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0108

1 JUDGE MOSS: Let's go on the record.

2 Good morning. My name is Dennis Moss. I'll be
3 your presiding officer today in the matter styled
4 Washington Utilities and Transportation Commission
5 against Puget Sound Energy, Inc., Docket Nos. UE 111048
6 and UG 111049.

7 As I mentioned to some of you informally this
8 morning, I was not planning to preside, so I'm going to
9 count on all of you to help me out if I miss anything by
10 virtue of not having thought through what I would do
11 today. Judge Friedlander unfortunately fell ill and
12 will not be able to be here today. She may be here
13 tomorrow. We'll see.

14 In any event, I have done this once or twice, so
15 it should go reasonably smoothly, but again if I have
16 missed something, I'm sure you all can help me out.
17 Thank you very much for that.

18 Our first order of business will be to take
19 appearances. I'll start with the company.

20 MS. CARSON: Good morning. Sheree Strom Carson
21 with Perkins Coie presenting Puget Sound Energy.

22 MR. KUZMA: Jason Kuzma, with Puget Sound
23 Energy.

24 JUDGE MOSS: Thank you.

25 We'll just go around the room from there and

0109

1 then I'll take those on the telephone afterwards.

2 MR. BROOKS: This is Tommy Brooks appearing on
3 behalf of the Northwest Industrial Gas Users.

4 MS. SMITH: Good morning. Gloria Smith for
5 Sierra Club.

6 MR. ROSEMAN: Ronald Roseman, representing the
7 Energy Project.

8 MR. SANGER: Irion Sanger, representing ICNU,
9 the Industrial Customers of Northwest Utilities.

10 MR. FFITCH: Good mornings Your Honor. Simon
11 ffitch with the office of Public Counsel.

12 JUDGE MOSS: Good morning.

13 MR. CEDARBAUM: Robert Cedarbaum for Commission
14 Staff.

15 JUDGE MOSS: Good morning.

16 Do we have others in here?

17 MS. KYLER: Jody Kyler on behalf of the Kroger
18 Company.

19 JUDGE MOSS: Is that K-Y-L-E-R?

20 MS. KYLER: Yes.

21 MS. BOYLES: Kristin Boyles, NW Energy
22 Coalition.

23 JUDGE MOSS: Thank you very much. That's NW
24 Energy Coalition?

25 MS. BOYLES: Yes, sir.

0110

1 JUDGE MOSS: Some of you are not familiar to me,
2 so I'm having to take notes this morning. You'll have
3 to bear with me.

4 Anyone else in the hearing room? All right.
5 Apparently not.

6 Now, I know we have some folks who are
7 participating or at least monitoring by telephone. I
8 doubt I can do this accurately from memory, but we'll
9 give it a shot.

10 Is there anyone present for Nucor?

11 MR. XENOPOULOS: Yes, Your Honor, this is Damon
12 Xenopoulos.

13 JUDGE MOSS: Could you give us your firm again,
14 Mr. Xenopoulos?

15 MR. XENOPOULOS: It's Brickfield,
16 B-R-I-C-K-F-I-E-L-D, Burchette, B-U-R-C-H-E-T T E,
17 Ritts, R-I-T-T-S, and Stone, S-T-O-N-E.

18 JUDGE MOSS: Let's see. Well, it looks like
19 I've got just about everybody else on the list. Is
20 there anyone else on the phone to enter an appearance
21 today?

22 MR. WATKINS: Glenn Watkins is on the line.

23 JUDGE MOSS: Glenn Watkins?

24 MR. WATKINS: Yes, sir.

25 JUDGE MOSS: For?

0111

1 MR. WATKINS: Public Counsel.

2 JUDGE MOSS: Oh, all right. Part of the
3 settlement panel. Oh, the panel. Okay. I was just
4 calling on counsel at this time.

5 MR. WATKINS: I'm sorry.

6 JUDGE MOSS: That's all right. No worries.

7 MR. RITCHIE: Your Honor, this is Travis Ritchie
8 with Sierra Club. My colleague Gloria Smith is in the
9 room, but I may speak up if it's helpful at some point,
10 but I hope to just listen.

11 JUDGE MOSS: Very good.

12 That does trigger in my mind the warning to all
13 of you who are on the phone, that some of you may have
14 elevator music on your hold functions, so we ask that
15 you mute your send capability on your phones so that we
16 do not get treated to that music here in the hearing
17 room. And then if you do wish to speak, of course
18 you'll have to recall to unmute your phone. We've had
19 some interesting periods of silence in the past when
20 people have forgotten to do that. In any event, that's
21 part of our protocol.

22 Another part of our protocol related to that
23 here in the hearing room, I ask that you put your cell
24 phones and other electronic devices into silent mode or
25 turn them off. I have actually managed to get mine

0112

1 turned into silent mode this morning.

2 All right. Any other counsel or representatives
3 who wish to enter an appearance? Apparently not.

4 Okay. Our first witnesses this morning will be
5 the panelists, and for the settlement agreements, we
6 have a settlement agreement on rate spread and rate
7 design for electric, rate spread and -- I'm sorry, that
8 also includes the settlement on the subject of
9 residential energy credits, RECs -- renewable energy
10 credits, sorry -- renewable energy credits, and then we
11 have the rate spread, rate design settlement on the gas
12 side, and then there was another settlement filed I
13 believe yesterday or the day before, and so that has to
14 do with the metering standards and so forth. I believe
15 Mr. Kouchi had testified on that, didn't he?

16 MR. CEDARBAUM: Both Mr. Kouchi, and for the
17 company Zana Jones. We're in the process of finalizing
18 documentation of that, and hope to have it filed no
19 later than tomorrow.

20 JUDGE MOSS: Sorry, okay. We'll take that up
21 later in the morning then in terms of formal process.
22 But so this morning we'll deal just with the rate
23 spread, rate design, and REC aspects.

24 I did indicate to the panelists here in the room
25 that we'll probably -- I'll just open this up to the

0113

1 commissioners to ask questions with respect to either of
2 those two settlements. So I would like for those of you
3 on the phone, those here in the hearing room, whether
4 you're a panelist on the gas side or on the electronic
5 side, please be present and alert for questions from the
6 bench. And I don't know if there will be other
7 questions from counsel or from me, but it primarily will
8 be questions from the commissioners.

9 Let me take a poll, I guess, would be the best
10 way to do, and we'll start by having the witnesses on
11 the stand here just identify themselves. And I'm not
12 going to swear you yet -- I haven't forgotten, I'll get
13 to that -- but I just want you to identify yourselves
14 for the record, and so I can make a quick note, and then
15 we'll get those on the phone, and then we'll bring the
16 commissioners in and get this things started, unless
17 there's other preliminary business of a procedural
18 nature that I need to handle on my own.

19 So let's go ahead first with this, and then
20 we'll get back to you, Ms. Carson.

21 Go ahead.

22 MS. REYNOLDS: Deborah Reynolds, regulatory
23 services staff.

24 MS. PHELPS: Janet Phelps with PSE.

25 MR. PILIARIS: Jon Piliaris, PSE.

0114

1 JUDGE MOSS: Now, counsel who are participating
2 in these settlements as signatories have each designated
3 a witness for today, and so to keep things orderly, I'll
4 ask each counsel, we'll just go around the room, to call
5 on your witness who's on the phone, make sure they're
6 there. Let's start here with Mr. Brooks.

7 MR. BROOKS: For NIGU, Don Schoenbeck is
8 representing the settlement panel for the gas rate
9 spread and rate and design settlement.

10 JUDGE MOSS: Mr. Schoenbeck, are you on the
11 phone?

12 MR. SCHOENBECK: Yes, I am, Judge. Thank you.

13 JUDGE MOSS: I understand we're going to see you
14 later on in the hearing for our subject matters I guess.

15 MR. SCHOENBECK: Very good.

16 JUDGE MOSS: Who's next?

17 MR. FFITCH: Your Honor, for Public Counsel, we
18 call Glenn Watkins. I believe Mr. Watkins is on the
19 telephone.

20 MR. WATKINS: Correct.

21 JUDGE MOSS: You identified yourself earlier, I
22 believe, Mr. Watkins, and we appreciate the fact that
23 you're with us.

24 Yes, sir, Mr. Sanger?

25 MR. SANGER: I just wanted to clarify that

0115

1 Mr. Schoenbeck is appearing on behalf of both NIGU and
2 ICNU for the settlement panel.

3 JUDGE MOSS: All right. Thank you very much. I
4 appreciate that. That will be for ICNU on the electric
5 and NIGU on the -- is that how you say that, NIGU? --
6 Northwest Industrial Gas Users on the gas side.

7 All right.

8 MS. KYLER: For the Kroger Company on the
9 electric side, Kevin C. Higgins is appearing.

10 JUDGE MOSS: Mr. Higgins, are you on the line?

11 MR. HIGGINS: Yes, sir, I am.

12 JUDGE MOSS: Thank you very much, Mr. Higgins,
13 for being present.

14 Anyone else? You probably said Mr. Higgins
15 is -- Kroger, that would be the electric side?

16 MS. KYLER: Electric.

17 JUDGE MOSS: Very good.

18 MR. XENOPOULOS: Your Honor, Mr. Higgins is also
19 here on behalf of Nucor.

20 JUDGE MOSS: All right. On the gas side?

21 MR. XENOPOULOS: That's right.

22 JUDGE MOSS: I appreciate that.

23 Anyone else? We seem to have our panelists all
24 identified, and with that, I think I will just go ahead
25 and swear you in, so I don't forget to do that when we

0116

1 come back in, and I'll go get the commissioners after
2 that, and we'll get started.

3 So those of you here in the room, if you would
4 please rise and raise your right hands, and the rest of
5 you pay appropriate attention, if you will, please.

6 (Panelists Deborah Reynold, Janet Phelps and
7 John Piliaris are sworn.)

8 MR. CEDARBAUM: Your Honor, just for
9 clarification purposes before you leave, Ms. Reynolds is
10 the staff panelist for the electric settlement, and
11 she's also adopting Mr. Mickelson's role on the gas
12 side.

13 JUDGE MOSS: Oh, all right.

14 MR. CEDARBAUM: Mr. Mickelson is not on the
15 panel himself.

16 JUDGE MOSS: Very good. Thank you very much for
17 that.

18 Any other procedural matters?

19 Ms. Carson, I think you may have had something?

20 MS. CARSON: There were two motions filed for,
21 late filed, or submitted, cross-exam exhibits, I don't
22 know if you want to take those up now.

23 JUDGE MOSS: Sure, let's take those up now.
24 Let's do that, and also we'll have some further
25 discussion about the exhibits. I'm glad you raised that

0117

1 point. Thank you.

2 All right. We do have two motions. I believe
3 there was -- I know there was one from Public Counsel,
4 and I believe there was also one from ICNU if memory
5 serves. So I don't happen to have those in front of me,
6 so why don't you bring me up to speed.

7 MR. FFITCH: Thank you, Your Honor.

8 Public Counsel, you're correct, did file a
9 motion for leave to provide some late filed
10 cross-examination exhibits. As you will recall, the
11 deadline for filing cross exhibits was last Thursday,
12 February 9th. At approximately a quarter to 7, 20 to 7,
13 on Wednesday evening, we received responses to data
14 requests from Puget Sound Energy that were due on that
15 day, on the 8th, and because of the amount of time
16 required to review them, make a decision about whether
17 they were suitable for cross and then produce them, we
18 couldn't meet that February 9th deadline, so we asked
19 for permission to file those on the 10th. And we did
20 then file them, or provide them to the Bench and serve
21 them on parties on the 10th.

