. Manifold, did you have
13 questions for this witness?

14 MR. MANIFOLD: Just a few.

15

16 CROSS-EXAMINATION

17 BY MR. MANIFOLD:

18 Q. What is the difference in your position and
19 that of Ms. Alexander on the distribution of the
20 assessment?

21 A. I believe that she wanted to distribute on
22 the basis of number of customers and I proposed that
23 it be done -- distributed to customer classes based on
24 percent of revenues.

25 Q. Is that an important difference?

1 A. I think it's a little -- I think that it's
2 more appropriate to distribute it on the basis of
3 proportion of revenues.

4 Q. Is that per class?

5 A. Per customer class, right.

6 Q. Do you have available to you what was
7 previously marked as Exhibit 83?

8 A. Could you --

9 Q. It's a letter from -- purports to be a
10 letter from Vicki Elliott to Mr. Vittitoe.

11 A. I don't have it here. I have seen it and I
12 have read it, however. I have it.

13 Q. Had you seen this before?

14 A. Yes, I had actually.

15 Q. Can you tell us what it is. Is it what it
16 purports to be? Let's start with that. Is it a
17 letter from Vicki Elliott to Mr. Vittitoe?

18 A. Yes, and it's just a letter congratulating
19 the company for having received less complaints than
20 in previous years.

21 Q. Do you know --

22 MR. MANIFOLD: Your Honor, do you want me
23 to move first or do you want me to?

24 MR. HARRIS: Go ahead.

25 MR. MANIFOLD: I would move for admission

1 of Exhibit 83 since we've now discussed it.

2 JUDGE SCHAEER: Is there any objection?

3 MR. CEDARBAUM: No.

4 JUDGE SCHAEER: Exhibit 83 is received.

5 (Admitted Exhibit 83.)

6 Q. I bring it up now -- it was intended that
7 it might be brought up with Mr. Vittitoe, but it
8 occurred to me you would be the more appropriate
9 witness that could explain what the circumstances of
10 this letter. Could you do so?

11 A. I think that Washington Natural Gas
12 experienced a reduction in their complaints lodged
13 with the Commission and so consumer affairs wrote a
14 letter congratulating the company for achieving that.

15 Q. Is that something that consumer affairs
16 typically does, send a letter to somebody if their
17 complaint go up or down? Do you know, I mean, if you
18 know?

19 A. I think so. I believe that it is something
20 that they do regularly.

21 Q. Do you have Ms. Lynch's testimony available
22 to you.

23 A. Yes.

24 Q. Her rebuttal. I'm sorry, before we leave
25 Exhibit 83, do you know how Washington Natural's

1 complaint level at the Commission compares to other
2 utilities?

3 A. In previous years Washington Natural's
4 total complaints were substantially higher than the
5 other three regulated gas utilities in the state of
6 Washington. In 1995 it puts them right in line with
7 Cascade Natural Gas. They're still higher than
8 Washington Natural -- I mean Northwest Natural and
9 Washington Water Power.

10 Q. Now, these companies are a different size
11 from each other?

12 A. These are complaints per 100,000 customers.

13 Q. So they're adjusted for size?

14 A. They're adjusted for size.

15 Q. So the 19 -- I'm sorry, the 1995 complaint
16 level puts the company where?

17 A. Slightly lower than Cascade but higher than
18 Washington Water Power and Northwest Natural Gas.

19 Q. This is a category in which one wants to be
20 lower?

21 A. Right.

22 Q. Now, do you have Ms. Lynch's rebuttal
23 testimony?

24 A. Yes, I do.

25 Q. Could you turn, please, to page 4. At line

1 19 of her proposed prefiled testimony says that the
2 company met with other parties but that there were
3 disagreements about the focus of the customer service
4 index/guarantee and the level of penalties. Were you
5 involved in the discussions that she refers to there?

6 A. Yes, I was.

7 Q. Were there disagreements about the focus of
8 customer service index guarantee itself?

9 A. Not to my recollection, no.

10 Q. Were there disagreements about the level of
11 penalties?

12 A. Yes, there were.

13 Q. What do you mean when you say that there
14 were not disagreements about the focus of the customer
15 service index/guarantee?

16 MR. HARRIS: Your Honor, excuse me. I
17 would object to this line of questioning. It's
18 friendly cross-examination. These two parties are
19 clearly aligned on the service quality issue and this
20 does not appear to be cross-examination.

21 JUDGE SCHAEER: Mr. Harris, we had proposed
22 testimony from your witness on this issue regarding a
23 meeting that this witness also attended. I think it's
24 fair to get her recollection of the meeting as well,
25 so I am going to overrule the objection.

1 Q. Do you recall the question?

2 A. You want to know specifically what I mean
3 about the fact that there were not disagreements on
4 the focus of the customer service index?

5 Q. Yes. In other words, what were there
6 agreements on?

7 A. There were agreements on components of the
8 service quality index outlined in Barbara Alexander's
9 testimony.

10 Q. And who were those agreements with?

11 A. The applicants, public counsel, and staff
12 and IBEW was also present but I don't recall -- I
13 believe they were in agreement about the component but
14 I wouldn't -- I'm not exactly sure about that.

15 MR. MANIFOLD: Thank you.

16 MR. ELLSWORTH: I have a couple of
17 questions, if I could. I didn't reserve any
18 particular time for this witness.

19 JUDGE SCHAEER: Let me just check and see if
20 anyone before you had questions of this witness. Mr.
21 Wright, did you have questions?

22 MR. WRIGHT: No.

23 JUDGE SCHAEER: Mr. Meyer, I believe you
24 had --

25 MR. MEYER: I do. I have no objection if

01390

1 you're ready to go. I do have about couple of minutes
2 worth anyway.

3 JUDGE SCHAEER: Why don't you go ahead, Mr.
4 Ellsworth.

5 MR. ELLSWORTH: I've got the mike. I guess
6 that lets me go first.

7

8 CROSS-EXAMINATION

9 BY MR. ELLSWORTH:

10 Q. Ms. Stephens, am I correct the staff
11 supports including the system average interrupt
12 duration index as one component of a comprehensive
13 service quality index request?

14 A. Yes, I do.

15 Q. At this point in time do you have an
16 opinion as to whether the baseline for SAIDIs
17 suggested by Ms. Alexander should be lowered or kept
18 at the level she suggested?

19 A. No, I don't. I think that the
20 recommendation in her testimony that all parties
21 worked to define what would be appropriate for a
22 baseline is the best line course of action.

23 Q. And at the service quality meetings that
24 you just testified about, do you recall company
25 representatives stating that safety for 1985, 1987 and

1 1997 should be disregarded because that data was
2 unreliable?

3 A. I do recall that there were discussions
4 about SAIDI at the meetings.

5 Q. Do you recall the company suggesting that
6 those dates -- stating information was available for
7 those years it should be disregarded because it was
8 unreliable?

9 A. That may have been discussed, but my
10 recollection is that they weren't opposed at the time
11 to including the SAIDI and SAIFI component.

12 Q. You don't have any recollection one way or
13 the other if there were years that they thought should
14 be excluded?

15 A. No, I don't.

16 JUDGE SCHAEER: Mr. Meyer.

17 CROSS-EXAMINATION

18 BY MR. MEYER:

19 Q. Good afternoon. I would like to begin, I
20 just have a very few questions, but at the bottom of
21 page 3 of your prepared testimony, beginning at line
22 21 and I was going to draw your attention to that
23 language and I know that in your responses to certain
24 data requests, specifically Exhibits 126 and 127 you
25 also make reference back to this passage in your

1 testimony, but at the bottom of page 3, line 21, you
2 state, do you not, that it is "therefore important to
3 insure that those savings are not achieved at the
4 expense of service quality." What savings do you
5 have reference to there?

6 A. The savings that the applicants have
7 discussed in their merger application.

8 Q. And then as you respond as you did in
9 Exhibit 126 to the question that was put to you, part
10 of your response refers again back to that very
11 passage and the very first sentence, however, after
12 the first response "no" reads, "The service quality
13 index should be implemented to prevent an abuse of
14 PSE's service obligation during the proposed rate plan
15 period." Have I correctly read at least that portion
16 of your response?

17 A. Yes.

18 Q. And again Exhibit 127 much the same theme,
19 namely, that the index should be implemented to
20 prevent a deterioration in quality customer service
21 during the proposed rate plan period. Is that a fair
22 reading?

23 A. Yes.

24 Q. So in essence I gather that what you are
25 proposing by way of a service quality index is based

1 for the most part on Puget's own rate stability
2 proposal in the context of this particular merger. Am
3 I correct?

4 A. Yes.

5 Q. And so were it not for the rate plan
6 proposal offered as it is in the context of this
7 merger, would you necessarily be recommending the same
8 set of quality service standards?

9 A. No, not necessarily.

10 MR. MEYER: That's all I have. Thank you.

11 JUDGE SCHAEER: Commissioners, did you have
12 any questions.

13 COMMISSIONER HEMSTAD: No, I don't.

14 COMMISSIONER GILLIS: I don't have any
15 questions.

16

17 EXAMINATION

18 BY JUDGE SCHAEER:

19 Q. Ms. Stephens, as I understand it there are
20 ten components in the service quality index; is that
21 correct?

22 A. That's correct.

23 Q. Are there any components that you consider
24 more important than others?

25 A. No. I think each component of the index

1 should be weighed equally.

2 Q. I would like you to refer to your testimony
3 at page 7, and looking at the last line of your answer
4 that begins on page 6 and continues to page 7. It
5 appears that you recommend that the Commission
6 condition approval of the merger on implementation of
7 the service quality index during the rate stability
8 period; is that correct?

9 A. That's correct.

10 Q. Is there any reason why this program
11 shouldn't continue in existence beyond the end of the
12 rate stability period?

13 A. I think after the rate stability period it
14 will be a good time to review the index and the
15 marketplace in general and sort of reevaluate the
16 situation at that time.

17 Q. Would you recommend that if this proposal
18 were adopted it be adopted for a set five-year period
19 or would you recommend that it be adopted with some
20 kind of a sunset or reopening in five years so that
21 the program could continue while it was being
22 evaluated?

23 A. What I had in mind was to just adopt it for
24 the stay-out period, actually, so it would be a
25 five-year plan.

1 JUDGE SCHAEER: Is there anything further
2 for this witness?

3 MR. CEDARBAUM: I have just a couple on
4 redirect.

5 JUDGE SCHAEER: Okay.

6

7 REDIRECT EXAMINATION

8 BY MR. CEDARBAUM:

9 Q. Ms. Stephens, going back to page 3 of your
10 testimony that you discussed with Mr. Meyer, you
11 referenced to those savings on line 21. I assume that
12 refers back to the quote that you have for Mr.
13 Sonstelie that's set out on lines 18 through 20 is
14 that right?

15 A. Yes, that's correct.

16 Q. So those savings would include both Mr.
17 Flaherty's estimated savings and the best practices?

18 A. Yes.

19 Q. Secondly, why don't you think -- why do you
20 think it's not relevant to consider whether the
21 company would have incurred penalty under the service
22 quality index had it been in place historically?

23 A. Because I think that the baseline levels
24 were established as levels that the companies could be
25 reasonably expected to achieve on a going forward

1 basis, and in coming up with them, as I stated, trends
2 were considered and outliers, and if you -- I mean, if
3 you look at the data itself, for example, CEL-9, page
4 1, which is an exhibit by Ms. Lynch where she
5 evaluates what the penalty would have been in previous
6 years, if you look at the disconnection ratio just,
7 for example, in '93 through '95 the company would have
8 incurred a penalty in 1994, but that doesn't tell you
9 that in the early years of the 1990s the disconnection
10 ratio was substantially lower than in the latter years
11 of the time series, so on a going forward basis it's
12 reasonable to set a level that the company could
13 reasonably be expected to achieve.

14 Q. You were asked by the ALJ about the --
15 generally about the ten indices and the service
16 quality index. Is it correct that the service quality
17 index includes components for customer satisfaction?

18 A. Yes, it does.

19 Q. And that would be to survey customers with
20 respect to their actual experiences with the company
21 for both phone center and fuel services transactions?

22 A. Yes, that's correct.

23 MR. CEDARBAUM: Thank you. That's all I
24 have.

25 JUDGE SCHAEER: Anything further for Ms.

1 Stephens? Thank you for your testimony. Mr.

2 Manifold, did you want to call your witness?

3 MR. MANIFOLD: Yes.

4 JUDGE SCHAEER: Would anyone having exhibits
5 for Ms. Alexander distribute them at this time,
6 please. Your witness has four exhibit.

7 MR. MANIFOLD: Testimony plus four
8 exhibits. Detailed on the table of contents page
9 which is right after the testimony. BA-2 through 5.

10 JUDGE SCHAEER: Was BA-5 confidential or
11 secret in any way? Both the accounting supervisor and
12 I are missing it.

13 MR. MANIFOLD: I don't think so, but we can
14 get some more copies.

15 JUDGE SCHAEER: Let's go off the record for
16 a moment.

17 (Discussion off the record.)

18 JUDGE SCHAEER: Let's be back on the record.
19 Would you please stand and raise your right hand.
20 Whereupon,

21 BARBARA ALEXANDER,
22 having been first duly sworn, was called as a witness
23 herein and was examined and testified as follows:

24

25 DIRECT EXAMINATION

1 BY MR. MANIFOLD:

2 Q. Would you please state your name and
3 address.

4 A. Barbara R. Alexander, and I'm at 15
5 Wedgewood Drive in Winthrop, Maine.

6 Q. Did you prepare testimony and exhibits that
7 have been predistributed in this case?

8 A. Yes, I did.

9 MR. MANIFOLD: Your Honor, can we mark the
10 next exhibits?

11 JUDGE SCHAEER: Yes. I will identify at
12 this time the direct testimony of Ms. Alexander as
13 T-129. Her exhibit BA-2 as 130, Exhibit BA-3 as
14 Exhibit 131, Exhibit BA-4 as Exhibit 132, her Exhibit
15 BA-5 as 133. Exhibit 134 for identification is No.
16 325, public counsel responses to joint applicant's
17 data requests. No. 135 for identification is No. 337
18 of public counsel responses to joint applicants' data
19 requests. Exhibit 136 for identification is No. 341
20 of the public counsel responses to joint applicants'
21 data requests, and Exhibit 137 for identification is
22 No. 367 of public counsel responses to joint
23 applicants' data requests, and Exhibit 138 for
24 identification is No. 385 of public counsel responses
25 to joint applicants' data requests.

1 (Marked Exhibits T-129, 130 - 138.)

2 JUDGE SCHAER: Please proceed.

3 Q. Do you have before you what's been marked
4 as Exhibit T-129?

5 A. I do.

6 Q. Is that your direct prefiled testimony in
7 this case?

8 A. Yes, it is.

9 Q. Are the answers contain therein true and
10 accurate as of the date you filed them?

11 A. Yes.

12 Q. Do you have before you what's been marked
13 as Exhibit 130, 131, 132 and 133?

14 A. Yes.

15 Q. And were these documents prepared by you or
16 under your supervision?

17 A. Yes, they were.

18 Q. And are they true and accurate to the best
19 of your knowledge?

20 A. Yes, they are.

21 MR. MANIFOLD: Your Honor, I would move for
22 the admission of Exhibits T-129 through 133.

23 JUDGE SCHAER: Any objection? Those
24 documents are admitted.

25 (Admitted Exhibits T-129, 130 - 133.)

1 Q. Do you have any errata to make to Exhibit
2 T-129?

3 A. There was an errata sheet that I believe
4 was submitted on October 25, which is a correction of
5 a minor matter in the formula that is on page 38 of my
6 testimony. Does not change the description of the
7 formula, only the parentheses in one of the
8 mathematical formulas at the top of 38.