22 We did ask about an additional exhibit that has
23 become moot. There was a possibility of an even later
24 coming in, an exhibit that we wanted to file on
25 Wednesday, that part of the motion -- excuse me, might

0118

1 have wanted to file on Monday, yesterday, that portion
2 of the motion has been withdrawn, so we're just focusing
3 on the request to file exhibits on Friday instead of on
4 Thursday.

5 JUDGE MOSS: Was this the six we talked about
6 earlier for Mr. Garratt, and there's also a set for
7 Ms. Seelig?

8 MR. FFITCH: That's correct, Your Honor. There
9 are one or two others --

10 JUDGE MOSS: That's quite right. I've got those
11 in my office. I remember seeing those this morning.

12 MR. FFITCH: I believe Mr. Marcellia and Story --
13 Stolarski, rather, yes.

14 JUDGE MOSS: Do we want to take the motions up
15 one at a time then, Public Counsel is first, and then
16 we'll get to Mr. Sanger?

17 MS. CARSON: Yes.

18 JUDGE MOSS: Fine. Go ahead.

19 MS. CARSON: PSC has no objection to these late
20 submitted cross-exam exhibits, but we do want to clarify
21 and provide some additional information for why those
22 were submitted after 5 p.m.

23 In the last week before the discovery cutoff,
24 PSE had 109 data requests that were sent to it. Many of
25 these addressed issues that could have been raised much

0119

1 earlier. Of course it's a five-day turn around time at
2 that point in time. And we were also preparing
3 cross-exam exhibits and other hearing preparation, so
4 there was a lot going on. 41 of 109 were from Public
5 Counsel, with I believe 30, a total of 30 of the data
6 requests were due on that final day. So it was a bit of
7 a rush.

8 We did get all of them out but one, which was
9 provided the next day and isn't part -- isn't being
10 submitted. Just to provide some additional
11 clarification.

12 JUDGE MOSS: Thank you for that.

13 There being no objection to them having been
14 submitted, we'll have to take up the question of them
15 being admitted, of course, but apparently there's no
16 objection to your motion to submit them, and so I
17 will -- assuming no one else wishes to be heard on this,
18 I'll grant your motion. They're already on the exhibit
19 list I might add, and I appreciate Ms. Carson adding
20 them for me yesterday, so I didn't have to do it.

21 Mr. Sanger, you also have a motion for ICNU, I
22 believe?

23 MR. SANGER: Yes, Your Honor. We filed a motion
24 the day after cross-examination exhibits were due. It
25 was a motion for one cross-examination exhibit for

0120

1 Mr. Gould. The document is Mr. Gould's work papers, or
2 supporting documentations, however you want to
3 characterize them, to a table in his testimony. We did
4 not obtain these documents when PSE filed. We did not
5 discover that until later. We asked Puget for the
6 documents. Puget responded very quickly, they provided
7 us the documents, but they were not provided until I
8 believe after hours on the day the cross-examination
9 exhibits were due. So we didn't have an opportunity to
10 submit them with our cross-examination exhibits. The
11 next morning we filed our motion with the documents.
12 They're essentially just the work papers to a table that
13 is in Mr. Gould's testimony.

14 My understanding is that Puget does not object
15 to the late filed motion, but I think they have a
16 position on the admissibility of work papers.

17 JUDGE MOSS: We'll take that up later. Do you
18 want me to hear from you on this?

19 MS. CARSON: That's correct, we have no
20 objection to the late filed submission. Just for the
21 record, the table is a breakdown of Commission Staff's
22 and ICNU's position as compared to PSE's position, but
23 we have no objection. These weren't necessarily viewed
24 as work papers by the company, but when Industrial
25 Customers asked for them, we provided them promptly.

0121

1 JUDGE MOSS: Okay. Thank you. It sounds like
2 everybody has been playing nicely, so we have no real
3 problems here. We'll grant this motion as well.

4 I do appreciate the efforts that everyone
5 undertook. We have, of course, as you know, we've made
6 a few tweaks to our process in this case, and in other
7 cases this year. Among those things we did establish a
8 discovery cutoff date, the idea being that we would not
9 get exhibits during the hearing. So we're hoping that
10 that's going to be the case. We now have everything in
11 advance of the hearing, we hope. So that's where we are
12 on that subject.

13 So the motions are granted, the exhibits are
14 available for consideration for admission, and I think
15 what I want to do, for the first couple witnesses at
16 least, we may do it on a more wholesale basis later, is
17 I want to take up each witness' exhibits when the
18 witness appears on the stand, and we're going to discuss
19 whether there are objections and so on and so forth at
20 that time, rather than doing a more wholesale inquiry
21 about stipulations at this juncture.

22 So that's how we'll proceed on that front. As
23 far as the settlement is concerned, I would have to
24 assume that there is no objection to the settlement
25 testimony and the settlement agreements themselves being

0122

1 admitted as exhibits.

2 Am I correct? Apparently I am. All right.

3 Those have been premarked, and are part of our
4 exhibit list, which I will provide to the court reporter
5 so that she doesn't have to labor too hard on getting
6 all these things down. I'm not going to individually
7 identify all the exhibits that we consider today. There
8 are simply too many of them. But we do have four for
9 this panel which are designated SPE-1T, SPE-2, SPG-1T,
10 and SPG-2, and those respectively are the electric
11 settlement on rate spread, rate design, and renewable
12 energy credits, and the multi-party settlement
13 testimony, the joint testimony on that settlement, and
14 then the natural gas rate spread and rate design
15 settlement is the SPG-1T -- I'm sorry, that's the
16 testimony. And then the settlement itself is the SPG-2.

17 All right. So those are admitted as marked.

18 (Exhibits SPE-1T, SPE-2, SPG-1T, and SPG-2 were
19 admitted.)

20 JUDGE MOSS: With that, I'm going to go off the
21 record, but I'm going to ask you all to keep your seats
22 and keep in good order, because I'm going to have the
23 commissioners in here in just a minute, and we'll get
24 started.

25 Thank you.

0123

1 (Pause in proceedings.)

2 (Commissioners enter.)

3 JUDGE MOSS: Let's be on the record, and I'll
4 explain the logistics a little bit here while the
5 commissioners continue to get themselves situated.

6 We are first taking up our settlement panel on
7 rate spread, rate design, and the renewable energy
8 credits for electric, and rate spread and rate design on
9 the gas side. I have asked the panelists, who are
10 presenting joint testimony on both settlements, to be
11 present and available for questions from the bench. So,
12 commissioners, you'll understand that both settlements
13 are open for discussion at this time.

14 We have here in the hearing room Ms. Reynolds,
15 who's representing the Staff, and has adopted
16 Mr. Mickelson's testimony for the gas side, as well as
17 her own on the electric side, we have Ms. Phelps from
18 the company, Mr. Piliaris from the company, all present
19 in the hearing room.

20 On the telephone for this panel we have
21 Mr. Schoenbeck, who's appearing for the Industrial
22 Customers of Northwest Utilities, and the Northwest
23 Industrial Gas Users. We have Mr. Watkins for Public
24 Counsel. We have Mr. Higgins for Kroger and Nucor
25 Steel. So these witnesses are available.

0124

1 Did the parties wish to make an opening
2 statement or preliminary statement concerning the
3 settlements or have the witnesses do so?

4 MR. CEDARBAUM: That wasn't our plan.

5 JUDGE MOSS: That wasn't your plan. I should
6 have covered this base beforehand I suppose.

7 Do the commissioners wish to have an overview of
8 the settlement from one of the witnesses before we
9 proceed with questions?

10 COMMISSIONER JONES: (Shakes head in the
11 negative.)

12 JUDGE MOSS: Heads are shaking to the negative.
13 So I think with that, we'll move directly to the --
14 well, do the parties have anything for the witnesses? I
15 would think not, but -- no, okay. We'll go directly to
16 questions for the bench then, if there are any.

17 Commissioners?

18 COMMISSIONER OSHIE: No questions.

19 CHAIRMAN GOLTZ: Geez. Well, so on the
20 electricity settlement, on Schedule 40, could you
21 describe a little bit more about how the companies that
22 go from under paragraph 14, companies that go from
23 Schedule 40 down to the low to average megawatts, what
24 schedule would they go to, and what's the consequence of
25 that?

0125

1 MR. PILIARIS: The answer is actually it
2 depends. There is a range of schedules that they could
3 otherwise qualify for, 24, 25, 26. So it depends on the
4 location. So backing up, Schedule 40 is a campus rate,
5 so the customer aggregates effectively several
6 locations. So if they were no longer to qualify, each
7 of those locations would go back to their underlying
8 rate schedules. The consequence of that is case
9 specific, but generally speaking, you'd expect that
10 their rates would increase as a result.

11 CHAIRMAN GOLTZ: So the whole purpose of this
12 is, to use a term that we might be getting into, is to
13 remove the disincentive to conservation?

14 MR. PILIARIS: Essentially, yes.

15 CHAIRMAN GOLTZ: And the company is all for
16 that.

17 So then I gather a company that then drops below
18 gets to stay on Schedule 40, but a company that may have
19 dropped, gone from above to average megawatts -- to 1.9
20 average megawatts in the last year, they're sort of an
21 early conserver, they wouldn't get to stay in Schedule
22 40? In other words, there's no -- if a company who had
23 been on Schedule 40 dropped below two average megawatts
24 last year, they're now on whatever rates they're on.

25 MR. PILIARIS: That's not exactly -- the point

0126

1 of this new language is to ensure that if -- if the
2 reduction in load that dropped them below two average
3 megawatts was -- can be shown to be a direct result of
4 their achievement of conservation, then the customer
5 wouldn't be removed. If they can prove that.

6 CHAIRMAN GOLTZ: Right. I guess I'm asking you,
7 someone who had been on Schedule 40, and then through
8 their own efforts of conservation dropped below two
9 average megawatts, and that happened last year, or this
10 year --

11 MR. PILIARIS: Oh.

12 CHAIRMAN GOLTZ: -- then they can't get back on
13 Schedule 40 with this. There's no sort of resurrecting
14 that.

15 MR. PILIARIS: I don't believe there has been a
16 comparable situation since the inception of Schedule 40,
17 so I don't think there's any equity issues there.

18 CHAIRMAN GOLTZ: Then the idea would be sometime
19 after the close of this proceeding pursuant to
20 Schedule 15 you'd all get together and try to work out
21 some changes and make -- so we might see another
22 proposal on this issue later on?

23 MR. PILIARIS: Possibly, yes.

24 MR. HIGGINS: Commissioner, this is Kevin
25 Higgins for Kroger.

0127

1 In response to your question as well, my
2 understanding is with respect to the rate 40 tariff is
3 that customers are only removed from that tariff during
4 a general rate case. And so in support of what
5 Mr. Piliaris had said, is I think it would be -- a
6 customer would not have been removed in between rate
7 cases, and so -- and I do believe this is the first
8 instance of a customer falling below the threshold of
9 the rates.

10 CHAIRMAN GOLTZ: Okay. So then on the REC
11 tracker, so this would be -- the customers now would see
12 from time to -- maybe they'd see it all the time -- a
13 line item on their bill that would show a REC credit?

14 MR. PILIARIS: I don't know that that's
15 necessarily been determined conclusively yet. As a
16 practical matter, that may end up -- may be, may well be
17 what happens for clarity, but it's not necessarily the
18 case.

19 CHAIRMAN GOLTZ: How else would it be if it
20 wasn't there?

21 MR. PILIARIS: It could be folded into
22 another -- it could be folded into the -- well, as a
23 practical matter, I think you're right, I think it will
24 have to be, ultimately. But again it hasn't been
25 decided yet.

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1 JUDGE MOSS: Ms. Carson, I think you have
2 something to say on this subject?

3 MS. CARSON: Yes, there is a footnote that
4 addresses this. Footnote two in the settlement. The
5 parties reserve the right to revisit this issue
6 regarding showing -- this is a separate line item on the
7 bill. This was not an issue that was agreed upon by the
8 parties at the time of settlement, and so the parties
9 ultimately agreed to reserve the right to address this
10 at a later time. The company has concerns that there
11 are getting to be quite a lot of line items on the bill,
12 and it can be confusing to customers, and just more
13 granular information that's needed. So at this point in
14 time, the way the settlement is, it's not a separate
15 line item on the bill.

16 MR. FFITCH: Your Honor, if I may address that
17 footnote as well. That was of concern to Public
18 Counsel, and Ms. Carson is correct, we could not reach
19 agreement on the line item issue or on the reporting
20 issues, and so this footnote was inserted to indicate
21 that we would be able to continue to, you know, bring
22 forward that issue in a future case.

23 JUDGE MOSS: Well, what's going to be done in
24 the meantime though? Assuming the settlement is
25 approved, how is it going to be done?

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1 MS. CARSON: It will not show up as a separate
2 line item on the bill. It will be some sort of an
3 aggregate, represented as an aggregate item on the bill.
4 It will still be a credit to customers, but it won't be
5 a separate line item on the bill.

6 JUDGE MOSS: But I think it would be
7 appropriate, would it not, for the commission to regard
8 this as an open issue that it might resolve through its
9 order?

10 MS. CARSON: That's certainly up to the
11 commission.

12 JUDGE MOSS: All right. Thank you.

13 CHAIRMAN GOLTZ: Go ahead. I'll yield to him.

14 COMMISSIONER OSHIE: Well, so what, I guess,
15 Ms. Carson, what did you mean by "aggregate"? I don't
16 really understand that. Aggregated with what? To merge
17 it with an already sort of -- an existing line item, so
18 you don't create a new one? And how would that be
19 identified in the company's mind?

20 MS. CARSON: That's my understanding, that it
21 would be combined with other line item credits on the
22 bill. I know there is a merger credit. I don't know if
23 that's what it would be aggregated with. Perhaps if you
24 have specific questions about this Tom DeBoer would be
25 the one to respond to it. But that was -- the agreement

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1 amongst the parties didn't address it, so it was left to
2 be resolved at a later time.

3 COMMISSIONER OSHIE: This question is a question
4 for staff, Your Honor. Why is this treatment favorable
5 to the treatment that the commission has already ordered
6 for this -- for the REC proceeds?

7 MS. REYNOLDS: This is Deborah Reynolds.
8 Staff believes that this does implement your
9 order.

10 JUDGE MOSS: The previous order on RECs provided
11 that there would be an offset to rate base. This
12 provides for a bill credit. That seems to be a
13 different mechanism to me.

14 MS. REYNOLDS: A different mechanism in flowing
15 it through, but in general that it implemented your
16 order, the intent of the order. And I would have to
17 defer any specific questions about how it would work to
18 Mr. Martin.

19 MR. HIGGINS: This is Kevin Higgins for Kroger.
20 If I may. This provision in the settlement
21 agreement derives in part from a proposal I made in my
22 direct testimony and, Commissioner Oshie, this provision
23 is -- does accelerate the amortization from a five-year
24 period, that is the status quo, to a three-year period.
25 It does provide for a credit against an offset to rate

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1 base, consistent with the commission's existing order,
2 but it accelerates the crediting to customers by using a
3 three-year period rather than a five-year period, and it
4 also accelerates the recognition to customers by
5 recognizing one-third of the subjected REC proceeds as a
6 credit in the current period. So in essence it uses the
7 concept that the commission has already approved but
8 accelerates the crediting to customers.

9 COMMISSIONER OSHIE: Do you want to explain,
10 Mr. Higgins, the -- how -- my understanding of reading
11 this provision in the settlement was that we're moving
12 from the rate based reduction to a bill credit, but I
13 thought I heard you say that it's going to be both.

14 Now, are you talking about there's going to be
15 an overlap in the amortization, or will all the monies
16 that are now being accrued by the company that now for
17 the purpose of providing reduction of rate base is if
18 upon our order that -- rate base will no longer be
19 deducted with whatever amount have been accrued, and
20 they will be paid to rate payers through a bill credit?
21 Is that what's going to happen?

22 MR. HIGGINS: It would -- Commissioner Oshie, it
23 would be a combination.

24 COMMISSIONER OSHIE: That's what I don't
25 understand, but you can explain it. Thank you.

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1 MR. HIGGINS: The credit to customers is only
2 one-third of the projected proceeds, not the entire
3 amount, and so there will remain a balance that would be
4 a credit against rate base. So it's -- it attempts to
5 balance the desire of recognizing a credit to customers
6 with the -- being cautious not to overcredit. So that's
7 why when I say that it contains both elements, there's a
8 credit for the balance that carries forward that has not
9 been paid to customers, and that's a credit against rate
10 base. And only a portion of the projected amount is
11 credited in addition to the recognition of the rate base
12 credit.

13 COMMISSIONER OSHIE: Maybe you can explain this,
14 Mr. Higgins. Why is that a better treatment, at least
15 in your mind? Is it because the companies agree to, you
16 know, amortize this amount faster, or is it you just
17 like a bill credit?

18 MR. HIGGINS: Well, it provides the recognition
19 of a benefit to customers faster. Not because it
20 provides a bill credit per se. But it seems to me, for
21 example, by having this mechanism in place now, it will
22 provide for a somewhat smaller rate change in this case,
23 because the benefit from REC proceeds to customers will
24 be recognized more rapidly and so it would mitigate to a
25 greater extent any rate increase that may be awarded in

0133

1 this case.

2 COMMISSIONER OSHIE: So what I hear you saying
3 is that you consider this a mitigation of the immediate
4 change in rates, rather than extending the REC credit
5 benefits over a longer period of time by reducing rate
6 base.

7 MR. HIGGINS: It will have the effect, yes, of
8 mitigating any rate increase, but even if there were no
9 rate increase, it would, from the rate case, it would
10 still advance recognition of REC proceeds more quickly.

11 Since RECs are an annual event, it really is
12 better, I think, from a rate making standpoint, to try
13 to align the recognition of those benefits and rates
14 with the incurrence of the benefit. This still extends
15 the recognition period to three years, so an event
16 occurs, the REC eventually occurs in 2012, that benefit
17 gets extended for three years, and it gets carried
18 forward in rate base until it's paid out, but it does
19 amortize more rapidly, it recognizes the customer rate
20 more quickly.

21 COMMISSIONER OSHIE: Thank you, Mr. Higgins.

22 CHAIRMAN GOLTZ: This is Jeff Goltz again.

23 Let's hypothetically -- I'm directing this only
24 to you, because you were the last one to speak. Anyone
25 else can answer this. Assume that January 1 -- in

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1 calendar year 2013, there are a million dollars worth of
2 REC sales. How would that be then returned to the
3 customers via this mechanism?

4 MR. HIGGINS: Is the \$1 million the balance or
5 is that the projection for 2013?

6 CHAIRMAN GOLTZ: Well, why don't we say that --
7 let's combine it. Let's say there's a one million
8 balance and a one million dollar projection.

9 MR. HIGGINS: The one million dollar balance
10 would be a credit against rate base, and so that would
11 offset, you know, that would provide a, you know, slight
12 credit against rate base, and then the one million
13 dollar projection, one-third of that would be credited
14 to customers in that 2013 period. So \$333,000, more or
15 less, credited in 2013.

16 The remaining two-thirds, the \$667,000, would
17 then accumulate and accrue as a balance going forward
18 and be a credit against rate base going forward so it
19 would add to the rate balance.

20 CHAIRMAN GOLTZ: So if January 1, 2014, then
21 there will be a \$667,000 or so credit to rate base in
22 that situation?

23 MR. HIGGINS: Correct.

24 CHAIRMAN GOLTZ: And then if the projection is
25 one million, but, in fact, they only collect one-third

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1 of that, then there would be nothing credited to rate
2 base in January 1, 2014, and likewise if they received
3 one and a third million, then there would be a total of
4 one million that would be credited to rate base in 2014?

5 MR. HIGGINS: Yes, Commissioner. And I also
6 should have added with respect to the million dollars
7 that had already been in rate base in your question,
8 that --

9 (Interruption in proceedings.)

10 MR. HIGGINS: -- in 2013, so 2013 customers
11 would receive one-third of the projected amount, and
12 they would also receive an amortization on the starting
13 balance as well.

14 CHAIRMAN GOLTZ: I'm sorry. I'm going to ask
15 you, I'm sorry -- Mr. Higgins, could you repeat that?
16 One of the foibles of our bridge line here is that
17 whenever someone joins or leaves it gets announced with
18 a beep. I don't know if you can hear it on your end. I
19 think you can. But we hear it here. So we couldn't
20 hear you for about, you know, five seconds there.

21 MR. HIGGINS: To add to my response to your
22 question, where there was a one million dollar starting
23 balance from prior REC sales, and then there was going
24 to be a million dollars worth of projected REC sales,
25 January 1, 2013, I should have added that one third of

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1 the starting balance also would be paid out to customers
2 in 2013, because that would be amortized as well. So
3 what you'd have would be two components recognized as
4 credits to customers for 2013, an amortization of a
5 starting balance, which again is the balance itself is
6 credited against rate base, but it's also going to be
7 amortized going forward, so you'd have \$333,000 from
8 that, and you would have one-third of the projected REC
9 sales recognized as a credit, as I previously described.

10 CHAIRMAN GOLTZ: So getting back to the earlier
11 question of how this would be shown to customers is if
12 you were to just have the line item on the bill showing
13 the REC credit, basically the one-third that is given
14 back to rate payers through their bills, it in effect
15 would be understating the total benefit those rate
16 payers are receiving?

17 MR. HIGGINS: Well, it would be -- one
18 recognized use of the line item, I think you would show
19 both the amortization of the existing balance and the
20 going forward amount. So I think that, to me, would
21 make the most sense if you were going to present it that
22 way, you would present the exact amount that was
23 credited to customers' bills. But you would not be
24 showing amounts that were accruing to the customers for
25 later disbursements.

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1 CHAIRMAN GOLTZ: Right. It would contain all
2 this information in a line.

3 MR. HIGGINS: I think if you were going to show
4 a line, you would just show the amount credited for that
5 period.

6 CHAIRMAN GOLTZ: Right. Okay.

7 I have no further questions.

8 JUDGE MOSS: I have a few follow-up if you
9 please. A couple of questions really.

10 One is, Mr. ffitch, you also mention that
11 reporting issues were not resolved as part of this
12 settlement. I'm not sure what that means.

13 MR. FFITCH: Your Honor, thank you. This is a
14 good opportunity I think for Public Counsel just to
15 state its position with regard to the settlement. We
16 don't have a witness on the REC issue in this case or on
17 the panel.

18 We do support the settlement, however. As the
19 commission is aware, we are also an active party in the
20 PacifiCorp REC docket that is the docket where we are
21 advocating certain outcomes with regard to the issues
22 that we've been discussing here, the timeliness of
23 recovery, bill credits, and reporting.

24 We are willing to support the settlement in this
25 case because we understand that the company and the

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1 commissioners under a set of precedents from the
2 previous Puget REC dockets, which lead us to the point
3 of this settlement. We think this tends to move in the
4 right direction, but I just want the record to be clear
5 that our preferred outcomes are being advocated in the
6 PacifiCorp docket. And so that's the answer to your
7 question with regard to reporting. We believe that in
8 the PacifiCorp docket there's a good template for
9 reporting RECs and that's something that we'd like to
10 continue to be able to discuss with the company here.