9 MR. MANIFOLD: Your Honor, I would note
10 that that was distributed as a revised page bearing
11 the date revised 10-25. That should be in everybody's
12 copy of T-129.

13 JUDGE SCHAEER: That will be included in the
14 exhibit that's been admitted in the record.

15 MR. MANIFOLD: The witness is available for
16 cross-examination.

17 MR. MEYER: Your Honor, by agreement of
18 counsel, although I haven't talked to you about this
19 yet, because I have certain flight constraints,
20 Counsel have agreed to let me go first with the very
21 few questions I have if that's permissible.

22 JUDGE SCHAEER: That's fine, Mr. Meyer.

23

24 CROSS-EXAMINATION

25 BY MR. MEYER:

1 Q. Good afternoon. Turning first to your
2 Exhibit T-129 at page 3, lines 17 through 18. You
3 state that "This proposed service quality index is a
4 vital component of the public counsel's proposed five
5 year rate freeze plan." Have I read that accurately?

6 A. Yes.

7 Q. And then if you will turn to the next page,
8 page 4, lines 16 through 19. "It is the applicant's
9 request for a multi-year rate plan and the public
10 counsel agency proposal for a five-year rate freeze
11 that gives rise to the need for a different approach
12 to monitoring service quality performance." Is that
13 your testimony?

14 A. Yes, it is.

15 Q. So you do not mean to suggest, do you, in
16 this proceeding that the specifics of what you have
17 proposed by way of a service quality index should
18 serve as some sort of cookie cutter approach to apply
19 to all utilities?

20 A. No. This is a direct function of the
21 proposal for alternative rate plans, performance-based
22 ratemaking or multi-year rate plans which, during the
23 term of any such plan, does not by its very nature
24 result in frequent or any traditional ratepayers'
25 revenue requirement cases.

1 MR. MEYER: Very well. That's all I have.

2 Thanks.

3 JUDGE SCHAEER: Thank you. Did you have
4 questions, Mr. Harris?

5 MR. HARRIS: Yes.

6

7 CROSS-EXAMINATION

8 BY MR. HARRIS:

9 Q. Good afternoon, Ms. Alexander.

10 A. Good afternoon.

11 Q. Follow-up on Mr. Meyer's question. I take
12 it, then, as part of your work you didn't consider how
13 this service quality index might be applied to new
14 market entrants?

15 A. No, I did not. It was designed
16 specifically for the current situation in which you
17 and the applicants are monopoly utilities operating
18 under the Commission's jurisdiction for rates and
19 service quality and other programs.

20 Q. I would like to direct your attention to
21 what's been marked for identification as Exhibit 134.
22 It is response to public counsel request 325. Could
23 you take a moment and identify that for me?

24 A. Yes. This is a copy of my direct testimony
25 on behalf of the staff of the Maine Public Utilities

1 Commission in June 1994 in a proceeding involving
2 Central Maine Power Company in Maine.

3 Q. The response was prepared by you or under
4 your direction?

5 A. Yes.

6 MR. HARRIS: We would offer Exhibit 134.

7 MR. MANIFOLD: No objection.

8 JUDGE SCHAEER: That document is admitted.

9 (Admitted Exhibit 134.)

10 Q. You included lost time accidents as part of
11 your proposed service quality index here, haven't you?

12 A. Yes.

13 Q. You didn't include lost time accidents as
14 part of your Central Maine service quality index, did
15 you?

16 A. No, we did not.

17 Q. You are the author of an article entitled
18 "How to Construct a Service Quality Index in
19 Performance-Based Ratemaking?"

20 A. Yes.

21 Q. And in that article you discuss service
22 quality indexes and how to build them?

23 A. Yes.

24 Q. And in that article you don't suggest lost
25 time accidents as a factor to include in service

1 quality indexes, do you?

2 A. I don't recall any discussion one way or
3 the other of that particular item, no.

4 Q. Are you aware of any gas or electric
5 utility that has as part of its service quality index
6 lost time accidents other than San Diego Gas and
7 Electric?

8 A. No, I am not, but I haven't done a survey
9 either but I am not aware of any.

10 Q. You haven't done a survey of utilities to
11 determine whether there are others that have this
12 factor included in a service quality index?

13 A. I haven't done a formal survey. I am
14 simply not aware, and I will say that I am aware of
15 many of them but I am not aware of any others, no.

16 Q. But you're aware of many of them. I just
17 want to be clear. You're aware of many service
18 quality indexes?

19 A. Yes, around the country is what I meant.

20 Q. And the only service quality index that
21 you're aware of that includes lost time accidents,
22 just to be clear, is the San Diego Gas and Electric
23 service quality index?

24 A. Right. It is my impression but I cannot
25 confirm it that perhaps other California utilities

01405

1 also have this in their service quality index, but
2 outside of the California situation, I am not aware of
3 any others.

4 Q. And beyond an impression the only specific
5 knowledge is with respect to --

6 A. That is correct.

7 Q. Have you done any studies or produced any
8 reports yourself that would correlate lost time
9 accidents with quality of service?

10 A. No. I only am aware of the reasoning of
11 the California Commission they gave in including that
12 item in the San Diego service quality index.

13 Q. Are you aware of any studies or reports
14 done by anyone else correlating lost time accidents
15 with quality of service?

16 A. No.

17 Q. You don't have any evidence, do you, that
18 either of the two companies, the joint applicant, have
19 ever compromised employee safety in their efforts to
20 increase profits, do you?

21 A. No.

22 Q. Do you have any evidence or have any
23 knowledge of any gas or electric utility that has
24 taken actions that would compromise employee safety as
25 they seek to improve profitability?

1 A. Specifically, no.

2 Q. You don't have any reason to believe, do
3 you, that PSE would compromise employee safety in
4 their effort to remain profitable?

5 A. I would have no way of knowing the
6 corporate culture of this company or be able to make
7 such a prediction. I would certainly agree that it
8 would not be anything that I would think would be a
9 likely result in any direct way. Whether in an
10 indirect way this over time occurred or not is exactly
11 the point of including it in a service quality.

12 Q. So to summarize the end of your answer
13 there, the reason it's included is not based on any
14 belief on your part or based on any evidence that you
15 have that this company has any intent to compromise
16 employee safety?

17 A. That's correct.

18 Q. Now, you've also included a disconnect
19 ratio as part of your service quality index; is that
20 correct?

21 A. Yes.

22 Q. To your knowledge, how many gas and
23 electric utilities have disconnect ratios as part of
24 their service quality indexes?

25 A. I am not aware of any others who do.

1 Q. Have you had occasion to review the
2 disconnection regulations that apply to Puget, to
3 Washington Energy and that will apply to Puget Sound
4 Energy?

5 A. Yes, I have.

6 Q. Are you satisfied that based on your review
7 that those regulations provide protections for
8 customers?

9 A. Oh, they're quite typical in that they
10 establish procedures that govern the process of
11 issuing a notice, disclosures on the notice, what must
12 happen prior to any actual disconnection. They are
13 also quite typical in that they of course do not
14 regulate the frequency with which disconnection does
15 occur in conformance with these procedural requirements
16 which are in the regulation.

17 Q. Is it fair to say that disconnects are a
18 highly regulated area?

19 A. The process of disconnection is highly
20 regulated, yes. The frequency of it is -- let me
21 start another sentence. The discretion that a company
22 has to disconnect customers in conformance with these
23 procedural regulations is significant.

24 Q. One of your complaints about the PSE
25 proposal, the joint applicants' proposal, is that it

1 proposes to measure too few performance areas. I'm
2 looking at page 18, lines 5 through 6 of your
3 testimony. Have I got that correct?

4 A. Yes.

5 Q. Now, the joint applicants have proposed two
6 customer service guarantees and then their index or
7 their measure of performance includes five different
8 measures, doesn't it?

9 A. Well, of course at the time I prepared this
10 testimony there was no performance guarantee proposed
11 by the company. It had been withdrawn. At the time
12 this was written there was and still is a proposal to
13 monitor the complaint ratio and then two different
14 categories of customer satisfaction, one of which does
15 contain subparts, as you described, yes.

16 Q. And when you add up all the parts you get
17 to a number that's 5, don't you?

18 A. Yes, you do.

19 Q. And you propose 10 in your plan?

20 A. That's correct.

21 Q. Now, as I understand it, you've only
22 developed one other service quality index for an
23 electric or gas utility; is that correct?

24 A. Yes.

25 Q. And that was for Central Maine?

1 A. That's correct.

2 Q. And that index had just five indicators or
3 five measures in it, didn't it?

4 A. Right, but it was negotiated.

5 Q. I'm sorry. I thought in your testimony
6 that you proposed only five.

7 A. Oh, that is correct. I did.

8 Q. On page 39 at lines 4 through 5, you
9 testify that "Obviously because of the structure of
10 the index small deviations will result in small
11 dollars." Is that correct?

12 A. Yes.

13 Q. And that's your intent in creating this
14 index, isn't it?

15 A. Yes.

16 Q. You also testify on page 39 at line 6 that
17 the intent of the service quality index is not to
18 trigger the penalty?

19 A. That's correct.

20 Q. The intent is to take the company at its
21 word that service quality will not deteriorate as a
22 result of the merger?

23 A. Right.

24 Q. Now, is it fair to take it from that
25 statement that you're satisfied with the current level

1 of service quality being offered by each company?

2 A. The service quality that's currently being
3 offered is not a monolithic topic. I mean, it is
4 composed of a variety of indicators, and I believe I
5 pointed out in my testimony where some indicators are
6 showing a trend that might be cause for some concern,
7 but that on the whole I would agree that the service
8 quality of both companies is adequate, yes.

9 Q. And looking at it in this broad brush view,
10 the intent then is to through some some sort of
11 service quality program maintain this current overall
12 level of service quality?

13 A. Right. If the word current is in order to
14 be an indication of not only recent history but trends
15 that the data shows with regard to different areas,
16 yes.

17 Q. Have you had an opportunity to review Ms.
18 Lynch's back cast of your proposed service quality
19 index?

20 A. Yes, I have.

21 Q. Do you accept her calculations that using
22 only six to eight of your proposed measures that the
23 penalties would have been approximately one to two
24 million dollars for five of the past six years?

25 A. No, I don't.

01411

1 Q. Could you explain why?

2 A. Yes. She used some different data than I
3 used in my testimony and in my exhibits and, quite
4 frankly, we prepared a chart which demonstrates a
5 different set of numbers as a result of using the data
6 I used in my index and in fact shows no penalties -- I
7 shouldn't say no -- very small dollars of penalties
8 for 1995, and if you look at 1996 data from the
9 company, which of course is not included in hers or
10 mine, you will find that there's almost no category in
11 which the company would be earning a penalty this
12 year.

13 Q. So it was your intent in constructing the
14 index to construct an index that would not have
15 penalized at least in significant dollar terms -- and
16 we can define that -- the company over its recent
17 history or the two companies over the recent history?

18 A. Well, there are some categories where there
19 is data that shows performance not as good as the
20 company's own internal goals have set for it, and I
21 have used the number that reflects the company's own
22 internal goals, so there's no difference in the intent
23 of the structure of my index in the company's own
24 internal management goals. There may be some
25 differences in the past year or two in some minor

1 areas with actual results. But I took the merger
2 promises at its word that service quality would
3 improve and so felt comfortable recommending service
4 quality targets that were equal to the company's own
5 internal statements about what its service quality
6 goals were.

7 Q. I am confused. Is your index intended, as
8 you stated earlier, is it intended to maintain
9 currently level of service quality or is it intended
10 to set the baseline at a higher level, the level
11 that's established by management goals for service
12 quality?

13 A. Well, if the word current means this year
14 and last year then I will stand by my statement. If
15 you're using current to mean the average of the last
16 five years, then, no, my data would not be a strict
17 application of an average of the company's performance
18 over the last five years. I took trends and internal
19 goals into account, but they are goals that have
20 already been set prior to the onset of the merger and
21 not as a result of the merger.

22 Q. Goals that have been attained?

23 A. In some case in this year goals are being
24 attained, in the lost time/accident ratio is my
25 understanding anyway, the response time on gas service

1 complaints, and a few other things. The most recent
2 data I've seen shows compliance with those proposed
3 numbers.

4 Q. Assume for a moment that Ms. Lynch's
5 calculations satisfied you, that you determined that
6 they were correct and that penalties of one to two
7 million dollars have been imposed by the last six
8 years. Would that cause you to rethink the
9 appropriateness of your service quality index?

10 A. I think it would be legitimate to ask
11 whether the numbers were a bit of a stretch, if that
12 were in fact the case, but as I said I don't believe
13 it is.

14 Q. Would you agree that the index should be
15 set up in a manner such that it permits normal
16 deviations in service quality without penalizing those
17 normal deviations? And feel free to define normal
18 deviations in your answer.

19 A. I think it's fair to ask the question
20 whether or not some normal variation in annual data
21 may cause a penalty as opposed to a data that would
22 indicate a real deterioration in performance. That's
23 legitimate to be concern about that, but I think what
24 we had here is an effort by the company in testimony
25 by its executives that over and over and over again

1 this Commission was promised that service quality
2 would improve. That it was already quite good and
3 that it would get better as a result of the merger and
4 that had an impact on the proposed baseline that I've
5 put forward in this case. No question about it.

6 Q. Is it your intent, then, that your service
7 quality index will impose penalties if service does
8 not actual improve?

9 A. I think that we would have to look at each
10 of the proposed baseline and look at exactly how the
11 proposed baseline relates to the historical
12 performance, and we could go through that if you want
13 to, and I could tell you the basis for the proposal in
14 any particular case. I mean, in some of them it is
15 numbers or proposals that reflect actual performance
16 currently being obtained by the company. In others
17 there is clearly a suggestion that the company's
18 internal goals and its promise about the merger have
19 been taken into account with regard to the proposed
20 baseline. The phone center performance, for example,
21 where, as I testified, in my opinion the current
22 performance based on '94 and '95 data is less than
23 adequate, there is a proposal to significantly improve
24 that as the companies have internally already decided
25 they need to significantly improve their performance

1 in answering calls at the phone centers.

2 Q. Can I stop you for a second so we don't get
3 too far afield there?

4 A. Okay.

5 Q. Are you in your Exhibit BA-4?

6 A. I am.

7 Q. And you're on the first page?

8 A. Yes.

9 Q. So the phone center performance baselines
10 actually are set at a level above current performance?

11 A. That's correct. Historically each company,
12 or at least Puget, had very high level of performance
13 and it deteriorated in the last several years, and, as
14 I understand it, steps are being taken to improve this
15 internally, but there's no question that that number
16 is not a reflection of current performance by either
17 company.

18 Q. I am going to take you up on your
19 suggestion and try to move fairly quickly through each
20 of these. The complaint ratio, the first, is that set
21 at current performance levels or is that set at a goal
22 level?

23 A. No, that's set at current performance
24 levels because there is evidence that the companies
25 have both improved substantially in '95 and '96 and so

1 a level was set that reflects this current level.

2 Q. I have the same question with respect to
3 the next two, SAIDI and SAIFI.

4 A. Well, here we have a baseline that is a
5 placeholder and my testimony suggests that these
6 numbers be altered as a result of a compliance filing
7 that would have as its objective the elimination of
8 extreme outage events from both the historical record
9 and therefore the baseline, so that from this point
10 into the future a comparative analysis could be done
11 for both SAIDI and SAIFI, which is S A I D I and S A I
12 F I, in a way that would allow better comparison with
13 historical and future performance in this area. So
14 these are not absolute baselines at this point.

15 Q. What about the disconnection ratio?

16 A. Let me review my historical data there.

17 MR. MANIFOLD: When you say that are you in
18 Exhibit 133?

19 THE WITNESS: I'm looking at BA-5 which is
20 Exhibit 133, that's correct.

21 A. In this area Washington Natural Gas had a
22 lower disconnection ratio than Puget and Puget's had
23 risen somewhat over the last several years at the same
24 time that I had seen a trend increasing in unpaid debt
25 at the company, and I was concerned, and the basis for

1 suggesting this ratio, which is an unusual one, is
2 that the push for savings and earnings in the future
3 might result in a significantly tougher policy in
4 disconnecting customers in compliance with the rule as
5 a result of the pressure to produce savings. So, the
6 proposal uses more in the way of the '92, '93, '94
7 performance by Puget and not the last year or so.

8 Q. Improvement over current performance?

9 A. That's correct.

10 Q. And you said it's an unusual measure. Were
11 you talking about the number itself or the measure
12 overall?

13 A. The measure overall, the line that you
14 developed earlier with me about it not being a
15 frequent appearant in the service quality indices, and
16 then we just discussed phone center.

17 Q. Sure. We can skip right over that and move
18 to response time. I believe that has an improvement
19 factor in it or does it?

20 A. I tell you what happened here. I got the
21 data on this from the company and noticed that they
22 were reporting it internally on a fiscal year basis
23 which, for the company, as we discussed earlier,
24 September through the following October, and this is
25 actually the average of the fiscal year '95 gas

1 response performance. But Ms. Lynch, also correctly, I
2 might add, I mean this is perfectly legitimate,
3 calculated these averages based on the annual
4 approach, calendar year January through December.
5 That's why we have some different numbers here. But
6 the intent was to use recent performance for response
7 time.

8 Q. Move to customer satisfaction, the 90
9 percent number?

10 A. Yes. That's very recent, the last several
11 years, a fairly consistent trend of annual averages
12 and while we have field service transaction
13 satisfaction from one company we did not have it from
14 another, and so I did not propose a baseline for that
15 but suggested that it be based on next year's
16 performance.

17 Q. Sure, that's clear I think from your
18 testimony.

19 A. And the same there with missed
20 appointments, and then the frequency of lost time
21 accidents is another area where Ms. Lynch used
22 different numbers than I did. I relied on the
23 responses provided in public counsel 225 which was the
24 more recent reporting of that -- exactly the numbers I
25 needed in that area and I calculated it exactly the way

1 it is done in the San Diego proposal that you referred
2 to earlier and the numbers there show that there's been
3 some variation in the data but some concern about
4 recent deterioration, at least in the '94 time period
5 -- '93 and '94, excuse me, at Puget. So I put the
6 number at last year's performance for Puget and it is
7 slightly less than last year for Washington Natural
8 Gas.

9 Q. Jump to another subject now. On page 5,
10 lines 1 to 3 of your testimony, really just a point of
11 clarification. You testified that under multi-year
12 rate plan a utility has an incentive to cut operations
13 and maintenance expenditures to increase revenues and
14 profits. Should that just say to increase profits or
15 have I missed something?

16 A. Yes, you're correct.

17 Q. You mentioned that -- and we've talked a
18 few times about the San Diego plan. Direct your
19 attention to what's been marked for identification as
20 Exhibit 135. If you could take a moment and identify
21 that exhibit for me.

22 A. This is a compliance filing by San Diego
23 Gas and Electric before the California Commission
24 dated May 1995.

25 Q. And it includes the '94 and '95 annual

1 reports by San Diego Gas and Electric?

2 A. Okay, '94 is here as well.

3 Q. And this was information that you assembled
4 in response to this data request?

5 A. That's correct.

6 MR. HARRIS: We would offer Exhibit 135.

7 MR. MANIFOLD: No objection.

8 JUDGE SCHAEER: Document is admitted.

9 (Admitted Exhibit 135.)

10 Q. You sound as if you're quite familiar with
11 the San Diego Gas and Electric service quality plan?

12 A. I've read the Commission orders and have
13 this document. That's all I know about it.

14 Q. You understand that it, too, it is
15 multi-year plan?

16 A. Yes.

17 Q. Five years, I believe?

18 A. I believe that's correct, yes.

19 Q. And it includes a very small number of
20 service quality standards, I believe three. Is that
21 your understanding or if you don't have that
22 information you can accept it subject to check?

23 A. Well, I think the documents here will tell
24 us that. There's an employee safety factor, the lost
25 time accident. There are customer satisfaction survey

1 result, and there are outage reliability results
2 included here. By the way, this was the California
3 Commission's first service quality index that they
4 did.

5 Q. It was implemented in 1994; is that
6 correct?

7 A. Well, implemented in '93. In '94 was the
8 first year in which performance was actually evaluated
9 based on the '93 decision.

10 Q. And the plan provides for a penalty of up
11 to \$2 million?

12 A. I will accept whatever you've --

13 Q. You can accept that subject to check?

14 A. Yes, that's correct. I don't remember
15 offhand.

16 Q. And it also provides that if the utility of
17 San Diego Gas and Electric exceeds the predetermined
18 customer satisfaction quality standards the utility
19 can be rewarded with up to \$2 million?

20 A. There is an incentive aspect to this plan
21 as well, that's correct.

22 Q. And I think it's clear from these documents
23 here, but for the record, in 1994 San Diego Gas and
24 Electric achieved the full \$2 million award; is that
25 correct?

1 A. Well, each item has its own set of numbers.
2 Are you only quoting the one having to do with
3 customer satisfaction or are you looking at all
4 of the --

5 Q. I believe that it received the maximum \$2
6 million award based on high customer satisfaction
7 rating. I think it's consistent with what you're
8 saying.

9 A. Well, I would have to review the document
10 to make sure the numbers are correct, but I think there
11 were dollars paid in rewards, yes.

12 Q. Were you accept subject to check that the
13 dollars paid were the maximum \$2 million allowed?

14 A. I would have to check it, but yes.

15 Q. And that again in 1995 the maximum \$2
16 million award was secured by the company?

17 A. Actually, I would like to find the part here
18 that summarizes the results. Did you copy the entire
19 document that was provided in response to this data
20 request?

21 Q. I believe that it is less than the entire
22 document?

23 A. Oh, okay, because I was looking for what I
24 remembered was a chart that was included with the
25 entire document that kind of summarized the overall

1 results. Well, no, that's just one index. There is a
2 chart in the complete document that says what happened
3 to each one of these items plus or minus and I think
4 for completeness it might be better to try to get that
5 included.

6 MR. HARRIS: If you want to offer the
7 complete, of course we won't object.

8 MR. MANIFOLD: Can I just ask, is Exhibit
9 134 the complete response?

10 MR. HARRIS: No.

11 Q. So as I understand the plan then you would
12 be able or the utility would be able to gain the
13 maximum reward or award of \$2 million for exceeding
14 just one of the three different areas?

15 A. Say that again, I'm sorry.

16 Q. That under this plan, the San Diego plan,
17 the utility would be able to achieve the maximum award
18 of \$2 million by exceeding just one of the three
19 service quality areas?

20 A. I am not aware that that's true. I think
21 each item in the service quality index has its own
22 reward/penalty scheme attached to it, and I believe the
23 dollars stick with the particular item in question, and
24 so I am not -- without reviewing the entire document I
25 wouldn't be able to agree with you on that.

1 Q. And is that your intent? I understand,
2 first of all, that your proposal here does not have
3 any upside in it?

4 A. No. Neither did the company so that issue
5 didn't come up in this area.

6 Q. You do you generally recommend a plan that
7 does have both a possibility of penalties and rewards?

8 A. No, I don't. And I can give you the reason
9 for that if you would like.

10 Q. I will save that for later. You have
11 extensive testimony in your prefiled testimony about
12 problems that phone utilities have had in maintaining
13 service quality, and you acknowledge some of the
14 differences between phone companies and utilities such
15 as gas and electric utilities. Could you summarize
16 for us what you think the most important difference are
17 between phone utilities and gas and electric utilities
18 when it comes to maintaining service quality?

19 A. Well, I think I provided quite a few
20 examples from the phone industry because they have
21 been the subject of the most experience in multi-year
22 rate plans or performance-based regulation plans, and
23 electric and gas companies are more and more entering
24 the arena of alternative multi-year rate plan
25 regulation, but have not done so in the numbers that

1 are reflected in the telephone area experience. I
2 know in response to data requests I provided the
3 company with a number of examples of electric and gas
4 utilities in New York, particularly in some other
5 places, that had experienced service quality
6 deterioration under performance-based regulation and
7 had incurred penalties in those states, but I don't
8 think there's any policy difference with why you would
9 include a service quality index in a telephone company
10 as opposed to a gas or an electric company. The
11 frequency of the citations has to do more with the
12 frequency of the use of performance-based ratemaking
13 rather than any particular inherent difference in
14 service quality services.

15 Q. Aren't phone companies facing some
16 different pressures right now than gas and electric
17 utilities?

18 A. Well, don't forget the experience I'm
19 talking about is experience that has occurred over the
20 last five years under monopoly rate regulation. The
21 competition that's in the papers today, you know, is
22 just talk. With regard to phone companies this year
23 there's going to be some serious changes. No
24 question, but nobody has yet adopted a
25 performance-based ratemaking plan for a utility that

1 is in the throes of obvious and significant
2 competitive pressure. It is more in a transitional
3 phase that we've been devising these plans and trying
4 to approach regulation in both areas.

5 Q. What about growth rates faced by phone
6 companies as compared to gas and electric utilities?

7 A. The notion that the growth in customers,
8 number of customers, has been larger, you think, in
9 telephone companies than in gas? I mean, I don't know
10 that this is true. Is this where you're trying to get
11 to, though?

12 Q. I'm asking whether you're aware if that's
13 true or if it's a factor that you've ever considered.

14 A. I would not -- I have not been aware of
15 anyone who has written about the service quality
16 issues in the phone area and described it as due to
17 more growth in that area compared to electric and gas.
18 I mean, I am just not aware of that. I mean, if
19 you're getting new phone service you're probably also
20 getting new electric service as well.

21 Q. I asked the question only because there's
22 been recent discussion, public discussion, by phone
23 company executives of the huge increase in the number
24 of requests for phone lines, and I think you touch on
25 in your testimony the use of home computers to access

1 the Internet and all of that and that's where that
2 comes up.

3 A. Well, that could be true. It's just that I
4 am not aware of it in any factual way. I am aware
5 that phone company executives in many states, in this
6 area in particular, have claimed that some of the
7 problems with providing phone service on a timely
8 basis is in fact due to growth, explosions of growth
9 in new customers in their service territories.
10 Whether or not that is a legitimate reason for what's
11 happened is something that each of the Commissions in
12 these states has had to deal with. Most of them have
13 not found that a compelling explanation.

14 JUDGE SCHAEER: Mr. Harris, would you look
15 for a good place for us to break for our afternoon
16 recess.

17 MR. HARRIS: We're at one.

18 JUDGE SCHAEER: Are we at a good spot for
19 that? Well, then let's be off the record at this time
20 for our afternoon recess and please reconvene at 3:00.

21 (Recess.)

22 JUDGE SCHAEER: Let's be back on the record
23 after our afternoon recess. Mr. Harris, did you have
24 one or two more questions for Ms. Alexander?

25 MR. HARRIS: A few more, Your Honor. Take

1 a hint.

2 Q. Take a moment and identify what's been
3 marked for identification as Exhibit 136.

4 A. Yes. It is my response to joint
5 applicants' data request 341.

6 Q. Prepared by you?

7 A. Yes.

8 MR. HARRIS: We would offer Exhibit 136.

9 MR. MANIFOLD: No objection.

10 JUDGE SCHAEER: Document is admitted.

11 (Admitted Exhibit 136.)

12 Q. Would you take a moment and identify what's
13 been marked for identification as Exhibit 137.

14 A. Yes. This is joint applicants' data
15 request No. 367. And I gather you have excerpted from
16 the Maine commission's order on Central Maine Power
17 Company that portion of the order relating to the
18 service quality index. This must have been the order
19 adopting the stipulation.

20 Q. That's correct.

21 A. Okay.

22 Q. And I will represent to you that it is an
23 excerpt of your complete response?

24 A. Right.

25 Q. The response itself was prepared by you and

1 the material attached to it was assembled by you?

2 A. Yes. I gave you the complete Commission
3 order.

4 MR. HARRIS: We would offer Exhibit 137.

5 MR. MANIFOLD: Your Honor, I have no
6 objection to 137 with the following caveat. As I
7 think I can represent, Mr. Harris and I discussed
8 while we were off the record Exhibits No. 134, 135 and
9 now proffered No. 137 portion of the indicated
10 documents.

11 MR. HARRIS: Excuse me. I believe 134 is a
12 complete copy of her testimony.

13 MR. MANIFOLD: I thought you said it was a
14 portion. For those I have no objection to them coming
15 in now as they are. I think the agreement we've
16 reached is this evening we will look at a complete
17 document and compare it to what's been offered and if
18 we feel there are additional portions which we would
19 like to have included for completeness, then we will
20 do that tomorrow and we don't necessarily need to
21 recall the witness for that.

22 MR. HARRIS: That is correct.

23 JUDGE SCHAEER: That is correct that you
24 will just put it in -- substitute the exhibit with the
25 same number.

1 MR. MANIFOLD: Yes. It's desired by both
2 of us to have all the relevant parts and no extra
3 paper in the record.

4 JUDGE SCHAEER: Two goals that are worthy, I
5 think. So with that, do you have any objection to 137
6 as it is going in now?

7 MR. MANIFOLD: No objection.

8 JUDGE SCHAEER: That will be admitted.

9 (Admitted Exhibit 137.)

10 Q. I'm going to ask you to identify what's
11 been marked for identification as Exhibit 138.

12 A. Yes. This is joint applicant's data
13 request 385 to me.

14 Q. Response was prepared by you?

15 A. Yes, and accurate at the time of the
16 response but of course superseded by subsequent
17 events, yes.

18 Q. When you say superseded by subsequent
19 events, these are the calculations that we were
20 discussing earlier?

21 A. That's correct.

22 MR. HARRIS: We would offer Exhibit 138.

23 MR. CEDARBAUM:

24 MR. MANIFOLD: No objection.

25 JUDGE SCHAEER: Document is admitted.

1 (Admitted Exhibit 138.)

2 Q. Like to turn to the issue of SAIDI and
3 SAIFI. As I understand your proposal it's your intent
4 to exclude from the SAIDI and SAIFI measure variations
5 caused by severe storms; is that correct?

6 A. Yes, severe and significant events that
7 would have caused real spikes, outlier events, if you
8 will, in the outage data over the last, five, six,
9 seven years.

10 Q. And these outliers would principally be
11 caused by severe storms?

12 A. That would be typical. In Maine, the
13 hurricanes of the recent memory and one or two
14 significant ice storms, for example, were the cause of
15 the outlier event, yes.

16 Q. Would you agree that normal weather
17 variations also cause outages?

18 A. Absolutely.

19 Q. And your proposed service quality index
20 makes no attempt to remove the variations caused by
21 normal weather variations, does it?

22 A. No.

23 Q. It's not your suggestion, is it, that
24 normal weather variations are within the utility's
25 control?

01432

1 A. No, but they are within the utility's
2 ability to plan for and respond to.

3 Q. But you would expect, wouldn't you, based
4 on normal weather variations the SAIDI and SAIFI data
5 to vary, year to year, wouldn't you?

6 A. It will vary, absolutely.

7 Q. Do you think the company should be
8 penalized for those variations when they're due solely
9 to normal weather variations?

10 A. No.

11 Q. Going to turn now to the average speed of
12 answer indicator which I believe is one of the ten
13 measures in your service quality index?

14 A. Yes. The percent of calls answered within
15 30 seconds, I believe.

16 Q. That's how you define average speed of
17 answer or the measure is in your index the percent of
18 calls averaged within 30 seconds?

19 A. Right. There are several potential items
20 that could be used to measure phone center
21 performance. Some do measure the average speed of
22 answer. Others measure the percent of calls answered
23 within 30 seconds.