11 JUDGE MOSS: Can somebody quickly refresh at
12 least my recollection what the reporting requirement is
13 under the current treatment of RECs? Is there an annual
14 report or a periodic report to the commission regarding
15 the level of that?

16 MS. CARSON: My understanding is it's an annual
17 reporting, and this would continue an annual reporting.

18 MR. CEDARBAUM: Your Honor, as a footnote to
19 the -- Ms. Carson pointed out earlier on page 6 of the
20 settlement itself, it looks to whether or not the
21 parties would reserve the right to increase the
22 reporting more frequently than the current annual
23 reporting. So right now there is an annual reporting.
24 The issue is whether that should be quarterly or
25 something faster, or something more frequent.

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1 JUDGE MOSS: Is there anything in the record
2 that tells us, gives us some sense of how much money
3 we're talking about right now?

4 If we have to clear the room --

5 MR. PILIARIS: There's nothing in the record
6 yet, but to give you somewhat of an advance notice, the
7 number that would flow back, the amount of money that
8 would flow back in the first eight-month period from
9 May 2012 through December 2012 is roughly \$8 million.

10 JUDGE MOSS: Okay. That gives me a good sense
11 actually. Then I don't think I'll follow up with a
12 bench request on that, suspecting that there might be
13 some confidentiality issues if we tried to do it in the
14 hearing room, so we won't do that at this juncture at
15 least.

16 Anything else from the bench? Commissioner
17 Jones?

18 COMMISSIONER JONES: Actually, you asked my
19 question. So that is a confidential number. My
20 question is what is the unamortized balance. What is
21 the unamortized balance of the REC revenues with the
22 deferred taxes and any rate of return that's been
23 accumulating since we issued our order?

24 MR. PILIARIS: My understanding of the AMA
25 balance --

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1 COMMISSIONER JONES: Yeah, AMA is fine.

2 MR. PILIARIS: -- for the year ended 2012 is
3 roughly 17 million.

4 COMMISSIONER JONES: That's 70 or 17?

5 MR. PILIARIS: Seventeen. One seven.

6 COMMISSIONER JONES: Okay. That was my first
7 question.

8 My second question, I'm still a little confused.
9 The settlement says REC revenue will be provided to
10 customers by means of bill credits. The chairman asked
11 this question, or Judge Moss did. What's going to
12 happen when we issue an order in May? This is the
13 customer's money. Right? The company recognizes that
14 REC revenues belongs to customers. Right?

15 MR. PILIARIS: Correct.

16 COMMISSIONER JONES: So we're going to have
17 another proceeding or we're going to have more workshops
18 or discussions on this to figure out what's going on?

19 Mr. ffitich? What's the process? You're waiting
20 for us to issue -- you referred to the PacifiCorp REC
21 revenue proceeding. You've waiting for that? That
22 doesn't make sense to me. Puget Sound Energy customers
23 should have the benefit of this REC revenue as soon as
24 possible.

25 MR. FFITCH: That's correct, Your Honor. As we

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1 understand the settlement, and the company can certainly
2 speak to this, the funds would be returned to Puget
3 Sound Energy apparently not by means of a line item
4 credit, but by some sort of financial credit to the
5 customers, as Ms. Carson was trying to explain.

6 What we're talking about in the footnote is --
7 just being candid from our perspective, these issues
8 would be taken up in the next general rate case, and if
9 we had guidance from the PacifiCorp docket about the
10 appropriate treatment of timeliness, reporting and line
11 item credits, then we would probably be advocating for
12 consistency, but we're not -- this is not intended to
13 delay return of funds to customers until that process
14 happens.

15 COMMISSIONER JONES: I understand that. I'm not
16 trying to be adversarial here, but you represent
17 consumers, and isn't a tenet of good consumer education
18 outreach, knowing what is on the bill, is what they see
19 and what they should receive? Isn't transparency a part
20 of, you know -- I guess I have a problem in putting REC
21 revenues with a merger credit or a PTC credit or a
22 whatever credit. I mean, isn't that kind of a part of
23 consumer outreach and education, to let the customer
24 know what he or she is receiving, either paying or
25 receiving as a credit in rates?

0142

1 MR. FFITCH: Your Honor, we fully agree with
2 that. This is a compromise, and we agree to fight that
3 issue another day, so we agreed to this language as far
4 as the --

5 COMMISSIONER JONES: Okay.

6 MR. FFITCH: -- bill credit.

7 COMMISSIONER JONES: That is about as far as I'm
8 going to get, Judge, so I give up.

9 JUDGE MOSS: All right. All sorts of pithy
10 metaphors come to mind, but I'll just leave that.

11 All right. Anything else from the bench on this
12 matter? All right.

13 Anything else from the parties? Ms. Carson?

14 MS. CARSON: Yes. It's my understanding that
15 the company may have a different view of some of the
16 information than what Mr. Higgins provided, and I don't
17 know if Mr. Story or Mr. Piliaris, one of the two might
18 want to address that.

19 JUDGE MOSS: We need to be clear on this. I'll
20 be blunt. I've read all this material, and I found it a
21 bit sketchy. I came away from it not fully
22 understanding what you all are proposing, and that has
23 been confirmed this morning by what we've learned. So
24 if there are some additional issues that need to be
25 ironed out, let's please do it now.

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1 we plan on passing those back is to take that 19 million
2 as a negative rate base, so we calculate a return on the
3 \$19 million, average, monthly average over the 2012
4 period. We're going to be giving about six and a half
5 million back through amortization, and there's about a
6 million dollars that comes back because of this negative
7 credit for rate base.

8 In effect it's like a mini revenue requirement
9 calculation. You have a plant balance, which happens to
10 be negative, you apply the rate of return to that, just
11 like you would for rate base, and you have the
12 amortization and the rate base piece together. So the
13 customers are going to get back \$8 million.

14 The -- what we were thinking about on the
15 tariff, which doesn't sound too popular, is you can take
16 a schedule, as a schedule sheet, and just apply a line
17 item to it and show the credits that go back under
18 this -- under the REC credit, so like if you're to take
19 Schedule 7, say, you could say Schedule 7 is this amount
20 of -- without the REC credit, identify the REC credit,
21 and have a net book or a net schedule that gets applied
22 to the customer.

23 The concern is that the bill is getting kind of
24 long, and with all these different line items, so we
25 were trying to keep, you know, the bill shorter, keep

0145

1 costs down.

2 COMMISSIONER JONES: Mr. Story, this is

3 Commissioner Jones.

4 We hear the same thing about mobile phone bills,
5 don't we?

6 MR. STORY: Yes.

7 COMMISSIONER JONES: Taxes, fees, but that
8 hasn't inhibited carriers from, you know, putting all
9 those items on as a line item. I'm not saying it's good
10 or bad, but that hasn't prohibited the telephone
11 carriers of providing a lot of transparency on the bill.
12 Correct?

13 MR. STORY: No, it hasn't. And this is a
14 separate schedule, so we should put it as a line item.
15 It's going to be schedule 134 I believe.

16 COMMISSIONER JONES: Clarifying question. Right
17 now, all of these REC revenues, after our order, are in
18 as you say a negative rate base balance. It's called a
19 regulatory liability account.

20 MR. STORY: Right. It's in 252, 253. It's in
21 account 252, 253, something like that.

22 COMMISSIONER JONES: So how long is it going to
23 take under this three-part scheme of crediting monies
24 back to customers? How much longer is that going to
25 have to be amortized to get to a zero balance?

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1 MR. STORY: It gets added to each year. As we
2 sell new RECs, there will be a new layer put in. Each
3 layer will take three years to be amortized.

4 COMMISSIONER JONES: I see. As REC revenues are
5 realized -- and "realized" means the company receives
6 REC revenues from its contract -- those are added to the
7 regulatory liability balance and amortized over three
8 years?

9 MR. STORY: Actually, it will be more on a
10 recognized basis, because it will be based on contracts,
11 firm contracts that we have. So if we have a contract
12 at the beginning of the year and we know that we're
13 going to be receiving REC revenues through the year, we
14 would include those also. And it would be trued up to
15 what's actually received.

16 COMMISSIONER JONES: So the revenue recognition
17 is based on the amount provided for in the contract?

18 MR. STORY: Right.

19 COMMISSIONER JONES: Okay. Well, this is
20 confusing, but it's about as clear as mud, Judge, so I
21 guess it's this three-part calculation.

22 Mr. Story, just to summarize, you estimate
23 between May and December of this year roughly 8 million?

24 MR. STORY: Yes. The first year, we're going to
25 treat the first year amortization as if it had started

0147

1 in January for the amount of money, and we're going to
2 shape it to the last part of the year, and then it will
3 be 8 million in year two and three also.

4 COMMISSIONER JONES: Okay. Thank you.

5 MR. STORY: Well, it won't be quite 8 million,
6 because of the rate base decline, but it will be the six
7 and a half million plus whatever the rate base
8 calculation is.

9 COMMISSIONER JONES: So the six and a half
10 million stays constant?

11 MR. STORY: Right.

12 CHAIRMAN GOLTZ: So if there is a contract for
13 the sale of RECs in January 2013, and under the contract
14 there would be two years of sale of RECs of a million
15 dollars in 2013 and a million dollars in 2014, how is --
16 I thought you just said that all \$2 million could be
17 counted as if it was in 2013.

18 MR. STORY: Right. And the rate base
19 calculation we put in when we believe the REC is going
20 to occur.

21 CHAIRMAN GOLTZ: When the REC is going to --

22 MR. STORY: When we're actually going to send it
23 to the other parties and receive the monies. So like
24 using the \$19 million example, we only had \$2 million at
25 the end of 2012, or \$3 million at the end of 2011, so

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1 the 19 million is made up of some contracts that are
2 coming in during the first part of the year, and we've
3 put those into the months that the revenue is expected.
4 That's part of the rate base calculation also, that adds
5 to the average monthly average calculation.

6 So what actually happens during the year will be
7 trued up at the end of the year, and, you know, it will
8 be corrected for the remaining two years. So if we only
9 receive 900,000, say, under your example, and we had
10 estimated a million dollars, we would correct the rate
11 base calculation to that 900,000, and we would project a
12 million one into the next year because we still have to
13 collect that million one. And that would be compared to
14 what was done before, and there's just a slight true-up.
15 That's about a \$10,000 true-up on that.

16 CHAIRMAN GOLTZ: Now, Ms. Carson said that,
17 cautioned us that maybe everything that we had heard
18 from Mr. Higgins wasn't exactly right, but I'm not sure
19 I heard anything different from you; perhaps more
20 detailed from you, but nothing different than what I
21 heard from Mr. Higgins. Do you detected a difference,
22 Mr. Story?

23 MR. STORY: I did. I thought he said that there
24 was going to be a rate base offset still in the general
25 rate case, and there is not. It will all be included in

0149

1 the tariff.

2 MR. HIGGINS: This is Mr. Higgins. If I may.

3 CHAIRMAN GOLTZ: Sure.

4 MR. HIGGINS: I don't know if it's appropriate
5 for me to speak at this point.

6 CHAIRMAN GOLTZ: I was just going to ask you
7 anyway, so go ahead.

8 MR. HIGGINS: I think this issue here may be a
9 distinction without a cost consequence difference. My
10 reference to a rate based credit was essentially not
11 with respect to this specific case, but simply
12 indicating that there is a credit that is recognized
13 against rates. So I didn't hear anything that Mr. Story
14 said myself that was different from what I tried to
15 communicate to the commission. And I don't have any
16 disagreement with what Mr. Story described.