24 Q. Weather outages will of course increase the
25 volume of calls to a customer service center?

01433

1 A. Yes.

2 Q. Extremely cold weather would likely
3 increase the volume of gas customer calls to the
4 customer service center?

5 A. In the sense that every winter you would
6 have some predictable number of increasing calls for
7 that purpose, yes, I would imagine.

8 Q. And certainly during severe storms you
9 would expect an increase in call volume?

10 A. Oh, yes.

11 Q. And does your indicator take account of
12 those variations due to adverse or severe weather?

13 A. Sure. It's an annual average that's
14 proposed here, not a weekly or a monthly or a daily
15 event but an annual average, and over time, over an
16 entire year, 365 days a year, those events will
17 average out.

18 Q. What about the year where we have something
19 like the Inauguration Day storm, which I believe
20 you're familiar with? Wouldn't you expect that year
21 the extremely heavy call volume over an extended
22 period of time due to the outages to increase your ASA
23 statistic?

24 A. I could conceive of that happening, yes. I
25 am not familiar with the -- I don't think the

1 companies have good data from that era so we can't
2 test that assumption but that seems reasonable.

3 Q. It wouldn't be your intent, would it, to
4 penalize the company for an ASA variation that was due
5 to an unusual event like that, is it?

6 A. If you're talking about like a one in ten
7 year event and that occurred during the next five
8 years and there was this obvious spike in phone center
9 performance as a result of that and it caused -- that
10 alone caused a violation or an exceedence, for
11 example, in this performance level for the whole year,
12 I would fully expect the company to bring that to the
13 attention of the Commission and seek some exception
14 for that event.

15 Q. Does your proposal as it has been submitted
16 include any mechanism for doing that?

17 A. No. But I could conceive of it happening
18 nonetheless.

19 Q. Because you wouldn't think it's fair, would
20 you, to both penalize the company for that and have
21 the company report to their customers that they had
22 been providing bad service when it was the result of
23 that sort of event, would you?

24 A. No. And it's for that reason, for example,
25 that the SAIDI and SAIFI proposal included a proposal

1 to exclude that from the performance in that area, and
2 if in the future ever that same event excluded from
3 the outage statistics were picked up in a way that
4 caused the significant problem in the phone center
5 performance it would seem reasonable to me to take
6 that into account.

7 Q. There's been lots of discussion about the
8 move to competition. I think you characterize it on
9 page 7, lines 22 to 23, "at least for residential and
10 core customers as a light shining down a very long and
11 dark tunnel." My question is how long is that tunnel
12 in your view?

13 A. Well, I presume that there will be a number
14 of significant steps that will take place here in
15 Washington prior to the onset of competition for most
16 customers of both of these utilities. Perhaps state
17 legislation in most states is contemplating a need for
18 that, subsequent Commission orders, decisions on
19 stranded costs, decisions about divestiture or
20 functional separation, decisions about unbundling,
21 registration of new market entrants. Just a whole
22 host of things that will take several years if not
23 more to occur prior to the onset of competition in any
24 real sense, so that it is my understanding that the
25 multi-year rate plan under consideration here is a

1 transitional mechanism that will take us from here to
2 who knows what, but because we don't know exactly what
3 it is, this is viewed as an interim measure that will
4 help us buy time to make those decisions and implement
5 them.

6 Q. Once a competitive environment is achieved,
7 will it be necessary to have service quality indexes
8 such as you propose here?

9 A. Well, it depends on who you're talking
10 about regulating. From the perspective of the
11 competitive electric provider, for example, who is
12 providing the sale of electricity to residential
13 customers there may be a need for rulemaking about
14 marketing practices and disclosures and minimum
15 contract requirements and so forth, but the bulk of the
16 service quality will still be under the control of the
17 distribution company who will own, I presume, the poles
18 and wires that deliver electricity, and so therefore
19 will provide line extension to new customers, install
20 meters, perhaps read the meters, handle reliability in
21 outage situations, and, in other words, many of the
22 things we're proposing to measure here will continue to
23 be the subject of regulation by the Commission for a
24 distribution company that will remain a monopoly.

25 There has been talk in the field of

1 regulating these distribution companies with
2 performance-based regulation types of mechanisms, and
3 in those situations where there is not a routine
4 review of expenses and revenues in a traditional rate
5 case sense, there will probably continue to be a need
6 for a service quality index for the distribution
7 company as part of an alternative regulation scheme.

8 Q. As companies such as PSE contemplate the
9 move to competition, shouldn't they be concerned about
10 maintaining high service quality irrespective of any
11 service quality index?

12 A. Well, one would think that they would be
13 concerned about that, absolutely.

14 Q. If you were in charge of the company you
15 would be concerned about it?

16 A. Well, if I was in charge of the company,
17 there would have to be another set of concerns that
18 impinge on me and that is the needs of those witnesses
19 who were testifying yesterday and today on the
20 financial health and stability of the company and the
21 need to pay dividends in order to avoid distress in
22 the market about the position of the company in
23 marking its need for new investment vehicles. And
24 those kind of pressures might seek significant budget
25 constraints within the company on exactly the kinds of

1 expenditures that result in the performance of service
2 quality that we're measuring here, and that's what's
3 happened elsewhere, and I don't see why P S and E
4 should not be subject to the same set of conflicting
5 desires however well intentions of short-term versus
6 long-term.

7 Q. And you recommended that PSE be required to
8 conduct bimonthly customer satisfaction surveys and
9 that these surveys should be conducted by an
10 independent business approved by the Commission; is
11 that correct?

12 A. Well, we're picking up here on the
13 company's proposal to do customer satisfaction
14 surveys, and it's my understanding that those surveys
15 will be done by outside companies, and the only
16 suggestion we're making here that might be different
17 is that there be some reporting to the Commission
18 about who this company is and an allowance for some
19 review of the survey instrument and the company's
20 independence from the PSE, yes.

21 Q. Do you remember the mechanisms that was
22 propose in the Central Maine Power proposal?

23 A. The CMP customer surveys are done by CMP
24 themselves, but they are not satisfaction surveys.
25 They ask specific questions about the customer's

1 impression of the knowledgeability of the customer
2 representative that they dealt with, and the second
3 question was was your installation performed on time,
4 so they are not questions about were you satisfied with
5 the service of Central Maine Power Company -- I mean
6 they asked that question but that's not the one in the
7 index.

8 Q. They do this by postcard or did I misread
9 that?

10 A. That's correct. They do it by postcard to
11 a sufficiently large enough sample of people who have
12 had recent transactions with the company and they do
13 it every several months and calculate an annual
14 average of the data that they receive.

15 Q. So some people do send the post cards back
16 in?

17 A. Oh, yes. Yes, they do. Absolutely.

18 Q. This is a point of clarification. It is
19 your intention, isn't it, that the maximum penalty for
20 any one measure be \$750,000?

21 A. That's correct.

22 Q. Under your proposed service quality index
23 is the complaint ratio calculated as total gas and
24 electric complaints divided by total number of gas and
25 electric customers or is it a customer weighted

01440

1 average of the complaint per 1,000 customers for each
2 utility or perhaps a third choice?

3 A. Well, of course the complaint ratios in the
4 historical material here is total complaints divided
5 by total customers of each of the companies, and I am
6 not sure, and it would bear thinking. I mean, you
7 would want to do it the correct way to do it. In
8 other words, you would want to do it in a way that
9 takes into account the fact that there are fewer gas
10 customers than electric customers, so I hadn't thought
11 about that. A compliance issue that should be
12 addressed I think.

13 MR. HARRIS: I have no further questions.

14 JUDGE SCHAEER: Mr. Ellsworth, did you have
15 questions for this witness?

16 MR. ELLSWORTH: Yes, I do.

17

18 CROSS-EXAMINATION

19 BY MR. ELLSWORTH:

20 Q. Good afternoon, Ms. Alexander.

21 A. Good afternoon.

22 Q. Could you explain to me your rationale for
23 including SAIDI in your index of customer service
24 issues?

25 A. Well, outages, the frequency of them, the

1 duration of them, duration being measured by SAIDI and
2 frequency measured by SAIFI, are obviously important
3 to customers of an electric utility in terms of their
4 opinion or experience in deciding whether they're
5 electric providers providing adequate service, and it
6 is a traditional method of trying to evaluate the
7 service quality of an electric utility to take a look
8 at the duration and the frequency of their outages
9 throughout the system. And so I suggested both,
10 because I believe both are important and each has
11 something to offer that is important with respect to
12 reliability.

13 Q. Ms. Stephens testified earlier that in her
14 opinion all ten of the service criteria were equal.
15 Is that also your opinion?

16 A. Yes, in the sense that -- in two ways.
17 First, performance in one is not outweighed by
18 performance in any other area, and two, you cannot
19 offset performance in one by performance in another
20 area. But in the sense that reliability is a very
21 crucial component of service quality there are two out
22 of the ten measurements that relate to that particular
23 item.

24 Q. Wouldn't it also be true with respect to
25 system reliability and the duration of outages if that

1 index was going up that would be likely to trigger
2 more calls to the complaint center and so that
3 although the penalty is the same some of the factors
4 would be derivative to a certain degree on system
5 reliability?

6 A. In other words, you're suggesting that
7 increasing duration and frequency of outages could
8 have impact on calls to the phone center, complaint to
9 the Commission and so forth.

10 Q. Complaint to the Commission, lost time
11 because of accidents?

12 A. Yes. There's a possibility that that is in
13 fact true, significant deterioration, I guess I would
14 say, as opposed to annual weather-related variation,
15 yes.

16 Q. You answered a question earlier with regard
17 to normal weather outages that was something that
18 utilities should be able to plan and respond to. Would
19 you explain your answer, please.

20 A. Well, we know that weather varies from year
21 to year and we know that weather is a significant but
22 not a total component of the frequency of outages, and
23 utilities need to conduct their staffing and design
24 their transmission and distribution systems to allow
25 them to respond to what they know will be a series of

1 winter storms that will cause trees to fall on their
2 lines, and most utilities do structure their system and
3 plan for and budget for a certain number of
4 weather-related outage responses in any particular
5 year.

6 Q. So a company that is properly planning for
7 these foreseeable outages there should be no impact on
8 their SAIDI?

9 A. If what you're saying is that there is a
10 routine variation in the duration of outages that are
11 related to routine weather, I would agree, yes.

12 Q. That was my question. Would you also agree
13 that SAIDI is an appropriate measure for monitoring a
14 system that would be deteriorating in terms of
15 reliability?

16 A. Yes. Most Commissions have included SAIDI
17 and SAIFI or something like that in their service
18 quality index throughout the country.

19 Q. Would it be fair to say under your proposal
20 that if SAIDI for Puget Sound Energy went up or was
21 trending up that would show a decline in system
22 reliability?

23 A. If that was something that could be shown
24 to be occurring after you took into account unusual or
25 not typical storms then over time the answer would be

1 yes. In a one to two year period it would be harder
2 to say, but nonetheless eventually, you know, lack of
3 investment in T and D, lack of maintenance of the
4 system will result in higher SAIDI and SAIFI numbers.

5 Q. What type of evidence would allow you to
6 suggest that the Commission require improvement of
7 SAIDI during the period of joint applicant's proposed
8 plan?

9 A. I'm sorry, try that again.

10 Q. I'm not sure I can say that twice. What
11 type of evidence would allow you to suggest that the
12 Commission require improvement of SAIDI index during
13 the term of the joint applicant's proposed plan?

14 A. Are you trying to describe a situation in
15 which over the next five years we see deterioration
16 sufficient to trigger the penalty provisions of the
17 index?

18 Q. Well, my understanding was you've set a
19 baseline but that was basically a discussion place to
20 start based on historical. What would you need to
21 look at to determine if that number was set
22 appropriately?

23 A. I think all we need to do to get the
24 outlier type of data out of there is to look at
25 actually SAIDI and SAIFI for all events. In other

1 words, not trying to determine what is storm and
2 nonstorm but to include the total SAIDI and SAIFI
3 recorded by the company to find out what amount of
4 customer outage hours in any one day would allow us a
5 trigger, if you will, would allow us to take out the
6 significant and well known event that have occurred
7 historically that we know have caused these big swings
8 in the averages. And I provided material to the
9 company a month or so ago showing how this was done at
10 the CMP service quality index and I would suggest the
11 same approach be done here at a compliance phase after
12 the Commission's decision, and that would allow us to
13 set a baseline that we then know is more reflective of
14 routine variation as opposed to extreme variation in
15 SAIDI and SAIFI.

16 Q. Would it be your opinion that SAIDI ought
17 to be set at a level -- preestablished level of what
18 reliability should be expected or just base it on
19 historical data it?

20 A. I would have no way of suggesting that the
21 recent ten year or five year average is less than
22 adequate. That would be something only people here in
23 Washington would be able to evaluate. I did not look
24 at it from that perspective.

25 Q. I have just a couple of questions on your

1 direct testimony. If you could look at page 6, lines
2 7 to 15.

3 A. Yes.

4 Q. Is it your opinion that there is a
5 significant chance that Puget Sound Energy would be
6 financially motivated to reduce service quality
7 including reliability to lower levels without some
8 form of performance-based rates?

9 A. I don't think it's a matter of corporate
10 intent. I think it's a matter of the imperative of
11 the incentives, if you will, attached to any
12 multi-year rate plan, and the incentive for the
13 company is to be more efficient. The incentive to the
14 company is to dangle the potential of increased
15 earnings in return for not taking away their excess
16 earnings with these base rate cases every year. And
17 to do so in a way that also protects customers in
18 terms of their prices that they are charged. So the
19 incentive of such a plan would be to look for ways to
20 be more efficient and to cut costs and however well
21 intentioned that is we have seen utilities make
22 mistakes about that, intended or not, and that has
23 resulted in deterioration in service quality.

24 Q. So that's the intent of the penalty
25 provisions is to make sure that there is no

1 backsliding?

2 A. That's correct.

3 Q. Referring to page 8, lines 14 to 18. Can I
4 assume from your statement there that in your opinion
5 the customers of Puget Sound Energy would face a
6 significant danger of deteriorating reliability under
7 a merged company unless the WUTC through some action
8 implemented some action such as performance-based
9 rates?

10 A. I think the incentive to -- the possibility
11 that deterioration would occur certainly is there with
12 the merger or even without the merger. It is the
13 multi-year rate plan and the removal of the Commission
14 review and the base rate cases that I think triggers
15 the possibility of deterioration.

16 MR. ELLSWORTH: Thank you. I have nothing
17 further.

18 JUDGE SCHAER: Commissioners, did you have
19 questions?

20 COMMISSIONER HEMSTAD: I don't.

21

22 EXAMINATION

23 BY COMMISSIONER GILLIS:

24 Q. I think you're aware that Puget Power
25 will submit a pilot open access tariff in June?

1 A. Yes.

2 Q. My question is a pragmatic one in the
3 context of your proposal. Would you suggest that PSE
4 should be responsible for service quality for
5 customers of other retail suppliers that utilize its
6 system?

7 A. In most cases I would say yes, because in
8 most cases the designation company that is PSE, the
9 future company, will be in charge of the poles and
10 wires and installation of service and repair and
11 reliability. All those things will be provided by
12 PSE. The competitive suppliers will only be selling
13 electricity through PSE's wires and perhaps giving a
14 bill for that service, and it's going to be a small
15 portion of the customer's total bill. So, PSE will
16 remain responsible for almost all of these items
17 certainly in a pilot program. They did in New
18 Hampshire anyway, and perhaps even a good number of
19 them, if not all of them, in a competitive
20 environment, so I think we need to be careful about
21 assuming that deregulation of the price of a portion
22 of the customer's bill relating to the sale of
23 generation or electricity somehow carries with it the
24 implication that service quality is no longer a
25 concern for this Commission, because I believe it

1 really will continue to be a significant concern.