17 COMMISSIONER JONES: Mr. Story, this is
18 Commissioner Jones.

19 I'm looking at the settlement again. What's the
20 authorized net tax rate of return that you're using for
21 this? Is it seven, seven plus percent or what?

22 MR. STORY: It will be whatever the authorized
23 rate is out of the rate case. But we used, I believe,
24 7.16.

25 COMMISSIONER JONES: 7.16.

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1 CHAIRMAN GOLTZ: I have no further questions.

2 JUDGE MOSS: Anything else?

3 All right. Mr. Story, I do have one follow-up
4 question. Ms. Reynolds said this was, in staff's view
5 at least, I'll put it this way, nothing more than
6 implementing the commission's prior order resolving the
7 treatment of RECs. Is that your view as well?

8 MR. STORY: I believe the prior order called for
9 an interest on the balance, which we're doing through
10 the rate of return, and the only difference is that it's
11 coming back over three years instead of five years, and
12 it's being tracked for specific RECs instead of --
13 instead of waiting for a general rate case.

14 JUDGE MOSS: All right. Thank you.

15 Ms. Reynolds, did you have something to add?

16 MS. REYNOLDS: I did want to add that I think we
17 have time to work out some of the details about how this
18 will work in terms of the reporting and some of these
19 other issues. If the commission would like to give us
20 direction on that, that's also certainly acceptable, but
21 we do have time to work out some of the way -- some of
22 how this will work.

23 One of the things we run into with RECs, of
24 course, is that the balances change every year, and
25 that's a different kind of, you know, thing to

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1 incorporate into rate base, and so that's one of the
2 things this is attempting to do by incorporating a
3 true-up.

4 JUDGE MOSS: Okay. Thank you very much.

5 I think one thing that would be useful for our
6 record -- and I could probably go upstairs and find one
7 somewhere in my office, but I'm not going to do that --
8 I wonder if the company could provide us what we call a
9 mock bill so that we can see what this cluttered mass of
10 credits looks like, and have that as part of our record,
11 rather than me going up and getting my own personal PSE
12 bill and doing it that way. Could that be done?

13 MS. CARSON: Yes, I think that can be done.

14 JUDGE MOSS: Okay. Fine.

15 CHAIRMAN GOLTZ: It's six pages long.

16 MS. CARSON: And we're talking about electric
17 bill or gas or both?

18 JUDGE MOSS: This would just appear on the
19 electric side, wouldn't it? So just the electric would
20 be fine. I just think it would be useful to have that
21 as a point of reference.

22 Do we have anything else for these panels? No.
23 Apparently not.

24 Thank you all very much for appearing and
25 providing some clarification on these matters we've

0152

1 discussed. Some of you will be called back, so I won't
2 say you're all released.

3 MR. FFITCH: Your Honor, may I clarify that
4 Mr. Watkins may be excused?

5 JUDGE MOSS: If you have nothing further for
6 testimony for us, Mr. Watkins, you may be excused,
7 Mr. Higgins, others on the conference bridge line, who
8 this is their only matter today.

9 This is a convenient time for us to take our
10 morning recess. It's about 10:35. Why don't we take
11 15 minutes. That will put us back here at about, let's
12 call it 10 before the hour, even though that cuts you
13 short by a minute or two. Okay?

14 (A break was taken from 10:36 a.m. to 10:52 a.m.)

15 JUDGE MOSS: Let's be back on the record. Thank
16 you all for being timely.

17 I had a brief conversation with Mr. Cedarbaum,
18 and he indicates that you have discussed among
19 yourselves bringing some clarity to the REC suit that we
20 stirred up this morning, and I think that would be a
21 good idea. So we can put it in the nature of being a
22 bench request, I suppose. What I'm going to do is start
23 with Bench Request No. 10, even though I realize we have
24 not had nine previous requests. That is a safety
25 mechanism that I'm using. I'll call this Bench

0153

1 Request 10. And what we would ask for then is an
2 example of how the REC mechanism would work. Perhaps it
3 would be best if it was to extend over a, what, two-year
4 period, so that we would see from one year to the next.
5 Does that make sense? Help me out.

6 MR. CEDARBAUM: I think that does make sense,
7 but if the witnesses say that it makes sense to do
8 something otherwise, then we'll do that otherwise.

9 JUDGE MOSS: Okay. The goal, of course, is to
10 gain some clarity with, further clarity, something in
11 writing, that will help us understand it a little
12 better.

13 As I mentioned it, the testimony and the
14 settlement itself are fairly succinct, shall I say. So
15 perhaps some broadening of the discussion would be
16 helpful along the lines that we had the discussion this
17 morning. If we need to further follow-up on that, we
18 can certainly put something in writing to you.

19 When would you anticipate being able to present
20 that?

21 MR. CEDARBAUM: We hadn't discussed that. We'll
22 be in hearing all week. I'm just wondering --

23 JUDGE MOSS: You can report back to me later.
24 Discuss that during a break and let me know.

25 Mr. Garratt has taken the stand, so he's ready,

0154

1 got his notebooks there.

2 Let's get you sworn.

3 ROGER GARRATT

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

6 THE WITNESS: I do.

7 JUDGE MOSS: Thank you. Please be seated.

8 Mr. Kuzma, go ahead.

9 DIRECT EXAMINATION

10 By MR. KUZMA:

11 Q. Please state your name and title and spell your
12 name for the court reporter.

13 A. My name is Roger Garratt, R-O-G-E-R --

14 Q. You need to click the button.

15 JUDGE MOSS: The red light should appear.

16 THE WITNESS: My name is Roger Garratt,
17 R-O-G-E-R, Garratt, G-A-R-R-A-T-T, and my title is
18 director of resource acquisition and emerging
19 technologies.

20 BY MR. KUZMA:

21 Q. Mr. Garratt, do you have before you what's been
22 mark as Exhibit RG-1HCT through RG-30?

23 A. Yes.

24 Q. Do these exhibits constitute your prefilled
25 direct and rebuttal testimony and related exhibits in

0155

1 this proceeding?

2 A. Yes, they do.

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

5 A. Yes.

6 Q. Do you have any corrections to any of your
7 exhibits at this time?

8 A. No.

9 Q. Are your prefiled direct and rebuttal testimony
10 and accompanying exhibits true and correct to the best
11 of your information and belief?

12 A. They are.

13 Q. Thank you.

14 MR. KUZMA: Your Honor, PSE offers Exhibits
15 RG-1HCT through RG-30 into evidence, and offers
16 Mr. Roger Garratt for cross-examination.

17 JUDGE MOSS: Thank you, Mr. Kuzma.

18 Is there any objection to any of those exhibits
19 that have been identified? Apparently not. Those
20 exhibits will be admitted as marked.

21 (Exhibits RG-1HCT through RG-30 were admitted.)

22 JUDGE MOSS: All right. The only party
23 designating cross for Mr. Garratt, I believe, is you,
24 Mr. ffitich, and you have indicated approximately one and
25 a half hours, which I will say I expect is a little bit

0156

1 of an overstatement, I hope. But be that as it may, you
2 may proceed.

3 MR. FFITCH: It's an estimate, Your Honor.

4 JUDGE MOSS: From long experience, Mr. ffitch, I
5 know that you typically are conservative in your
6 estimates, which we actually appreciate. It helps us
7 plan our day.

8 MR. FFITCH: Thank you, Your Honor.

9 JUDGE MOSS: We will break at noon, however, if
10 you're not finished.

11 CROSS-EXAMINATION

12 BY MR. FFITCH:

13 Q. Good morning, Mr. Garratt.

14 A. Good morning, Mr. ffitch.

15 Q. Puget has presented two primary witnesses in
16 this case to support the prudence of the development of
17 the Lower Snake River wind project, one being yourself,
18 and the other Ms. -- is it Aliza Seelig?

19 A. That's correct.

20 Q. Now, I believe this first number here is not
21 confidential. You agree that LSR 1 is -- in your
22 initial testimony, you had identified it as an \$848
23 million investment. That has since been modified to
24 \$830 million. Is that correct?

25 A. Yes.

0157

1 Q. And, in fact, that would almost double Puget's
2 total production plant rate base, wouldn't it?

3 A. I don't follow the question.

4 Q. What percentage would that represent of Puget's
5 total production plant rate base, that investment
6 amount?

7 A. I haven't made that particular calculation. Are
8 you asking -- that's certainly a calculation that we
9 could make, but are you asking if compared to all of our
10 generating assets?

11 Q. Correct.

12 A. So that is a calculation I haven't made.

13 Q. All right. Well, we can move on. We can make
14 that calculation. Thank you.

15 Now, back in November of 2006, Washington voters
16 approved the referendum known as I-937. Correct?

17 A. Yes.

18 Q. And that established a renewable portfolio
19 standard, or what we might hear a lot referred to today
20 as an RPS for Washington state. Correct?

21 A. Yes.

22 Q. For renewables, it established a target of three
23 percent for 2012, nine percent -- nine percent by 2016,
24 and 15 percent by 2020. Correct?

25 A. Yes.

0158

1 Q. Now, right around this same time, Puget Sound
2 Energy initiated a renewable resource strategy, wind
3 development strategy. Correct?

4 A. That's right.

5 Q. And a core feature of that strategy was to seek
6 early involvement in renewable research projects based
7 on the premise that they would ultimately be more cost
8 effective if you got in early. Is that correct?

9 A. If we -- the premise was to get into the
10 development phase early to save development fees.
11 There's certainly additional basis for the strategy, if
12 that's the question that you're asking.

13 Q. I'm just asking for a summary of the strategy,
14 and we can go to your testimony where you provide a
15 summary of your early wind development strategy. Do you
16 want to do that, see what I'm referring to?

17 A. Well, certainly if you want to ask me about
18 something specific in the testimony, I'm happy to do
19 that. I'm also happy just to provide a summary of the
20 strategy if you would like me to do that.

21 Q. Well, all I'm asking is did Puget adopt an early
22 wind development strategy starting in 2006.

23 A. Yes.

24 Q. All right. And you would agree that there have
25 been major changes in the national economy, in the state

0159

1 economy, and energy markets since 2006, would you not?

2 A. Yes.

3 Q. But it is my understanding that Puget has not
4 updated its wind strategy since 2006. Isn't that
5 correct?

6 A. I think to put some clarity around your response
7 to that question --

8 Q. Let's just get a response to that question
9 first. Can you turn to your cross exhibit RG-42,
10 please. Do you have that? This is Public Counsel
11 RG-42.

12 A. I do.

13 Q. In that data request, we asked you if any
14 updates had been made since the 2006 development
15 strategy had been crafted, did we not? That's the
16 request.

17 A. Yes.

18 Q. Your answer is no updates have been made to that
19 strategy except for the implementation of Wild Horse in
20 Lower Snake. Correct?

21 A. Yes.

22 Q. So there haven't been any updates,
23 notwithstanding the changes in the economy or the energy
24 markets to this strategy since 2006.

25 A. I think it depends on how one looks at updates,

0160

1 and how one looks at what this development strategy is.
2 The development strategy has to do with putting projects
3 into a position where the company can execute them, make
4 a decision and execute them, so we haven't changed that,
5 but, you know, where things I would say have changed is
6 what our timing is for execution of projects. So we
7 made -- obviously made the decision to execute on phase
8 one back in May of 2010. We haven't made a decision to
9 execute any additional phases beyond that. The strategy
10 itself didn't go to execution dates. The execution
11 itself really went to self-performing of the development
12 phase work in order to create the opportunity, and with
13 the intention of saving development fees --

14 Q. You reference --

15 A. -- quite significantly.

16 Q. Excuse me.

17 You reference phase one in your answer. Just
18 for the clarity of the record, you're referring to phase
19 one of the Lower Snake --

20 A. That's correct, yes.

21 Q. -- project?

22 In testimony written and oral today, we're often
23 going to hear that referred to perhaps as LSR 1.
24 Correct?

25 A. Yes.

0161

1 Q. The answer you gave about the development
2 strategy is not included in the response to this data
3 request, was it?

4 A. In terms of the answer that I just articulated?

5 Q. Right. This answer just says there was no
6 updates except for these two projects. And so you've
7 just provided some -- an additional answer that you
8 chose not to include in this data request. Correct?

9 A. I would say we tried to answer the data request
10 as best we could and --

11 Q. Okay.

12 A. -- in terms of targeting the, you know, the
13 exhibit that showed a development strategy, what I tried
14 to do here was to add some additional clarity.

15 Q. All right. Originally the Lower Snake project
16 started out as a plan for a joint venture with a company
17 called Renewable Energy Systems or RES. Correct?

18 A. Yes.

19 Q. And the negotiations for that started in 2007.
20 Is that right?

21 A. That's right.

22 Q. By 2008, Puget had actually signed a joint
23 venture agreement with RES to develop the Lower Snake
24 project?

25 A. That's correct.

0162

1 Q. And then thereafter RES wanted out of the
2 project, and by mid 2009 Puget had purchased their
3 interest and become the sole owner of the Lower Snake
4 project. Correct?

5 A. That's correct.

6 Q. And here we may need to look at a confidential
7 number, I'm not sure. You can help me out on this. I
8 want to ask you what the total amount of money invested
9 by Puget Sound Energy in the Lower Snake project prior
10 to the time of the April 2010 energy management
11 committee meeting and then the -- as well as the board
12 meeting in May of 2010. I have a couple of exhibit
13 cites for you if you need -- do you have a number in
14 mind that's nonconfidential? Or we could go to
15 exhibits.

16 A. Why don't we go to the exhibit.

17 Q. Okay. Let's look at RG-13, which is a highly
18 confidential exhibit. I believe those are board
19 presentations. I have the number written down here, so
20 we may have to take our binder out as well. Page 16 of
21 the exhibit.

22 CHAIRMAN GOLTZ: I'm sorry, what exhibit number
23 is it?

24 MR. FFITCH: This is RG-13. This is one of the
25 approximately 12 or 13 binders that came with your

0163

1 testimony, isn't it, Mr. Garratt?

2 THE WITNESS: I believe it was nine.

3 BY MR. FFITCH:

4 Q. I lost track after while I guess. So we're on
5 page 16 of this exhibit. My question is what was the
6 total amount of money invested by Puget Sound Energy in
7 LSR by the time of the, let's say by the time of the
8 board presentation materials that were presented
9 May 2010. And I'm looking at the first paragraph under
10 the heading budget and schedule. There's a shaded
11 number there.

12 JUDGE MOSS: Mr. Garratt, he's asking you for a
13 number that was indicated to be confidential here, so
14 you have two options here. If it's no longer
15 confidential, you can simply state the number in
16 response to his question. If it remains confidential as
17 originally designated, then you can simply say or
18 confirm that it is or is not this number that he's
19 indicated here is shaded. It's about the fourth line of
20 text on that page.

21 THE WITNESS: So that would be the number.

22 BY MR. FFITCH:

23 Q. Does that include payments to the Bonneville
24 Power Administration?

25 A. It does.

0164

1 Q. Can you go, please, to Exhibit RG-47. That's
2 one of your cross exhibits. Do you have that?

3 A. I do.

4 Q. RG-47 asks you for the actual Bonneville
5 payments. Correct?

6 A. It does.

7 Q. Those are not confidential. Am I correct about
8 that?

9 A. That's right.

10 Q. So roughly speaking, that's around \$40 million,
11 so we can add those numbers up, but is that correct?

12 A. Yes.

13 Q. And that was all expended prior, obviously prior
14 to the board meetings, and was included in that total
15 sum that -- the confidential number you just pointed to.
16 Is that right?

17 A. Well, as a point of clarification, I believe
18 that in terms of the number represented on page 16 of
19 Exhibit 13 that there was some allocation of those
20 costs. But it was included.

21 Q. Those were costs that had been incurred by the
22 company at that point?

23 A. That's correct.

24 Q. And Puget Sound Energy was not recovering any of
25 those costs in rates at that point in time, were they?

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1 A. No, we were not.

2 Q. And the company is not recovering any of those
3 costs and rates at the present time. Is that correct?

4 A. That's correct.

5 Q. Now, you Puget Sound Energy did not forecast a
6 need to construct LSR I in 2012 to meet RPS standards.
7 Correct?

8 A. The decision to -- in terms of the RPS standards
9 was really laid out in, initially, in the integrated
10 resource plan of 2009, which did call for 300 megawatts
11 of new wind in 2012, and another 300 megawatts of new
12 wind in 2016.

13 Now, admittedly that was calling for wind
14 earlier than what we would need to build to the 2012
15 requirements, so we were building early to build to the
16 2016 benchmark. You know, we certainly acknowledge that
17 that was the case, and that was the most critical
18 decision in this particular case, but not -- but not
19 only the IRP, but all of the other analysis that we
20 performed showed that building early was the most cost
21 economical alternative for the customers, and it also
22 showed that LSR 1 was the best of the alternatives for
23 building early.

24 Q. All right. Thank you. I think you've answered
25 that question somewhere in there, but let me take that

0166

1 answer apart a little bit.

2 You're agreeing that you had no actual RPS need
3 in 2012. That's undisputed. Correct? Let me continue,
4 because maybe I can clarify the question a little bit
5 more. There's no actual resource need now. What you
6 have is a forecast of economic benefits from acquiring
7 early wind based on those analyses that you just ran
8 through, but you do not dispute that Puget has no need
9 for renewable resources until 2016 at the earliest.

10 Correct?

11 A. In order to meet the benchmark, that is correct.

12 Q. The RPS benchmark?

13 A. In order to meet RPS benchmark. I think it's
14 also important to understand, though, that a renewable
15 resource is providing more than simply renewable energy,
16 for compliance purposes, so they are also providing
17 energy, and even providing a segment of capacity to the
18 system, and so we certainly had a need for energy and
19 capacity prior to 2016.

20 Q. But fundamentally the need that you're
21 establishing in this case or attempting to establish is
22 based on estimations of forecasted benefits of early
23 wind as compared to delaying Lower Snake until 2016.

24 Correct?

25 A. There certainly was a very substantial benefit

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1 for building early in this particular case, because of
2 the Section 1603 treasury grants, and the Washington
3 state sales tax exemption.

4 Q. So I guess I'm just trying to get a clear answer
5 from you here. You do not need to acquire wind to meet
6 RPS requirements until 2016 at the earliest. Your case
7 is based on a presentation that attempts to show that
8 there are nevertheless economic benefits to acquiring
9 wind early. Isn't that correct? You don't dispute that
10 you do not need wind until 2016 at the earliest?

11 A. For the purpose of meeting RPS compliance,
12 you're correct.

13 Q. All right. And your need case in this docket is
14 based on forecasts that economic benefits that you say
15 would accrue to customers through the acquisition of
16 early wind. Isn't that right?

17 A. I'm not sure I would characterize it as our need
18 case. I would characterize it as the reason we made the
19 decision to acquire early was because it was clearly
20 beneficial to the customers to do that and to take
21 advantage of the grants and the state sales tax
22 exemption, that a strategy of waiting until 2016 was
23 unlikely to have that same result.

24 Q. So the gist of this case is that there's no
25 current need for renewable resources until 2016 at the

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1 earliest. The in-service date of Lower Snake is
2 approximately four years ahead of the 2016 RPS
3 requirement. Puget's argument is that the most cost
4 effective method to acquire the renewable resource is to
5 acquire it now. So this case really turns on Puget's
6 analysis of cost effectiveness and whether that was
7 reasonable or reliable. Correct?

8 A. I think that's right.

9 Q. Ms. Seelig testifies that the RFP process in
10 this docket -- which occurred just prior to the board
11 decision in early 2010. Correct? That's when it
12 occurred?

13 A. That is correct. And in fact the decision for
14 LSR 1 was delayed in order to enable the evaluation of
15 the RFP alternatives to take place before the board made
16 the decision to proceed.

17 Q. Right. And Ms. Seelig's testimony, and I assume
18 you agree with this, is that that is the definitive
19 analysis that supports the prudence of the Puget
20 decision to go forward with LSR.

21 A. Yes, that is our process.

22 Q. Would you also agree that the overall analytic
23 process that the company presents in testimony here in
24 support of prudence incorporates the 2009 IRP, the 2009
25 IRP rerun, the DCF, or discounted cash flow analysis,

0169

1 and leading up to the 2010 RFP? Isn't that correct?

2 A. Yes. And in addition to some other runs that we
3 made in conjunction with the board decision.

4 Q. But you also testify, Mr. Garratt, that Puget
5 Sound Energy had already evaluated LSR 1 and was
6 prepared to proceed in 2009. Correct? I can take you
7 to your testimony if you'd like and show you that.

8 A. Please do.

9 Q. It would go to your direct testimony, RG-1,
10 page 48.

11 JUDGE MOSS: Did you say page 38?

12 MR. FFITCH: Page 48, I believe, Your Honor.

13 BY MR. FFITCH:

14 Q. Page 48, line five. Do you have that?

15 A. I do.

16 Q. In there you state although PSE evaluated LSR
17 phase one in 2009 and was prepared to proceed, Puget
18 management made a decision to postpone. So, again, I
19 ask you, you -- or Puget, rather at that point in 2009
20 had evaluated LSR phase one and was prepared to proceed.
21 Correct?

22 A. Well, let me elaborate on that.

23 Q. That's what your testimony says. Right?

24 A. I would like to elaborate on that.

25 Q. Doesn't your testimony say what it says?

0170

1 A. You did read the words correctly.

2 Q. All right.

3 A. The -- what I would add to that, and I believe
4 the words do make this clear as well, is that -- well,
5 first off, in terms of some background that I would add
6 is that -- so none of this work takes place in a vacuum.
7 So if we go back to the time period in 2009, we
8 certainly have a sense of what other alternatives exist
9 for renewable resource options, and make comparisons
10 between LSR 1 and the other options, but --

11 Q. Excuse me --

12 A. -- but that was the point of this particular
13 statement, but -- and the fact that we were ready to
14 proceed, and that we were ready to proceed from the
15 standpoint of having contracts and permits and so forth,
16 so that we could have moved into the development phase.
17 What we consciously chose to do was to not do that, and
18 delay that decision for five months in order to do
19 additional evaluation against other alternatives.

20 Q. You referred to some of the earlier comparisons.
21 Are you referring a 2007 RFP results that the company
22 looked at in part?

23 A. But it's not entirely the 2007 RFP. And I guess
24 that's what I was getting at in terms of these things
25 don't occur, or maybe a better way to say it is they

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1 don't simply occur in discrete elements. So whenever we
2 conduct an RFP, the parties that don't get selected, a
3 few go away, but most of them continue to be around and
4 we continue to have conversations with them, and there
5 are projects and their pricing tends to evolve over
6 time, and as a result of having done this really since
7 2004, 2005, you really have a pretty good sense of what
8 the marketplace is.

9 So it was based on -- getting back to your
10 question, somewhat based on 2007, but based on other
11 developments and conversations that had taken place with
12 wind developers between 2007 and 2009. And all of that
13 is happening before the official 2010 RFP.