2 Q. The question is, are all the items on your
3 index relevant to that? I'm looking at disconnection
4 ratio, meter reading errors. The pilot hasn't been
5 conceived yet?

6 A. Right.

7 Q. And so nobody knows what the structure is
8 going to be?

9 A. Sure.

10 Q. Would it -- I guess there's two ways of
11 approaching it. One is to take it assuming that the
12 merger is approved and maybe your program were a part
13 of it, I suppose that would be a constraint on how the
14 pilot would be design or alternative the pilot could
15 take its own approach to service quality and somehow
16 net out those customers in using at the service
17 quality index. Do you have an opinion on which is the
18 better?

19 A. Certainly the Commission could structure
20 its order in this case and in the pilot to do either
21 one of those approaches. I honestly don't think,
22 however, that the pilot, because it will be a pilot,
23 will involve the duplication of any of these items by
24 a competitive provider with the possible exception of
25 customer satisfaction, which obviously is a reflection

01450

1 not only of your distribution company but of the
2 electricity that is sold to you as part of your bill.
3 And what you -- there will be one meter on the home.
4 All the meters will be read by PSE. All the
5 disconnections will be done by PSE. The appointments
6 to install service will all be done by PSE. The
7 reliability of the transmission and distribution system
8 and the SAIDI and SAIFI will all be under PSE's
9 control. So almost all of these will continue to be
10 the sole responsibility under any pilot that I am aware
11 of in this area just by the nature of the fact that
12 they will remain a monopoly provider of one half to two
13 thirds of the cost of the customer's electricity
14 service under most of the scenarios I am aware of.

15 Q. A related question. What we're finding in
16 telephone service quality is that one of the larger
17 problems is service to the competing -- I guess
18 equivalent retail providers?

19 A. Yes.

20 Q. And I would like you to comment on how your
21 index would relate to that. In thinking of the pilot
22 where there might be multiple providers of retail
23 service using PSE's electric network --

24 A. Right.

25 Q. -- is your index relevant to insure service

1 quality to those customers?

2 A. It certainly was not designed with that in
3 mind, and there might be some additional issues you
4 would like to address in your pilot that would monitor
5 service quality to those interacting with PSE, that
6 is, those who seek access to billing services, for
7 example. And one of the big issues in electric
8 restructuring will be who is running the transmission
9 system and allowing generators to put their electrons
10 into the system and how do we track who is dealing
11 with who in terms of billing and settlements on the
12 system, and that's why you see all of these creations
13 being done on independent service operators and power
14 pools, because they want to take that function out of
15 the current business owners of the system and make it
16 available to -- as an independent body that all of the
17 generation providers can have equal and fair access to
18 the system. But, no, this was not done from that
19 perspective.

20 COMMISSIONER GILLIS: That's all my
21 questions.

22

23 EXAMINATION

24 BY JUDGE SCHAER:

25 Q. Hi.

1 A. Hello.

2 Q. It's my understanding that your program is
3 proposed to go for five years and then stop; is that
4 correct?

5 A. Yes. In the sense that it was proposed as
6 part of the public counsel's multi-year rate plan
7 which is a five-year plan.

8 Q. Maybe I'm too much of a worrier, but it
9 seems to me that five years from now anyone who is
10 left here is going to have a lot to do if there is a
11 five-year rate plan and everything is ending at once,
12 and my reaction in reading is this is that it would
13 make more sense to have, if such a plan were adopted,
14 to have it continue but have some kind of a reopener
15 or sunset so that if the market at that time and the
16 situation at that time, which none of us know what
17 it's going to be, meant that this should change that
18 the joint applicant or others could propose changes
19 but that it wouldn't just disappear one day. What's
20 your thought -- what are your thoughts on that?

21 A. Well, when you asked that question earlier
22 in the day of Ms. Stephens it got me to thinking about
23 that and there's two possible ways to handle that
24 concern. One is to structure a midcourse review into
25 the third or fourth year of the plan so that you would

1 have the beginnings of a process of determining what
2 would be happening on the day after the five years are
3 up. The other is to suggest that you could build in a
4 requirement that this sort of service quality index
5 continue until the end of the plan or the next base
6 case review, whichever is later. So that there would
7 be some transition period if you weren't doing a base
8 case review right at the moment. The plan expired,
9 you would probably be doing one shortly thereafter and
10 the index would last until that decision was made
11 anyway.

12 Q. You mentioned several times in your
13 testimony today that you have done a calculation you
14 had not done at the time but you responded to I
15 believe it's request No. 385, which is Exhibit 138?

16 A. Yes.

17 Q. Do you have those calculations with you in
18 the hearing room today?

19 A. Yes, we do have them.

20 JUDGE SCHAEER: Is it your intention to
21 offer those on redirect?

22 MR. MANIFOLD: Yes, if you haven't done it
23 before then.

24 JUDGE SCHAEER: I want to make sure that the
25 record is complete.

1 MR. MANIFOLD: Yes, it was my intention.

2 JUDGE SCHAEER: So I don't much care how it
3 gets in but I think it should get in.

4 Q. Finally, looking at Exhibit 135, I'm a
5 little bit concerned about what's in the record about
6 this document right now. There are two pages 21 that
7 I found and I would like you to look at both of them
8 in order.

9 A. Well, actually there are two documents
10 here.

11 Q. So let's look at page 21 in each of them?

12 A. Oh, okay. That happens to be the one that
13 indicates what was raising my concern. Looking at the
14 first page 21, it appears to me that there is a
15 benchmark indicated here, has a maximum or minimum of
16 \$4 million, which would lead me to think that perhaps
17 the total program isn't just for \$2 million.

18 A. It isn't, and that's why I was having
19 trouble with his questioning of me because I kept
20 looking for the chart that I believe is in the
21 complete document that will add up all the separate
22 rewards and penalties, and there's one for each set of
23 these items, so we're going to do that tonight and
24 give you the complete document tomorrow.

25 Q. So we're going to get the document

1 tomorrow, but my concern is that you're not going to
2 be here tomorrow to ask questions about the document?

3 JUDGE SCHAEER: Are you going to have some
4 way --

5 MR. MANIFOLD: She can be available. She's
6 planning to be in the hearing room tomorrow. If
7 necessary we could call her to ask questions of it if
8 that was desired. She's going to be physically here
9 tomorrow?

10 THE WITNESS: Yes, I am here tomorrow.

11 JUDGE SCHAEER: As I say, if you look at
12 these two pages 21 they appear to show a penalty of
13 two different amounts. One year zero was obtained,
14 one year \$500,000 out of a possible \$4 million was
15 obtained. And I recall another question about whether
16 the maximum was obtained, and I would appreciate it if
17 we get clear information on those two matters into the
18 record.

19 That's all I had. Is there any redirect?

20 MR. CEDARBAUM: Your Honor, I had a few
21 questions.

22 JUDGE SCHAEER: I'm sorry, Mr. Cedarbaum.

23 MR. CEDARBAUM: I didn't have an estimate
24 predetermined, but since some questions came up during
25 the cross-examination.

1 JUDGE SCHAEER: Why don't you go now so Mr.
2 Manifold can do redirect on everyone's cross.

3

4 CROSS-EXAMINATION

5 BY MR. CEDARBAUM:

6 Q. Ms. Alexander, on your questions from Mr.
7 Harris you were hoping he was going to ask you the
8 question why not a reward but only penalties so I will
9 bite on that. Can you explain why the service quality
10 index should be one-sided?

11 A. The purpose of the index is to incent the
12 company to avoid the cutting of expenses that would
13 cause a deterioration in service quality, and so the
14 entire purpose of a multi-year rate plan is to allow
15 the company to increase its earnings to get a reward,
16 if you would, by operating it efficiently and selling
17 products people want to buy and doing so in a way that
18 allows them to increase their sales, if that's in fact
19 appropriate for both their customers and the
20 Commission's policies. The purpose of the service
21 quality index is not to, in most cases, set up a reward
22 system for improving service quality. It's to set up a
23 system to prevent deterioration and so the basic
24 motivation is to make sure we don't do something and
25 the penalty approach seems more appropriate to that

1 scenario. If the company does not deteriorate service
2 quality and makes more money under its multi-year rate
3 plan, it carries with it the reward of increased
4 earnings, so that's why I don't think we need to incent
5 performance with rewards in this particular situation.

6 Q. You also testified during your
7 cross-examination that the objective of the service
8 quality index was to maintain overall service quality
9 performance. Each of the ten indices, though, were
10 evaluated separately; is that right?

11 A. That's correct.

12 Q. So if on average the ten indices showed no
13 change up or down on service quality we would still
14 look at each one to determine whether or not there
15 might be a penalty?

16 A. Yes. Because each one is kind of like a
17 symbol of a particular area of operations of the
18 company, and we wouldn't -- I don't think we would
19 want to set up a situation in which the company could
20 do really well in four or five and allow the other
21 four or five to deteriorate and average out to be no
22 penalty. That would not be an appropriate message to
23 sent to customers that it's okay if you can't get
24 service on time as long as the installation
25 appointment was -- that's not a good example. That

1 you could be consistently late delivering installation
2 of new service as long as you answered the phone at
3 the phone center in a timely way when people called to
4 complain about it. So I don't think we want to set up
5 that kind of evaluation approach.

6 Q. Service quality index on each measure does
7 include some level of buffer that the company actually
8 can violate that type of practice. For example,
9 answering the phone in more than 30 seconds they can
10 do that to some extent but then when you hit the
11 baseline that's a problem?

12 A. It's an annual average. Obviously there
13 will be months in which the company may not in fact
14 hit the baseline and do poorly, but if they see that
15 and make the changes internally to improve their
16 performance on an annual basis they could still show
17 compliance with the index, so there's a lot of
18 discretion in that sense.

19 Q. And you're also not required to be perfect
20 on each item?

21 A. That's correct.

22 MR. CEDARBAUM: Thank you.

23 JUDGE SCHAEER: Now, is there any redirect
24 for this witness?

25 MR. MANIFOLD: Yes. Let me start with the

1 document.

2 JUDGE SCHAER: All right.

3 MR. MANIFOLD: Can I have this document
4 marked?

5 JUDGE SCHAER: Yes. You've handed me a
6 one-page document marked at the top Revised Version of
7 CEL-9 Modeling of Public Counsel's Proposal Penalties
8 for 1994 and 1995. Mark this for identification as
9 Exhibit 139.

10 (Marked Exhibit 139.)

11

12 REDIRECT EXAMINATION

13 BY MR. MANIFOLD:

14 Q. Ms. Alexander, do you have before you
15 what's just been marked as Exhibit 139?

16 A. I do.

17 Q. Can you describe what it is?

18 A. Yes. After the company filed its rebuttal
19 testimony with its Exhibit CEL-9 I reviewed that
20 calculation of historical penalties and felt that
21 there were some errors, if you will, or perhaps
22 factors that I would have done differently, so I redid
23 that exhibit, correcting certain items which I can
24 describe to you shortly, to get a different result in
25 terms of the historical record on penalties using the

1 public counsel's proposed index.

2 Q. Was this prepared by you or under your
3 supervision?

4 A. Yes, it was.

5 MR. MANIFOLD: Your Honor, I would move for
6 the admission of Exhibit 139.

7 MR. HARRIS: May I voir dire the witness,
8 Your Honor?

9 JUDGE SCHAER: Yes, you may.

10 MR. HARRIS: When was this completed, Ms.
11 Alexander?

12 THE WITNESS: I would say last Friday or
13 Saturday.

14 MR. HARRIS: Your Honor, we would not
15 object to the admission of this if we retain the right
16 to recall this witness to examine her tomorrow about
17 it. We had made the data request, received a response
18 on October 4th and the request, which is now in the
19 record as Exhibit 138, clearly called for production
20 of this sort of calculation and when we made the
21 request we specifically made it as a continuing
22 request. I think there was an obligation to produce
23 this in time for us to prepare to examine the witness
24 on it.

25 JUDGE SCHAER: Ms. Alexander is going to be

1 recalled tomorrow already and I will allow you to
2 cross-examine on this document tomorrow.

3 MR. HARRIS: Thank you.

4 MR. MANIFOLD: That's fair, so with that
5 caveat --

6 JUDGE SCHAEER: And I will admit the
7 document.

8 (Admitted Exhibit 139.)

9 Q. Could you please describe what the
10 differences are between -- well, what did you do?

11 A. Well, I did exactly as Ms. Lynch did for
12 the complaint ratio, no change. With regard to SAIDI
13 and SAIFI, because we had proposed that the baseline
14 in those areas be the subject of a change in the
15 compliance phase, I did not project any penalties with
16 regard to the use of our proposed baseline in that
17 area because that may not be the baseline, so that's a
18 blank, and that's a change from her approach. She
19 just used the 4.50 for SAIDI and the 2.5 for SAIFI and
20 projected penalties in some year based on that.

21 With regard to the disconnection ratio I
22 did exactly as she did. With regard to the phone
23 centers I did exactly as she did. With regard to gas
24 response I did the same as she did even though, as I
25 indicated earlier, I had derived the baseline of 55

1 based on a different method of using the same data she
2 used, but I left that as she left it.

3 Customer satisfaction in both the call
4 center and the field area is the same as her approach.
5 The appointments, there's no baseline yet and she
6 didn't have one either, but with regard to lost time
7 accidents she had used different data than I did in
8 calculating the baseline and so I redid the calculation
9 for '94 and '95 using the data from public counsel-225
10 which had been provided to me in a data response
11 earlier by the company.

12 So I have a different result there. So the
13 changes are, in summary, to eliminate any penalties
14 for SAIDI and SAIFI because we don't know the exact
15 baseline there and to change the results for lost time
16 accidents using the data as I had used it and I
17 believe that is the changes that I made.

18 Q. Is the lost time accidents data, the data
19 that's on Exhibit 139, the same as the data that you
20 used in your testimony and exhibits?

21 A. Yes, it is.

22 Q. Regarding the telephone center, the
23 baseline on here is shown as 70 percent. What's your
24 understanding of the company's goals and commitments
25 in that area?

1 A. I understand the company has internal
2 objectives of answering 80 percent of its calls within
3 the first 30 seconds and there's data responses from
4 the company that would confirm that and so we know
5 they're not meeting that in '94 and '95, and we know
6 that 70 percent was set as a baseline to stimulate
7 improvement in a below adequate performance by the
8 companies in '94 and '95, so, yes, if you look
9 backward you will see a penalty in that area, but it
10 is my understanding that the company seeks to operate
11 a phone center that will not result in penalties in
12 this area after the merger is approved.

13 Q. Is that an intention of each of the
14 companies?

15 A. That's my understanding.

16 Q. Is it your understanding that that is
17 related to the merger or independent of it?

18 A. I thought it was independent of it frankly
19 but I would have to check my data responses to confirm
20 that.

21 Q. How does the measurement of 80 percent of
22 phone calls answered within 30 seconds compare to
23 standards as you're familiar with and that other
24 companies have for themselves?

25 A. That is an extremely typical benchmark

1 standard from the industry, both regulated and
2 nonregulated, and the company asked me that question,
3 and I documented numerous states with that standard in
4 state regulation and numerous companies in which they
5 had adopted that benchmark for their own internal
6 operations.

7 Q. Are you aware of the standards that U S
8 WEST telephone company is setting for itself in this
9 area in the state?

10 A. It's my understanding that they've recently
11 conducted some briefings here at the Commission that
12 would -- that indicated that they were going to use
13 the 80 percent in 30 second standard as well.

14 Q. Is it your understanding that they showed
15 that they've actually been achieving that?

16 A. Yes, very recently I gather.

17 Q. Looking at the LTA, the lost time accident,
18 if this isn't often included from other companies why
19 would you want to include it now?