14 Q. There were some fairly significant economic
15 events between 2007 and 2009, were there not?

16 A. There were.

17 Q. Now, the initial evaluation that led you to feel
18 that you were prepared to proceed, all of that occurred
19 prior to any RFP being performed in 2009 or 2010.

20 Correct? In other words, you felt in 2009, it says
21 here, you were prepared to proceed without the benefit
22 of an additional IRP. Correct?

23 A. One thing I need to be clear here, this is
24 referring to the end of 2009. I'm not sure the
25 testimony makes that clear. But it's talking about -- I

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1 guess it does in the question, because it talks about a
2 decision in January of 2010. So at the end of 2009 --
3 and being prepared to proceed was really talking about
4 being prepared to proceed with the construction phase of
5 the project. So it's not --

6 Q. Sorry. Go ahead.

7 A. -- so it's not trying to suggest that we were
8 prepared to proceed no matter what. What we're saying
9 is we were prepared to proceed from the development
10 phase, or we had created the opportunity to move forward
11 to the implementation of that through the construction
12 -- signing of the contracts and the construction phase.

13 Q. Can you please turn to the prior page of your
14 testimony, page 47, please, and to line 14. In there
15 you state, do you not, that staff expected to present
16 LSR phase one to the EMC, that's energy management
17 committee -- correct?

18 A. Yes.

19 Q. -- in December 2009, with a recommendation to
20 seek approval from the board of directors in
21 January 2010. Correct?

22 A. Yes.

23 Q. That was planned to occur without the benefit of
24 any additional RFP since the 2000 RFP. Correct?

25 A. Yes.

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1 Q. And then starting at line 16, and continuing on,
2 you state that, in fact, on October 12th, 2009, staff
3 sought and received approval to negotiate a wind turbine
4 contract with Siemens. Correct?

5 A. Yes.

6 Q. And you did obtain that approval?

7 A. Yes.

8 Q. Did these events occur prior to the IRP rerun?

9 A. I believe then after the IRP rerun.

10 Q. But prior to any -- prior to the RFP that
11 ultimately occurred, you'd already decided to go to the
12 EMC and the board of directors with the LSR project,
13 correct, initially?

14 A. Well, initially. Obviously that was not what we
15 did. And I think the purpose of adding this into the
16 testimony was to be very explicit about the fact that we
17 waited, not that we made some earlier decision. So, in
18 fact, we didn't make an earlier decision, we delayed the
19 process, and delayed the decision until May.

20 Q. I understand that. That's laid out in your
21 testimony also. I just wanted to inquire into these
22 earlier events.

23 A. And I guess one thing I would make the point on
24 regarding the Siemens negotiations, is in order to have
25 the project ready to go, we obviously had to negotiate

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1 turbine supply contracts and balanced plant contracts,
2 but none of those contracts were signed or executed
3 until after the board made its decision in May, so there
4 was no commitment made at that point other than to
5 negotiate exclusively with Siemens.

6 Q. But at the time that you got permission to
7 negotiate with Siemens, you thought that you were going
8 to the committee, the energy committee and the board in
9 December and January without an RFP, did you not?

10 A. We, at the -- at the time, and as I explained
11 earlier --

12 Q. Excuse me, Mr. Garratt. Could you please just
13 answer the question? At the time you got permission to
14 negotiate with Siemens, you thought you were going to a
15 January board of directors meeting without an RFP.

16 Correct?

17 A. Yes. Based on the information that we
18 understood at that time.

19 Q. Moving on to another topic. You state in your
20 rebuttal testimony that Puget appreciates Mr. Norwood's
21 role in this case, do you not?

22 A. We do.

23 Q. And you state he's been very thorough and has
24 uncovered revisions that required Puget Sound Energy to
25 make corrections. Correct?

0175

1 A. Yes.

2 Q. Your position in the end, though, is that the
3 errors or omissions that have come to light as a result
4 of Mr. Norwood's efforts, Public Counsel's efforts, are
5 minor and they have no discerning impact on Puget's
6 need. Correct?

7 A. Correct.

8 Q. Would you agree that if information on Lower
9 Snake that Puget's staff or management presented to the
10 board was flawed or incomplete or misleading that that
11 could lead to an imprudent decision by the board of
12 directors?

13 A. Certainly if it was misleading, I think that
14 the -- I think that in terms of any sort of minor
15 errors, one has to look at what sort of impact those
16 errors have had. And we've certainly looked at that
17 very carefully in this particular case.

18 Q. So if you -- I guess you've agreed with me as
19 far as misleading information. You're saying that if
20 there are minor flaws or minor incomplete things, that
21 wouldn't affect prudence. What about significant flaws
22 or major omissions? Would that affect the prudence
23 decision and lead to an imprudent decision?

24 A. I think you're asking me to make some sort of
25 legal judgment here, which I'm not sure I'm in the best

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1 position to make. And certainly it's our intent to
2 provide the most accurate information that we can to the
3 board of directors and the decision making process, and
4 certainly it's our intent to conduct the most thorough
5 and robust evaluation that we can.

6 Q. In your rebuttal testimony, Mr. Garratt, you
7 present project and budget updates for LSR phase one as
8 well as current levelized cost recalculations. Correct?

9 A. Yes.

10 Q. All of that testimony pertains to events that
11 have happened subsequent to the board's decision in
12 May 2010.

13 A. Yes.

14 Q. Is that right? So obviously Puget management
15 and the board was not aware of any of that information
16 at the time of the LSR decision in May 2010, were they?

17 A. Are you referring to the cost savings?

18 Q. Yes, I'm referring to the project update
19 information, the budget update information, the new
20 levelized cost calculations that you've provided in this
21 docket. None of that information was before the board
22 when they made their decision on this project, was it?

23 A. I think you may be asking about the elimination
24 of the normalization for the Section 1603 grant in that
25 question, so let me talk about that briefly.

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1 Yeah, certainly in terms of the project budget,
2 the board decision was made based on the higher budget
3 figure, the \$848 million, and the lowering from 848 down
4 to 830 was really a result of the implementation of the
5 project by the project management team to bring it in
6 roughly two months earlier, and so it's really
7 several -- schedule savings that attribute, you know,
8 most of those savings.

9 But in the rebuttal testimony, we do address, or
10 I do address, the elimination of the normalization
11 requirement for Section 1603 grants, which has an
12 economic benefit to customers in the neighborhood of
13 about \$80 million. At the time that the board made the
14 decision, we did highlight that to them as an
15 opportunity that could potentially be achieved, and I
16 would describe that as being a subjective factor in
17 favor of LSR 1 compared to other alternatives, because
18 certainly if we would have signed a power purchase
19 agreement with some other party, and then they had --
20 and then this sort of benefit had accrued to our
21 counterparty, PSE and its customers wouldn't have seen
22 any of that benefit.

23 So the point of highlighting it was to highlight
24 it in terms of its economic advantage for customers and
25 the fact that it was a subjective criteria that

0178

1 subsequently was achieved. And I might add by a great
2 deal of work by PSE employees to lobby the government,
3 the Federal Government to make it happen.

4 Q. The Puget Sound Energy board of directors did
5 not know, though, in May 2010 whether or not the
6 normalization rules would be changed, did they?

7 A. They did not know. We did highlight that that
8 was an opportunity that we were pursuing.

9 Q. Right. In other words, they didn't know one way
10 or the other whether the normalization rules would
11 change when they made that decision. Correct?

12 A. That's correct. They made the decision based on
13 the fact -- from a quantitative perspective, you might
14 think of it that they made the decision based on the
15 normalization rules applying. I do think that, you
16 know, as you think about the way a board makes
17 decisions, the way a management team makes decisions,
18 that opportunities to achieve some additional economic
19 benefit is a factor in making a decision.

20 Q. But that was an uncertain benefit at the time.
21 They had no way of knowing whether they could count on
22 that outcome occurring. Correct?

23 A. It was uncertain. It was an opportunity.

24 Q. Are you suggesting that the commission should
25 consider the ultimate outcome on the normalization

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1 change as a factor in determining whether Puget made a
2 prudent decision in this case?

3 A. I think it does weigh into the decision,
4 because, again, I think that as you -- as I think about
5 a particular project, there can be -- there's always
6 uncertainties about any sort of project, and part of the
7 decision making process is one of the potential upsides
8 and potential downsides, and that's part of the
9 subjective judgment that goes into making any particular
10 decision. And so I think the fact that there was this
11 potential upside and that was something that we were
12 aware of and working on at the time that we made the
13 decision in May is a relevant fact.

14 Q. So as I understand what you're saying, you want
15 the commission to consider an event that happened a year
16 or two years after the board decision to pursue Puget
17 and in their prudence review of this case. Is that
18 right?

19 MR. KUZMA: Your Honor, I object. He's asked
20 this question, Mr. Garratt has answered that Puget was
21 working on this during the time of the board's decision,
22 it did occur after the decision, and it should be
23 considered in part.

24 JUDGE MOSS: I think he's been pretty thorough
25 on this, Mr. ffitch. I think we understand that -- what

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1 I understand the witness to be saying is that the
2 opportunity was a factor at the time the decision was
3 made, and we all understand that the event did not
4 materialize until later, so it clearly could not have
5 been part of the decision process. Is there something
6 more that we need to understand?

7 MR. FFITCH: Well, Your Honor, I think you've
8 stated it more clearly than the witness. I'm trying to
9 find out if the witness --

10 JUDGE MOSS: I'm a very discerning individual,
11 Mr. ffitich.

12 MR. FFITCH: I'm trying to determine whether the
13 witness and Puget Sound Energy are asking this
14 commission to consider the elimination of normalization
15 as having a bearing on the prudence of their decision in
16 this case, and I can't get the witness to answer that
17 question.

18 MR. KUZMA: Your Honor, he's asking for a legal
19 judgment or a legal conclusion. This is something that
20 will be addressed on brief, this is something that the
21 commission can address on its order. I think it's
22 inappropriate for Mr. Garratt to be on the stand
23 discussing what the commission should consider in its
24 prudence decision.

25 JUDGE MOSS: Well, Mr. ffitich, I think the

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1 important thing is what our understanding of it is. And
2 as you observe, I have pithily and lucidly described
3 what we understand this witness to be saying on this
4 point. Is there something more you need to establish in
5 way of our understanding about the point? Otherwise I
6 think you're there.

7 MR. FFITCH: Well, I haven't heard Puget yet say
8 events which occurred after the fact cannot be
9 considered in the prudence decision. If they're not
10 willing to say that, we can move on.

11 JUDGE MOSS: Well, again I think Mr. Kuzma has a
12 good point there. We can certainly argue the manner in
13 which we evaluate prudence -- the commission evaluates
14 prudence is pretty well established I think. We do look
15 at things at the time the decision was made, not
16 retrospectively.

17 MR. FFITCH: I agree with that, Your Honor, I'm
18 trying --

19 JUDGE MOSS: I think Puget agrees with that too.
20 I think all of our regulated utilities understand that.
21 I've seen it in briefs so many times, I'm confident it's
22 the case.

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

24 JUDGE MOSS: Thank you.

25

0182

1 BY MR. FFITCH:

2 Q. Mr. Garratt, you are the prudence witness in
3 this case, are you not?

4 A. I am.

5 Q. And you review the Puget prudence standard
6 extensively in your testimony, do you not?

7 A. I do.

8 Q. Now, we started off asking about some of the
9 update information, the reduced project cost, the update
10 of the levelized cost calculations that you provided,
11 budget updates. Are you suggesting that the commission
12 should consider those in its prudence evaluation in this
13 case?