20 A. I think the policy argument is a reasonable
21 one, and I think the presence of the union in this
22 case, and their active involvement in this case
23 suggested to me a concern on that exact issue that
24 warranted conclusion as a proposal before the
25 Commission. The policy argument that the California

1 Commission has used is that the same imperative to be
2 more efficient and to cut operation and maintenance
3 costs could have a significant impact on worker safety
4 if not done with that objective also in mind. And I
5 have no internal information about this aspect of the
6 issue at either company, but the combination of the
7 active union involvement in this case, the fact that
8 they were very involved and wanted to be involved in
9 discussions on these sorts of issues at settlement and
10 the California precedent suggested to me might be
11 reasonable in this case to include it.

12 Q. Do you have any familiarity with the
13 general history of occupational safety and health
14 standards and why those have been developed in this
15 country?

16 A. Well, obviously there's a strong federal,
17 and in many states, a state's presence with regard to
18 specific practices at businesses to regulate worker
19 safety and this kind of information is tracked. No
20 question about it. There's no -- as to my knowledge
21 there's no regulation of this number in the sense of
22 you pass this number and certain things happen, but it
23 is an indicator that is tracked routinely by the
24 Occupational Safety and Health Association, and it
25 seemed reasonable to track it here as well.

1 Q. Is there any particular reason to include
2 it here since it is already a subject of federal and
3 state regulation?

4 A. Well, it is the subject of federal and
5 state monitoring. Here the Commission has an
6 opportunity to track it in a way that links it very
7 clearly to management's decisions about efficiency and
8 the possibility of increased earnings in a way that
9 OSHA of course cannot do.

10 Q. You were asked some questions about the
11 disconnect ratio standard. Is there a distinction in
12 your mind between the compliance with the Commission
13 rules and the current practices of the practice in
14 this area?

15 A. Absolutely. Neither utility disconnects
16 all of the customers who are eligible to be
17 disconnected under the Commission's rules every month.
18 No utility I know does do so. There is an enormous
19 amount of discretion in terms of scheduling
20 disconnections and deciding which customers who owe
21 what amounts of money or who have arrears of what
22 length of time should be the subject of physically
23 disconnecting the customer. And so the company has
24 quite a bit of discretion to vary its internal
25 practices for customers who are eligible for

1 disconnection in terms of whether they actually are
2 scheduled for a field visit to disconnection and
3 that's the discretion that is the subject of concern
4 with this disconnection ratio.

5 Q. So the concern is not that the company
6 would violate Commission rules but that it would
7 exercise its discretion differently than it is
8 currently because of different cost pressures it would
9 be facing?

10 A. Yes.

11 Q. Do you know if the companies agree or
12 disagree with that observation?

13 A. It's my understanding that the company is
14 very concerned about the effect of the economy on the
15 frequency of disconnection, and that if there was some
16 sudden recession in the area or massive series of
17 layoffs such as had been scheduled at one point, I
18 know by some of your larger employers in the area, that
19 that in turn could cause a significant increase in the
20 frequency of disconnection just by virtue of the
21 increased pool of customers who are eligible for
22 disconnection, even if they didn't change their
23 policies on the matter. And I agreed with that
24 concern and included a provision in my testimony
25 whereby they could come to the Commission and show

1 that a significant exogenous event had occurred that
2 had resulted in the increase in the disconnection
3 ratio in any particular year.

4 Q. You were asked some questions regarding
5 different -- or various other states or Commission or
6 companies who had a different number of indices, 5, 3,
7 versus the 10 in yours. What do you take as the
8 importance of the number of indices within a service
9 quality index?

10 A. I don't think the number is that important.
11 I think they need to reflect a wide variety of
12 internal and objective, as well as subjective,
13 measurements of customer services. For example, the
14 CMP item has only five in it. No question about it,
15 but it reflects a wide variety of operations by the
16 company, and the problem with the four or five or six
17 that are included in the joint applicants' proposal is
18 that they are, with one exception, the complaint
19 ratio, all reflections of customer subjective opinions
20 about the company's operations, its installation, its
21 repairs or phone center performance. And none of them
22 reflect the actual operational programs that are
23 included in our proposal.

24 So it doesn't have to be ten, and it's not
25 that five are too few. It's what are the five and do

1 they represent a broad series of specific actions that
2 are under the company's control and that will reflect
3 decisions about operation and maintenance expenses over
4 the next five years.

5 Q. You've recommended that the total penalty
6 amount be \$7.5 million. Would you recommend that that
7 total penalty amount be the same whether there would
8 five indices or ten or anything in between?

9 A. Definitely recommend a significant dollar
10 amount be attached to a service quality index, and I
11 suggested the half of percent of revenues. The
12 staff's methodology for coming up with \$7 million is
13 also reasonable. The point is that \$750,000 is
14 unreasonable and very small and totally inadequate as
15 an incentive to any management to assure service
16 quality in a multi-million company such as Puget Sound
17 Energy will be.

18 Q. If the total penalty amount remains the
19 same, would having more indices, i.e., ten rather than
20 five, that will first of all mathematically spread the
21 amount of penalty per index. It will make each index
22 worth a fewer amount of penalty dollars?

23 A. Yes, that's true.

24 Q. Will that also spread the risk of any
25 aberrant out of bounds data so that each one becomes

1 less critical to the overall penalty amount?

2 A. There's no question that 7.5 million
3 divided by ten leaves the company more room to avoid
4 large penalty dollars than 750 divided by five. No
5 question about that.

6 Q. The companies that the service quality
7 index has been compared to, are the other companies
8 combined gas and electric companies?

9 A. Some of them are and some of them aren't.
10 CMP of course is not, it's an electric company, so we
11 would not include things that we would if it was a
12 combined company, and that's another reason why we
13 have a few more here than we might have in strictly a
14 gas or strictly an electric company. And there are
15 service quality indices that have anywhere from five
16 to ten for a combined gas/electric companies copies of
17 which I gave the company in response to their data
18 requests in this case.

19 MR. MANIFOLD: Your Honor, I have --

20 Q. What are the documents that you just
21 referred to? Do you need your list back?

22 A. Probably I do.

23 MR. MANIFOLD: Your Honor, there's five
24 data requests that Ms. Alexander responded to from the
25 company that I believe she was just referring to, and

1 that we would seek to offer as exhibits. We only have
2 one copy now but we can have additional copies
3 tomorrow. Of course the -- well, I think staff and
4 company have copies now. We would make copies for
5 everybody. I guess I was trying to think of an easy
6 quick way to do this. I don't think there is one.

7 JUDGE SCHAER: Assuming Ms. Alexander is
8 already going to be back on the stand tomorrow, would
9 it make more sense to mark these and look at them at
10 the point that we have copies in people's hands?

11 MR. MANIFOLD: Sure. I might identify them
12 now so --

13 JUDGE SCHAER: I would like you to let the
14 joint applicants know which responses you're going to
15 be offering so that they will be prepared.

16 MR. MANIFOLD: All right. There's the
17 joint applicants' data request No. 386. Do you want
18 to mark these as exhibits now?

19 JUDGE SCHAER: I think we'll do it now. If
20 you would just give either now or off the record give
21 the list to Mr. Harris today so that he will have an
22 opportunity to review those. In fact why don't you
23 read the list right now so his staff can be working on
24 that now between now and 5.

25 MR. MANIFOLD: 386, 332, 379, 389.

1 THE WITNESS: And 389 supplemental.

2 MR. MANIFOLD: Thank you. Including the
3 supplemental, that's five.

4 Q. Why would you include SAIDI and SAIFI? I
5 think you agreed that the company had little control
6 over the weather, a subject which you would not be
7 surprised we've debated a lot in this room in the past
8 regarding weather normalization. Is it my
9 understanding your testimony is that while the company
10 can't control the weather they can do something to
11 control the trees?

12 A. They can control the trees and they can
13 plan for the weather. They can trim trees in a way
14 that prevent minor storms from causing outages. They
15 can trim trees frequently enough so that there is not
16 a lot of potential for tree-related outages, and they
17 can plan for the location of their backups and their
18 staffing and their trucks so that they can respond
19 properly when outages do occur, so all of those things
20 are under their control.

21 Q. Did you also recommend in your testimony
22 that independent of the service quality index the
23 Commission take some action regarding tree trimming
24 and other routine maintenance operations of the
25 company?

1 A. Yes. I pointed out in my testimony that a
2 significant -- let me start over. I pointed out in my
3 testimony that a lack of proper tree trimming,
4 whatever that is, would not possibly show up in the
5 SAIDI and SAIFI numbers for many years after the onset
6 of inadequate tree trimming. And so I suggested that
7 the more significant impact may occur after the
8 termination of this five-year plan and that the
9 Commission should monitor closely tree trimming type
10 of expenditures during the term of the plan and be
11 prepared to spot that kind of lack of expenditure and
12 to seek answers to questions about why it was
13 occurring and to in effect monitor it separately as an
14 ongoing review of the company's operations.

15 Q. Mr. Harris asked you some questions about
16 the -- that suggested to me anyway the possibility
17 that a company which was entering a competitive era
18 would be very concerned about customer service without
19 any need for regulatory oversight. Do you recall
20 that?

21 A. Yes, I do.

22 Q. Would you consider the telephone industry
23 to be an industry which, for several years now, people
24 have expected to be entering a competitive era?

25 A. That's absolutely correct.

1 Q. Would you say that that incentive on its
2 own has been adequate to provide incentive for U S
3 WEST and other local exchange telephone companies to
4 provide adequate customer service?

5 A. It has not and that's not just U S WEST. I
6 mean, there are other states undergoing the same sort
7 of concern throughout the country.

8 Q. So is this an example, perhaps, of
9 competing pressures which you referred to earlier
10 which a company may well want to have good customer
11 service but may have other bottom line concerns?

12 A. Right, and I don't think we can eliminate
13 the possibility that a certain amount of incompetency
14 has occurred here. I mean, management truly did want
15 to become more efficient, I think in some of these
16 companies, and have every intention of cutting out the
17 deadwood in the monopoly utility provider employee and
18 buying out all of these senior employees who have been
19 there since age 18.

20 I mean we've all heard these horror stories
21 about how overly staffed a monopoly utility can get and
22 a lot of companies took a slash and burn approach to
23 solving this problem without putting in place the
24 systems that would allow a more efficient operation
25 using maybe a higher level of technology at the phone

1 centers and staffing the phone center properly at
2 certain times of the day before these kinds of drastic
3 employee reduction programs and closing of local
4 offices and elimination of operation and management
5 budgets occurred. And I think part of this truly was
6 some incompetency at not being able to predict.
7 They've never been in a competitive market. They
8 didn't know how to plan for what they were trying to
9 do, but that's my personal opinion, obviously.

10 Q. Regarding the customer complaint data --
11 well, regarding several of the indices, to the extent
12 that the companies have -- if they are allowed to
13 merge will have some customers who are electric only
14 customers, some who are gas only and some who are both
15 gas and electric customers, how would that impact the
16 various indices?

17 A. I think in most cases each of these
18 performance measures should be done on the basis of a
19 PSE-wide customer base. Obviously the gas response
20 item is a function only of gas customers and that
21 ought to be tracked for gas customers of PSE, and
22 SAIDI and SAIFI are figured on the basis of electric
23 service customers because that is a reflection of
24 electric service only. My initial reaction is that
25 most of the rest of them ought to be a function of the

1 total customer base of the merged company. I don't
2 know why it would be otherwise, let me put it that
3 way.

4 Q. Would it be your intent that this customer
5 service index be any kind of a barrier to a pilot
6 program?

7 A. No, not at all. It shouldn't be.

8 MR. MANIFOLD: With the exception of the
9 document that we referenced earlier and the potential
10 for completing some of the other documentss, that's
11 all the redirect I have.

12 JUDGE SCHAER: Is there anything further
13 for this witness? Mr. Harris.

14 MR. HARRIS: I have a few questions and I
15 do think we can clean up whatever confusion there is
16 about Exhibit 135 with the pages that are included now
17 in Exhibit 135 with just a few questions.

18 JUDGE SCHAER: Please proceed.

19 THE WITNESS: It's not my place to object,
20 but I think I'm going to ask if we couldn't do it with
21 the complete documents, which I am more familiar with,
22 tomorrow rather than try to find my way through all of
23 these things.

24

25

REXCROSS-EXAMINATION

1

2 BY MR. HARRIS:

3 Q. I've got all the pages marked and ready to
4 go. If you will turn to page 10 of the first
5 document, that is the LTA or the lost time accident
6 measurement?

7 A. Yes.

8 Q. And as shown there the maximum penalty is
9 \$5 million, the maximum reward is \$3 million and it
10 shows an achievement of the \$3 million award in this
11 here?

12 A. That is what it shows.

13 Q. And then if we turn head to page 15, this
14 is the customer satisfaction benchmark, which I think
15 you and I discussed at length earlier?

16 A. Yes.

17 Q. It shows a swing from negative \$2 million
18 to positive \$2 million reward and penalty?

19 A. Yes.

20 Q. And the --

21 MR. MANIFOLD: Could I interrupt for just a
22 second? We do have a complete copy of it and it
23 sounds like the witness had some call for that and I
24 don't want to be negligent of offering that to her if
25 that's what she wants.

1 JUDGE SCHAER: Would you like to have
2 access to that while you're being asked these
3 questions?

4 THE WITNESS: It would be helpful if I
5 could see the complete document, yes.

6 JUDGE SCHAER: Please provide it to the
7 witness.

8 A. Did you include 14 in your document? Yes,
9 okay. You can see on page 14 they average six or
10 seven different surveys to get their cumulative
11 result, okay, and then the next page is the penalty
12 calculation or reward calculation.

13 Q. That's right. And that's for customer
14 satisfaction, and then if you jump ahead to page 21
15 that's the third benchmark or SAIDI excluding major
16 events?

17 A. Yes.

18 Q. And the penalty reward range there is
19 negative \$4 million, positive \$4 million, and although
20 this may not have been clear from the earlier
21 discussion that we had, each of these categories is
22 measured separately and the company can obtain a
23 reward or a penalty in each category separately,
24 correct?

25 A. That's correct.

1 Q. So and I take it you would disagree with
2 this structure, this would allow the company to offset
3 penalties in one category with rewards in another
4 category?

5 A. In the sense that the total is a sum of --
6 just a minute now, because there are rewards built in
7 to this system. That is the inevitable result, yes.

8 Q. And you disagree with the idea --

9 A. Of the reward part.

10 Q. Of the reward part also.

11 A. Right.

12 Q. We don't need to do this, but I think if
13 you turn to the second document the structure remains
14 the same in the second document?

15 A. Yes.

16 Q. Few other questions. In listening to the
17 exchange you had with Mr. Manifold on redirect
18 regarding the lost time accident benchmark or
19 measurement, it's fair to say that although your
20 underlying policy reasons may be the same, the concern
21 there is regulation of employee safety?

22 A. Yes.

23 Q. And then with respect to the number of
24 measurements included in your index, I got the
25 impression that -- or I was left with the impression

1 that this index had many more measurements in it
2 because we had a combine company. As I looked at your
3 exhibit -- what you had marked as BA-4 on the first
4 page, I see only one benchmark that is specific to gas
5 only which is response time. Are there others?

6 A. No. SAIDI and SAIFI are of course peculiar
7 to electric but gas is the only one peculiar to the
8 gas company, that's correct.

9 Q. And finally, are you aware of any programs,
10 service quality programs, that dictate by type of
11 employee the number of employees a company must have?

12 A. Say that again.

13 Q. Are you aware of any service quality
14 programs that dictate or mandate a certain number of
15 employees by employee class or category?

16 A. No, I am not.

17 MR. HARRIS: Thank you. No further
18 questions.

19 MR. ELLSWORTH: I've got just one question
20 as well, two short ones.

21 JUDGE SCHAEER: Okay.

22 MR. MANIFOLD: Mine may obviate his, or his
23 mine. I'm not sure.

24 JUDGE SCHAEER: I think we'll let Mr.
25 Ellsworth go and then you last, Mr. Manifold.

1 RE-CROSS-EXAMINATION

2 BY MR. ELLSWORTH:

3 Q. Exhibit 139, the column marked LTA, that's
4 the employee safety criteria?

5 A. Yes.

6 Q. Would you agree that it would be
7 appropriate to include the employee safety issue into
8 the compliance phase to determine whether LTA is the
9 only appropriate measure to employee safety or whether
10 there should be other measures determined in setting
11 that baseline?

12 A. If by that are you suggesting that the
13 proposed baseline here of 2.5 perhaps should be
14 subject to further scrutiny to determine if that's the
15 right baseline?

16 Q. Well, I'm also suggesting that perhaps the
17 LTA is not the only measure for determining employee
18 safety.

19 A. I would certainly acknowledge there must be
20 other methods. I only, quite frankly, copied the only
21 one I was familiar with and it's not because I think
22 it's absolutely the best one. It's just the only one
23 I know of.

24 JUDGE SCHAEER: Mr. Manifold.

25

1 REDIRECT EXAMINATION

2 BY MR. MANIFOLD:

3 Q. I'm concerned that it may sound like the
4 reason that you concluded the LTA was solely out of
5 concern for employee safety. Was your concern also
6 that employee safety related to the quality of service
7 that customers received?

8 A. Well, there's no question that the intent
9 with this index is to focus on service quality. One
10 of the methodologies I am proposing that we do that
11 with is to track employee safety because of its close
12 relationship to the delivery of service to customers.
13 That somehow we not -- by excluding it that we somehow
14 not send the signal, inadvertently perhaps, to the
15 company, that the safety of the employees is of lesser
16 concern to us than the delivery of service quality to
17 residential and small business customers.

18 MR. MANIFOLD: No further questions.

19 JUDGE SCHAEER: Ms. Alexander, you are
20 excused until tomorrow and then we will pick up a few
21 very brief questions on the items that have already
22 been identified. Let's go off the record briefly to
23 allow for change of witnesses.

24 (Recess.)

25 JUDGE SCHAEER: Let's be back on the record

1 since we changed witnesses.

2 Whereupon,

3 ROBERT K. SCHNEIDER,

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

5 herein and was examined and testified as follows:

6 JUDGE SCHAEER: I'm going to mark for
7 identification as Exhibit T-140 prefiled direct
8 testimony of Robert K. Schneider; as Exhibit 141
9 RKS-2; as Exhibit 142 RKS-3; as Exhibit 143 RKS-4; as
10 Exhibit 144 RKS-5; as Exhibit 145 RKS-6; and as
11 Exhibit 146 the response to joint applicants' data
12 request No. 1,128.

13 (Marked Exhibits T-140, 141 - 146.)

14

15 DIRECT EXAMINATION

16 BY MR. ELLSWORTH:

17 Q. Would you state your name and spell your
18 last name for the record, please.

19 A. Robert K. Schneider, S C H N E I D E R.

20 Q. Where are you employed Mr. Schneider?

21 A. D. Hittle and Associates.

22 Q. In what capacity?

23 A. The manager of the Puget Sound office, also
24 the principal engineer.

25 Q. Do you have in front of you what we marked

1 for identification as Exhibit T-140?

2 A. Yes.

3 Q. And do you recognize that as your prefiled
4 direct testimony in this matter?

5 A. Yes, I do.

6 Q. Was that prepared under your supervision?

7 A. Yes, it was.

8 Q. Is it true and correct to the best of your
9 none and belief?

10 A. With the exception of a few things that we
11 had talked about, yes.

12 Q. Do you have some typographical corrections?

13 A. Yes, sir.

14 Q. Would you point those out for us now?

15 A. Page 1, line 7 the zip code is incorrect.

16 It's really 98036. Page 13, line 20 next from the
17 last word in the line it says "remove if from our
18 analysis." It should be "it" as in I T.

19 Then on RKS-2, page 8 of 11, the footnote
20 at the very bottom with the double asterisk, there is
21 some confusion when that was written. It should read
22 -- second line should read, "given level of
23 confidence," and then it should read "in this case" --

24 The last sentence on the double asterisk
25 should read, "In this case the correlation coefficient

1 is not significantly different from zero at the 95
2 percent confidence interval but significantly
3 different at the 90 percent." And then that same
4 change would occur on page 10 of 11 in the last
5 sentence again.

6 Q. Any other corrections?

7 A. No more corrections. With that it is --

8 JUDGE SCHAEER: Let's go to page 10 of 11
9 and it's footnote 4 this time?

10 THE WITNESS: Yes.

11 JUDGE SCHAEER: The last sentence, "is not
12 significantly different from zero"?

13 THE WITNESS: "At the 95."

14 JUDGE SCHAEER: "But is significantly
15 different at the 90"?

16 THE WITNESS: Yes.

17 Q. Do you also have in front of you what we
18 marked as Exhibits 141 through 145?

19 A. Yes.

20 Q. And do you recognize those as the exhibits
21 you filed in support of your direct testimony?

22 A. Yes.

23 Q. And were those either prepared by you or
24 under your supervision?

25 A. Yes.

1 Q. Are they true and correct to the best of
2 your knowledge and belief with the correction we just
3 made?

4 A. Yes.

5 MR. ELLSWORTH: We would offer Exhibits
6 T-140 and Exhibits 140 through 145.

7 JUDGE SCHAEER: Any objection?

8 MR. VAN NOSTRAND: Your Honor, I request
9 permission to voir dire the witness as to Exhibit 143.

10 JUDGE SCHAEER: Please proceed.

11

12 VOIR DIRE EXAMINATION

13 BY MR. VAN NOSTRAND:

14 Q. Mr. Schneider, is it fair to say in your
15 statistical analysis you compared staffing levels with
16 the system reliability?

17 A. As measured by a nonstorm SAIDI, yes.

18 Q. And you compared this historical record for
19 the years 1988 through 1995 as they pertain to
20 staffing levels and nonstorm SAIDI; is that correct?

21 A. Yes, with the exception of the year 1990.

22 Q. And excluding the year 1990 you concluded
23 that there was a significantly statistical
24 relationship at the 90 percent confidence level?

25 A. That is one component of many components of

1 the analysis, yes.

2 Q. And you have before you what's been marked
3 for identification as Exhibit 146 which is your
4 response to joint applicants request No. 1128?

5 A. Yes.

6 Q. Does that response show that when 1990 is
7 included there is not a statistically significant
8 relationship between nonstorm SAIDI and IBEW
9 employment levels?

10 A. What that shows is that --

11 MR. ELLSWORTH: I'm going to object, Your
12 Honor. This isn't voir dire. This is
13 cross-examination. He's using a data response to
14 question the witness about the substance of Exhibit
15 143. I don't think that's proper voir dire.

16 MR. VAN NOSTRAND: It relates to the
17 admissibility of Exhibit 143, Your Honor, as I will
18 get to, shortly.

19 JUDGE SCHAEER: Well, Mr. Van Nostrand, I'm
20 going to allow you to ask questions about 143 and how
21 it was put together, but I'm not going to allow you to
22 use the documents to do so at this point that are not
23 in evidence in the record.

24 Q. Can you tell me when the inquiry was made
25 of the union which resulted in the letter which you

1 are offering for the record, Exhibit 143?

2 A. Excuse me. Can you ask me the question one
3 more time.

4 Q. Yes. Can you indicate when an inquiry was
5 made of the union which resulted in the document which
6 is being offered as Exhibit 143, when an inquiry was
7 made as to the status of the 1990 data?

8 A. My general recollection is that it was a
9 few days in advance, that they were very prompt in
10 providing me with the information.

11 Q. And how does -- and when was the
12 statistical analysis performed which is provided in
13 response to data request 1128, which includes the 1990
14 data?

15 A. Last week.

16 Q. And prior to that you performed no
17 statistical analysis of nonstorm SAIDI and IBEW
18 employment levels which included 1990 data?

19 A. Could you ask that question one more time
20 because there was something that I heard that I didn't
21 quite understand.

22 Q. You indicated that this analysis was
23 performed last week. My question was, prior to that
24 time was any analysis performed of nonstorm SAIDI
25 including 1990 as it relates to IBEW employment

1 levels?

2 A. Sure, yes.

3 Q. And when was that analysis performed?

4 A. I really don't -- I can't -- earlier. I
5 don't know when. I can't give you a specific.

6 Q. Was it performed prior to your contact of
7 the union which resulted in the letter being offered
8 as Exhibit 143?

9 A. We looked over the data. I'm trying to
10 remember the sequence of events. We looked over the
11 data. It looked strange. I really can't say. I'm
12 not trying to avoid your question.

13 MR. VAN NOSTRAND: Your Honor, we would
14 oppose the admission of Exhibit 143 as inadmissible
15 hearsay. It contains a letter from a local union
16 official to Mr. Schneider which contains several
17 conclusory statements regarding the 1990 data. These
18 statements are being offered for the truth of the
19 matter asserted as to the unuseability of the 1990
20 data and the author of the letter Mr. Hutchens is not
21 being made available for cross-examination to test the
22 veracity of the statements of the useability of the
23 1990 data.

24 THE WITNESS: I would like to point out one
25 thing if I might.

1 JUDGE SCHAER: I think your counsel needs
2 to respond to the objection.

3 MR. ELLSWORTH: Mr. Schneider is testifying
4 in an expert capacity. The basis for an expert to
5 testify is the type of information that an expert would
6 normally rely on in forming an opinion. Mr. Schneider
7 is going to obviously testify that he relied on that in
8 his testimony. The fact that it is hearsay does not
9 mean that an expert cannot rely on it and --

10 MR. VAN NOSTRAND: If I may respond on it,
11 the whole statistical analysis that Mr. Schneider
12 offers depends upon whether or not 1990 can be
13 discarded as being anomaly.

14 THE WITNESS: No, it does not.

15 MR. VAN NOSTRAND: The sole exhibit which
16 he offers to support that assertion is Exhibit 143
17 which is a letter that was produced five days before
18 the prefiled testimony was submitted. It is
19 inadmissible hearsay unless Mr. Hutchens is made
20 available to be cross-examined on the veracity and
21 truthfulness of the underlying statements.

22 JUDGE SCHAER: I'm going to overrule the
23 objection. Mr. Schneider is testifying as an expert
24 in this matter and in your cross-examination you will
25 be able to explore with him the bases of his expert

1 opinion and the information upon which he relied. So
2 I am going to admit Exhibit 143.

3 Was there any objection to any of the other
4 documents?

5 MR. VAN NOSTRAND: No.

6 MR. ELLSWORTH: Mr. Schneider is available
7 for cross-examination.

8 JUDGE SCHAER: I'm going to admit Exhibits
9 T-140 and Exhibits 141 through 145.

10 (Admitted Exhibits T-140, 141 - 145.)

11 JUDGE SCHAER: Did you have questions for
12 this witness, Mr. Van Nostrand?

13 MR. VAN NOSTRAND: Yes, Your Honor.

14 JUDGE SCHAER: Please proceed.

15

16 CROSS-EXAMINATION

17 BY MR. VAN NOSTRAND:

18 Q. Mr. Schneider, do you have before you
19 what's been marked for identification as Exhibit 146?

20 JUDGE SCHAER: Mr. Van Nostrand, could you
21 pull the microphone closer or get the handheld mike.

22 A. Could you aid me in referring to which --
23 this is 146, okay.

24 Q. Do you recognize that as your response to
25 joint applicants' data request 1128?

1 A. Yes.

2 Q. And this is the statistical analysis which
3 includes 1990 within the statistical relationship of
4 nonstorm SAIDI and IBEW employment levels?

5 A. Yes.

6 Q. Is it fair to say that this exhibit shows
7 that there is not a statistically significant
8 relationship between nonstorm SAIDI and IBEW
9 employment levels?

10 A. What it says is it does not pass the 90
11 percent confidence test.

12 MR. VAN NOSTRAND: Your Honor, move the
13 admission of Exhibit 146.

14 MR. ELLSWORTH: No objection.

15 JUDGE SCHAEER: Document is committed.

16 (Admitted Exhibit 146.)

17 Q. Mr. Schneider, you were retained by the
18 IBEW where in this proceeding; is that correct?

19 A. Yes.

20 Q. Is it fair to say that the interest of IBEW
21 in this proceeding is to have more of its members
22 employed by Puget Sound Energy?

23 A. I really don't know. I could speculate.

24 Q. If we look at your table 1 in Exhibit 142,
25 doesn't that -- which is on page 4 of your Exhibit

1 142, doesn't that suggest that Puget should increase
2 IBEW employment levels by 115?

3 A. I'm sorry. I'm looking at table 1 RKS--2?

4 Q. Yes, page 4?

5 JUDGE SCHAEER: Excuse me. I believe he
6 said RKS-2 and you said RKS-3.

7 MR. VAN NOSTRAND: RKS-3, Exhibit 142.

8 A. Could you ask your question one more time.

9 Q. Yes. Doesn't this table suggest that Puget
10 should increase IBEW employment levels by 115?

11 A. If this exhibit was placed here so that if
12 the WUTC desires to regulate as stated in the
13 testimony and change the reversal of what I think is a
14 deterioration in reliability, they will have some
15 guidance as to what -- how to use the formulas within
16 our testimony and how to use some of the other things
17 within our testimony. What it shows is that it could
18 range from 44 to a higher number.

19 Q. And the guidance you're offering is that
20 Puget's total staffing levels should increase by 225
21 employees and that the employment of IBEW local 77
22 members should increase by 115. Isn't that what that
23 table shows?

24 A. What I would do is I would refer you to my
25 testimony where I describe what the purpose of this

1 exhibit is. Basically what I say in my testimony is
2 if the WUTC chooses to regulate Puget based on the
3 work that we've done, the research that we've done,
4 the searching that we've done, here are some formulas
5 that they may wish to consider. We are not, and it
6 states in there, that we are not making a specific
7 statement as to how many employees Puget should
8 employ.

9 Q. You do say at page 10 of your testimony
10 the recommendation that as a condition of the merger
11 Puget be required to increase system O and M staffing
12 levels?

13 MR. ELLSWORTH: Which line are you
14 referring to?

15 MR. VAN NOSTRAND: 1 and 3.

16 Q. The merger can be approved by the
17 Commission conditional on Puget increasing electric
18 system O and M staffing levels.

19 A. That's correct, and we later go on to say
20 similarly approval -- conversely the Commission could,
21 like several other PUCs, closely monitor Puget
22 reliability statistics either through reporting
23 requirements or through the adoption of
24 performance-based rates would place a high economic
25 value on Puget increasing service reliability.

1 So what we're trying to do is provide
2 alternatives to the Commission. We're not narrowly
3 focusing only on what you're saying.

4 Q. Doesn't increasing the staffing levels have
5 the effect of increasing IBEW employment?

6 A. If you increase staffing levels it would
7 probably result in some additional IBEW employees
8 being hired, yes.

9 Q. Well, your table 1 of Exhibit 142 shows
10 that if you increase staffing levels by 225, 115 of
11 those will be IBEW employees; isn't that correct?

12 A. Based on historic patterns, yes.

13 Q. And you also recommend, as you just
14 indicated, as a condition of the merger O and M
15 expenditures be required to not fall below certain
16 levels; is that right?

17 A. No. The focus, okay -- and I will take you
18 back because there seems to be a real misunderstanding
19 of the purpose of the testimony. And what I would
20 like to do is refer you to page 3.

21 Q. Can we just stick where we are on page 10.
22 The recommendation is that the approval could be
23 contingent on O and M expenditures not being allowed
24 to fall below certain levels?

25 A. The idea is to get reliability back, and

1 the way to get reliability back, there are many
2 different ways of doing it. That is one of several
3 we've offered.

4 Q. But you're asking the Commission expressly
5 to condition approval upon O and M expenditures not
6 being allowed to fall below certain levels?

7 A. Or the other things mentioned in the
8 testimony, yes.

9 Q. Is it fairly common for a Commission to
10 specify staffing levels that a utility must maintain?

11 A. I have no knowledge on that one.

12 Q. Are you aware of any decision of this
13 Commission where it was prescribed a certain staffing
14 level?

15 A. No, I am not.

16 Q. Are you aware of any decisions of any
17 Commission where a specific staffing level has been
18 required?

19 A. No, I am not. However, in the data request
20 we did comment on California legislation, which was
21 geared toward improving certain standards.

22 Q. Turning back to your statistical analysis,
23 we've already covered that you excluded the data for
24 190 in your analysis of nonstorm SAIDI versus IBEW
25 employment levels; is that correct?

1 A. That's correct, and I discussed it in my
2 testimony as to why I did, and it was more than just
3 the letter.

4 Q. If you could turn to Exhibit 143, the
5 letter. The author of the letter, Mr. Hutchens, says
6 that one of the factors which would cause the 1990
7 data to be anomalous was protracted and contentious
8 contract negotiations with IBEW local 77; is that
9 correct?

10 A. That's what the words say.

11 Q. And how did you evaluate that in your
12 decision to exclude the 1990 data from your analysis?

13 A. I looked at the words. I looked at the
14 following paragraph, and it appears to me from reading
15 that that there was a situation occurring where
16 employees were not coming out on voluntary call-out
17 which would affect the duration of outages, which
18 would increase SAIDI values, but, again, that is just
19 one of a number of things that I specified in my
20 testimony as to why I viewed 1990 as an anomalous
21 year.

22 Q. The letter also refers to employees
23 refusing to accept voluntary over time call-outs. In
24 evaluating that statement did you consider the over
25 time levels for 1990 as compared with other years?

1 A. No, I didn't have that information at that
2 time.

3 Q. Do you think that would be relevant in
4 determining whether or not this statement is a
5 reliable or accurate one?

6 A. It would be worth taking a look at.

7 Q. Letter also refers to record flood levels
8 which occurred in October, November, December of 1990.
9 Do you see that?

10 A. Yes, I do.

11 Q. Do you know what impact those flooding
12 levels had on the 1990 SAIDI, nonstorm SAIDI data?

13 A. No, I do not, because the only data I was
14 given in the data request from Puget were on an annual
15 basis. They weren't split out by month.

16 Q. Would you accept subject to check that the
17 scheduled outages related to flooding contributed less
18 than four minutes or 1.8 percent?

19 JUDGE SCHAEER: How would the witness check
20 that?

21 MR. VAN NOSTRAND: We can provide a
22 document which shows that.

23 A. All right. However, I guess what I would
24 like to do is I would like to ask some questions about
25 it, because you've said scheduled and so I would want

1 to take a closer look and find out if there were any
2 unscheduled problems associated with it, because
3 usually when you switch out equipment like this you
4 overload other equipment or there's a tendency to
5 potentially overload other equipment so I would also
6 want to have some detailed information I would want to
7 check on other parts of your system. This is part
8 that were being if he had when this stuff was being
9 switched out on a scheduled basis.

10 Q. I believe the subject to check process
11 would allow you to not accept it subject to check if
12 you felt that there was a basis for not doing so.

13 A. Okay.

14 MR. ELLSWORTH: Like to observe for the
15 record that we had filed a request for data that Your
16 Honor ruled on early on in these proceedings, and a
17 lot of the data we are now being asked subject to
18 check we were told we couldn't have at that time
19 because it was beyond the scope of our intervention.
20 If counsel wants to rethink his objections and provide
21 that data to us perhaps we could find some middle
22 ground.

23 MR. VAN NOSTRAND: Your Honor, there was
24 one item to be asked subject to check. It consists of
25 data related to outages relating to the flood that had

01500

1 nothing to do with the previous data request to which
2 Mr. Ellsworth is referring.

3 JUDGE SCHAER: Are you going to be able to
4 provide this witness with both that number and the
5 information that he just said he would need in order
6 to check it tonight so that we can -- or sometime
7 soon?

8 MR. VAN NOSTRAND: Before the close of --
9 yes.

10 THE WITNESS: I'm going to need to see --

11 MR. VAN NOSTRAND: Before 5:00 tonight?

12 JUDGE SCHAER: No. Are you going to be
13 able to assemble that so that it can be provided to
14 him?

15 MR. VAN NOSTRAND: I believe so.

16 JUDGE SCHAER: All right.

17 THE WITNESS: I'm impressed.

18 Q. Your reference to the Exhibit 143 is a
19 basis for not looking at 1990 data. Does that suggest
20 at any time anomaly such as a union contract
21 negotiation occurs the company should disregard
22 information for nonstorm SAIDI?

23 A. As I said before, this is one of several
24 components I used to remove 1990, and all of them are
25 discussed in my testimony.

1 Q. Is it your testimony that if the Commission
2 adopted a standard which looked at nonstorm SAIDI as a
3 criteria that in the event of a union contract
4 negotiation that the data for a particular year would
5 be discarded?

6 A. No.

7 Q. When you did your nonstorm SAIDI analysis
8 what definition of storm did you use to exclude SAIDI
9 related to storm-related outages?

10 A. Whatever Puget furnished in our data
11 request to Puget. We did not develop our own
12 independent definition of storm.

13 Q. And do you know what that definition is?

14 A. I was at a settlement meeting in Seattle
15 and there was some brief discussion on what that
16 definition is, so, yes, I do have it. I've seen it.

17 Q. Can you state what that definition is?

18 A. Yes, if you will bear with me. The
19 1988-1990 definition said storm definition, one.

20 JUDGE SCHAEER: Please slow down.

21 A. Two or more service centers in each of two
22 or more divisions opened for 18 hours or more; or two,
23 in one or more divisions, one or more service centers
24 open for 18 hours or more and there are at least
25 double the number of division crews working in that

1 division. A, it is always measured in full days; B,
2 it is -- this is spelled wrong -- always company-wide;
3 C, if the 18 hour or more required period starts on
4 one day and extends into one or more additional days,
5 each of these days, including the starting and ending
6 days, are considered storms. It's got a purpose to
7 the definition. Would you like that?

8 Q. No.

9 A. Definition 1991 to '95. "Company storm
10 definition. A natural emergency event, NEE, is any
11 a naturally caused event that causes 5 percent or more
12 of our customers to lose electrical service. Natural
13 causes include weather, earthquake, fire, flood, land
14 slide, volcanic eruption or solar flare.

15 "Five percent is used because it coincides
16 (choice of storms) with the previous definition. A,
17 it is always measured in full days; B, it is always
18 company-wide."

19 Q. Is that it?

20 A. They have some stuff for previous to '88.
21 Would you like that?

22 Q. That wasn't included in your analysis,
23 though, was it?

24 A. That's correct.

25 Q. Do you agree there are outages that are

1 weather-related but do not meet the definition of
2 storm?

3 A. Yes.

4 Q. And would you expect variations in weather
5 and weather-related outages from year to year?

6 A. What you're basically -- yes. What you're
7 basically saying is weather a semirandom variable, and
8 being a native of the Pacific Northwest I would say
9 yes, weather is a semirandom variable.

10 Q. How does your analysis treat weather
11 related outages that did not result in more than 5
12 percent of Puget's customers being out of service?

13 A. What we used was a statistical technique
14 which filtered out random noise.

15 Q. On the other parts of your testimony when
16 you compared Puget's historical nonstorm SAIDI to
17 other utilities, what definition of storm did you use
18 for Pacific Corp, for example?

19 A. The definition that the Oregon PUC and
20 Pacific Corp have agreed on.

21 Q. And is that the same as Puget's definition
22 of storm?

23 A. I have no idea.

24 Q. Would that apply to Portland General
25 Electric as well?

01504

1 A. I would assume so, yes.

2 Q. What definition of storm did you use when
3 you looked at the nonstorm SAIDI for Washington Water
4 Power?

5 A. The one that Washington Water Power uses
6 based on the information they gave me.

7 Q. Is that the same definition as Puget uses
8 for storm?

9 A. I have no idea.

10 Q. And you also looked at other investor-owned
11 utilities. What definition of storm did you use for
12 Pacific Gas and Electric?

13 A. What their definition is.

14 Q. Is that the same as Puget's definition of
15 storm?

16 A. I do not know. I would say that components
17 of it are the same.

18 Q. How about Southern California Edison?

19 A. Same answer.

20 Q. And the same for Consumers Power?

21 A. Consumers Power I believe we got from
22 Illinois PUC report that was an evaluation of
23 reliability there. And it's whatever Illinois Power
24 and the Illinois PUC that worked out. The point is
25 that --

1 Q. There's no question pending. Your table 4
2 on Exhibit 141, given that the definitions of non --
3 of storm used by the various utilities in those
4 analyses are unknown by you, what conclusions can be
5 drawn from this exhibit?

6 A. The conclusion that can be drawn from this
7 exhibit are that SAIDI had defined a triple E term.
8 Actually it's defined broader than that, is used by a
9 large number of electric utilities, that a large
10 number of electric -- or number of electric utilities
11 when you take a look at their nonstorm SAIDI data that
12 they publish, with a blessing of their regulatory
13 bodies in the most part, and you compare it to their
14 T and D, O and M that they put to the Federal Energy
15 Regulatory Commission that one can find a
16 statistically significant relationship between those
17 variables or vectors.

18 Q. But the column labeled nonstorm SAIDI for
19 each of those utilities means something different,
20 doesn't it?

21 A. It may.

22 Q. But you don't know -- given that you don't
23 know what the definition for storm is used by each of
24 those utilities, do you?

25 A. There would be some fluctuation in the

1 definition of storm between those utilities. With
2 that I will concur. Whether that storm produces a
3 bias and is biased in such a way as to not be a
4 semirandom variable and be filtered out by statistical
5 techniques, which is what you're basically trying to
6 get me to say, I don't agree with.

7 Q. Do you know whether utilities define
8 outages the same in terms of how long they must last
9 before they're classified as an outage?

10 A. I do know that that varies from utility to
11 utility.

12 Q. And what's the standard that Puget uses?

13 A. I think I just read it to you.

14 Q. For duration of outage?

15 A. Okay. I do not know that, if it differs
16 from what I read to you.

17 JUDGE SCHAEER: Mr. Van Nostrand, about how
18 much more do you have in your questioning?

19 MR. VAN NOSTRAND: Another couple minutes.

20 JUDGE SCHAEER: Let's finish up.

21 Q. Do you know what the definition of outages
22 is used by the other six utilities that you use in
23 your analysis in Exhibit 141?

24 A. No, I do not but I assume that for their
25 areas they're reasonable.

1 Q. And considering their areas did your cross-
2 sectional analysis consider any factors that may be
3 unique to a service territory such as types of
4 education and rights of way?

5 A. No, I did not.

6 Q. Any particular reason why you chose 1994
7 for your analysis?

8 A. Yes, because that was the easiest to down
9 load for form one data off the FERC bulletin board.

10 Q. Did you do any analysis comparing this data
11 across more than one period of time?

12 A. No, I didn't. The definition of cross
13 sectional is across a single period of time. And the
14 function, I might add, was that we looked at a time
15 series analysis of Puget data. We wanted to see if we
16 got ballpark the same order of magnitude impact and so
17 we looked at a cross-sectional and, lo and behold, it
18 wasn't similar, and then we looked at some other ways
19 of looking at the Puget data, including a management
20 report and all of them indicate about the same ballpark
21 area.

22 MR. VAN NOSTRAND: I have no further
23 questions, Your Honor.

24 JUDGE SCHAEER: Mr. Cedarbaum, did you have
25 questions for this witness?

1 MR. CEDARBAUM: No, I don't.

2 JUDGE SCHAER: Mr. Manifold, did you have
3 questions for this witness?

4 MR. MANIFOLD: No questions.

5 JUDGE SCHAER: Mr. Wright.

6 MR. WRIGHT: No, Your Honor.

7 MR. ELLSWORTH: I just had one follow-up
8 question.

9 JUDGE SCHAER: You don't get to go quite
10 yet. Commissioners, do you have questions for this
11 witness?

12

13 EXAMINATION

14 BY COMMISSIONER HEMSTAD:

15 Q. Mr. Schneider, I assume you've read the
16 testimony of Ms. Alexander and of Ms. Stephens for the
17 staff, did you not?

18 A. I've read Ms. Alexander's but I have not
19 read Mr. Stephens.

20 Q. That approach would use financial sanctions
21 to discipline the company in order to maintain quality
22 standard including your areas of concern, I believe.
23 Do you have any comment on the relative value of using
24 that approach as against having a Commission set
25 specific employment or staffing standards for the

1 company, which is an area that we normally do not
2 directly involve ourselves with?

3 A. What we were trying to do is provide the
4 Commission with alternatives and that could include
5 establishing a SAIDI threshold below which you would
6 call the company in and find out exactly why certain
7 things happened.

8 Another one, in some of the information the
9 company presented I think their steering committee
10 report, which I quote in my testimony, they indicate
11 that -- steering committee indicates that Puget has
12 intentionally under-spent O and M budgets, and so
13 another alternative to maybe a SAIDI threshold might be
14 to have them direct them not to cut their T and D, O
15 and M budgets.

16 A third alternative might involve staffing
17 levels. Another alternative would be performance-based
18 rates, and in reality all of them are viable
19 alternatives and are something that in my opinion the
20 WUTC should look into based on reliability at Puget
21 which I think we've fairly well documented.

22 Q. But specifically, under the Alexander
23 approach, if the company's SAIDI data did not meet a
24 sufficient level, there would be financial sanctions
25 which are intended to get the company's attention?

1 A. Right. I think that would be an
2 appropriate method, provided the sanctions were large
3 enough that they weren't -- I think Ms. Alexander said
4 very well -- influenced in an opposite direction.

5 COMMISSIONER HEMSTAD: That's all I had.

6 COMMISSIONER GILLIS: No questions.

7 JUDGE SCHAER: I have one question. Could
8 you give me a list of the reasons why you view 1990 as
9 an anomalous year?

10 THE WITNESS: Certainly. When you take a
11 look at 1990 I think if you would turn to table 1 it
12 might help a little bit.

13 JUDGE SCHAER: Table 1 of --

14 THE WITNESS: RKS-1. I'm sorry. Excuse
15 me. RKS-2.

16 JUDGE SCHAER: Thank you.

17 THE WITNESS: If you take a look at 1990
18 and you take a look at the customer outage events, you
19 will see 1990 is the highest in terms of customer
20 outage events.

21 JUDGE SCHAER: Yes.

22 THE WITNESS: Are you there?

23 JUDGE SCHAER: Yes.

24 THE WITNESS: If you then take a look at
25 total outages, it's not the highest but it's one of

1 the higher ones. And if you take a look at nonstorm
2 SAIDI, it is by far the highest. And so what you've
3 got is you've got a year where the total outages is
4 not the highest, but its duration impact is the
5 highest. So that implies to me at least that
6 something unusual is occurring there. So that's part
7 of it.

8 The rest is -- going to refer you to my
9 testimony. It's covered in the part where it says
10 were there any surprises. And I talk about 1990 as
11 being a fairly surprising year. Yes. Page 13, lines
12 11 through 21. Does that answer your question?

13 JUDGE SCHAER: Yes. Thank you. Did you
14 have any redirect?

15 MR. ELLSWORTH: You asked my question.

16 JUDGE SCHAER: Anything further for this
17 witness? Thank you for your testimony.

18 THE WITNESS: Thank you very much.
19 Pleasure to be here.

20 JUDGE SCHAER: Let's begin again tomorrow
21 morning at 9:00 and have a brief visit from Ms.
22 Alexander followed by Ms. Lynch, and with that we are
23 off the record until tomorrow morning.

24 (Hearing adjourned at 5:07 p.m.)