14 A. I would say the primary purpose for putting that
15 information in the rebuttal testimony was to provide an
16 update to the commission on the current status and
17 current cost of the project. Without wanting to go to
18 the discussion of what the commission should or should
19 not discuss or, you know, decide upon, since I feel
20 that's certainly outside of my purview, I do think that
21 it's relevant that we've not only had a record in this
22 particular case of bringing the project in under budget,
23 but in our previous wind projects as well, so I think in
24 that respect it could be relevant to the case.

25 Q. So the fact that Puget is bringing this project

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1 in under budget years after the decision that was made
2 by the board you believe is relevant to the prudence
3 analysis? That's your testimony?

4 A. Well, again it's not my place to tell the
5 commission what to consider or not to consider. I think
6 my main point is that PSE has established itself in this
7 project and in previous projects as being able to
8 implement these projects under budget and ahead of
9 schedule, and that strikes me as having some relevance.

10 Q. Well, you say it's not your place to advise the
11 commission on prudence, but your direct testimony is
12 93 pages long, and one of the chief topics addressed in
13 your testimony is the prudence of Puget's decision.

14 MR. KUZMA: Your Honor, I'm going to have to
15 object to this line of questioning. We've already
16 discussed the issue of prudence, Mr. Garratt's
17 understanding of prudence, what the commission should
18 consider in this case. Mr. Garratt has established that
19 he's providing this information as updates to
20 demonstrate that the budgeted amounts provided to the
21 board of directors were actually conservative and that
22 the actual amount have come in under budget. I don't
23 see where this is going, and he's frankly badgering the
24 witness about a legal issue.

25 JUDGE MOSS: Mr. ffitich, are you badgering this

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1 witness?

2 MR. FFITCH: Just trying to get the witness to
3 state what he wants the commission to consider on the
4 issue of prudence, Your Honor, and I think the record
5 will reflect those statements, not the statements of
6 counsel or his counsel or -- sort of the definitive
7 record on this point.

8 I just have one more question on this line.

9 JUDGE MOSS: All right. Go ahead with it.

10 BY MR. FFITCH:

11 Q. Mr. Garratt, if you believe the commission
12 should consider the developments with regard to
13 normalization of the treasury grant, the budget update,
14 the levelized cost recalculations, then the commission
15 should also consider other subsequent developments, such
16 as termination of the Southern Cal contract,
17 dramatically lower natural gas prices and other events
18 that have occurred since the 2010 board situation,
19 should it not?

20 A. I think there is a distinct difference between
21 the Section 1603 treasury grant elimination of
22 normalization and the fact that project costs have come
23 in under budget, and the two events that you've just
24 cited. I think the fundamental difference between those
25 events is that in the first two cases the elimination of

0185

1 the normalization requirement and in the project budget
2 coming out under budget were the direct results of the
3 PSE's efforts. I think in the other two instances they
4 were events that were outside of our control.

5 Q. Every item I mentioned happened after May 5th,
6 2010, did it not?

7 A. The termination -- oh, every -- could you
8 restate your question again? I'm sorry.

9 Q. I'll give you a list. The project updates, the
10 budget updates, the levelized cost updates, the change
11 in treatment of the treasury grant, termination of the
12 Southern Cal Edison No. 2 contract, and the dramatically
13 lower natural gas prices, all of those occurred after
14 May 5th, 2010, did they not?

15 A. I'm not sure I can speak to the last one on
16 natural gas prices, but certainly all the others did.

17 Q. All right.

18 JUDGE MOSS: Mr. ffitch, if you're moving to a
19 new topic, I'll ask you if you are going to complete
20 that within the next ten minutes or will you require
21 longer?

22 MR. FFITCH: It's a little hard to predict, Your
23 Honor. It could be close.

24 JUDGE MOSS: All right. Then we will recess now
25 for lunch, and we will come back at 1:30.

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1 MR. FFITCH: All right. Thank you, Your Honor.

2 JUDGE MOSS: We're off the record.

3 (A luncheon recess was taken from 11:47 a.m. to
4 1:33 p.m.)

5 JUDGE MOSS: Let's be back on the record.

6 Mr. Garratt, welcome back. I hope you had a
7 pleasant lunch.

8 THE WITNESS: (Witness nods head.)

9 JUDGE MOSS: Mr. ffitch, I hope you had a
10 pleasant lunch too.

11 MR. FFITCH: Thank you, Your Honor. I did.

12 JUDGE MOSS: You may resume your cross.

13 BY MR. FFITCH:

14 Q. Good afternoon, Mr. Garratt.

15 A. Good afternoon.

16 Q. Starting on a new topic area. You testified
17 that in order to meet the used and useful test under the
18 commission's renewable policy statement, Puget Sound
19 Energy as to show that the resource, the LSR resource
20 has benefits that would offset the cost of early
21 acquisition. Correct?

22 A. Yes.

23 Q. And so again in this case, on this issue, the
24 issue comes down to whether PSE's evidence has
25 established cost effectiveness. Correct?

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1 A. Yes.

2 Q. Now, Mr. Norwood testified that customers are
3 not expected to benefit from LSR when compared to the
4 just in time alternative, the 2016 alternative for 20
5 years. Do you recall that was his testimony in part?

6 A. I believe -- I'm not intimately familiar with
7 Mr. Norwood's testimony. It's certainly my
8 understanding that all of our analyses demonstrate that
9 the customer does benefit over the lifetime of the
10 decision process.

11 Q. Could you please turn to Exhibit RG-28, and I'll
12 just refresh your memory on this testimony. That's your
13 rebuttal, RG-28?

14 JUDGE MOSS: What was the page reference,
15 Mr. Ffitch?

16 MR. FFITCH: Page 18, Your Honor.

17 JUDGE MOSS: Thank you.

18 THE WITNESS: I am on page 28.

19 MR. FFITCH: I'm looking at page 18 of your
20 rebuttal, RG-28.

21 JUDGE MOSS: The exhibit number is 28, the
22 page number is 18.

23 THE WITNESS: Okay.

24 BY MR. FFITCH:

25 Q. I'm directing you there to your testimony

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1 starting at line three. There you quote Mr. Norwood's
2 testimony where he states that there's not expected to
3 be a benefit for customers compared to no early wind for
4 the next 20 years. Correct? Does that refresh your
5 memory?

6 A. I see where I'm quoting Mr. Norwood.

7 Q. And then in your testimony then, it continues on
8 there, you don't disagree with his assessment with
9 regard to the no benefit for 20 years, but your point
10 that you're making there is that he's neglecting to
11 consider the totality of the benefits that will accrue
12 over the life of the project. Correct?

13 A. I think we are pointing out that there are
14 benefits over the life of the project, and that the 20
15 years, we don't agree with the statement that there's no
16 benefits over a 20-year period.

17 Q. But you didn't say that here, did you?

18 A. In this testimony, we talk about the totality of
19 the benefits, and the basis for doing that is that
20 the -- it's the same basis in any case where we're
21 demonstrating prudence, which is to look at the benefits
22 over the life. It a 20-year analysis taking into
23 account end effects. And that's what we've done in
24 other cases. That's what we did in this case.

25 So are you suggesting that we should have looked

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1 at it without end effect?

2 Q. No. I'm just asking if you disagree that
3 there's evidence in this case that the customers do not
4 see a benefit for the first 20 years of the project.

5 A. I don't believe there is evidence to that
6 effect. I believe the evidence shows that there is a
7 benefit to customers.

8 Q. Over the totality of the project.

9 A. And -- but doing the evaluation in the way that
10 it's always been done, which is over a 20-year life with
11 end effects.

12 Q. Well, you do go on to say Mr. Norwood is
13 neglecting to consider the totality of benefits that
14 will accrue over the life of the project. That's on
15 that same page, page 18, lines 10 and 11. Correct?

16 A. Yes.

17 Q. By the life of the project, do you mean over the
18 50-year time frame of the modeling analysis?

19 A. The life of the project is not 50 years. The
20 life of the project is 25 years. I think the idea -- I
21 think partly what we were rebutting in this particular
22 section of the testimony was some of the testimony of
23 Mr. Norwood where he seemed to be suggesting that we
24 should have looked at even a shorter time period than 20
25 years. And again what we did, and did consistently, was

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1 to look at it in the same way that we traditionally
2 have.

3 Q. But it's true, is it not, that the timeframe of
4 the modeling analysis that Puget is using is a 50-year
5 timeframe?

6 A. I'll have to defer that question for Aliza.
7 That's not my -- Aliza and some of the analysts are
8 certainly much more intimately familiar with the model.
9 It's not my understanding that when we talk about
10 20-year horizon and say it's some sort of 20-year
11 present value analysis that that's what you're
12 suggesting.

13 Q. I'll pursue that with Ms. Seelig. Thank you.

14 Would you agree that it becomes more and more
15 difficult to predict economic results with accuracy the
16 further out you go in time?

17 A. Yes. And that's why we use a range of forecasts
18 for power prices, carbon prices, loads, et cetera.

19 Q. Do you believe it possible to forecast Puget's
20 system costs over 50 years with an accuracy of plus or
21 minus half a percent?

22 A. I would say it's not -- not with a single-point
23 forecast, and again that's why we use a range of
24 forecasts and scenarios in the analytical work that we
25 do.

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1 MR. FFITCH: May I have a moment, Your Honor?

2 JUDGE MOSS: Yes, you may.

3 MR. FFITCH: No further questions for this
4 witness.

5 Thank you, Mr. Garratt.

6 JUDGE MOSS: Thank you, Mr. ffitch. As I
7 indicated earlier, you were the only party to have
8 indicated cross-examination for Mr. Garratt. I assume
9 that remains the case. It seems to be.

10 Then we will turn to the bench and see if the
11 commissioners have any questions for you, Mr. Garratt.

12 CHAIRMAN GOLTZ: Okay. So just let me make sure
13 I have some dates in mind here. We're talking about
14 May 5, 2010. That's the decision date?

15 THE WITNESS: Right. That was the board of
16 directors meeting where the decision was made.

17 CHAIRMAN GOLTZ: And so there's been some
18 discussion about what was considered forward and what
19 happened after that. One of the issues was the change
20 on normalization.

21 THE WITNESS: Right.

22 CHAIRMAN GOLTZ: Which took place afterwards.
23 Is that correct?

24 THE WITNESS: Yes.

25 CHAIRMAN GOLTZ: But turning your attention to

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1 the period prior to May 5, 2010, was the possibility of
2 that change considered in the -- by the board or by you
3 in recommending to the board?

4 THE WITNESS: I would certainly say that it was
5 considered by the management team in making the
6 recommendation. It would be hard for me to say how much
7 it was a consideration in the board decision, per se.

8 CHAIRMAN GOLTZ: Looking at your Exhibit 12,
9 it's HC, but I'm just looking at a white paper, so I
10 assume that part is not confidential. I'm referring now
11 to the exhibit page, which is 68 of 266, or really 67
12 and 68 of 266.

13 THE WITNESS: Okay. So just to make sure I'm on
14 the right pages, 67 and 68 of this Exhibit 12?

15 CHAIRMAN GOLTZ: Yes.

16 THE WITNESS: Okay.

17 CHAIRMAN GOLTZ: Which is page 28 and 29 of a
18 memorandum from Kimberly Harris to the PSE board of
19 directors dated July 17, 2009. Am I correct?

20 THE WITNESS: Yes.

21 CHAIRMAN GOLTZ: Is that a place where this
22 issue was discussed to the board? Maybe you can
23 explain. Were you involved in this presentation to the
24 board on July 17th?

25 THE WITNESS: I don't -- I'm not sure if I was

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1 on July 17th, although I'm sure I was involved in
2 putting this memorandum together. So maybe just to have
3 a minute to refresh my memory.

4 So when I look at this particular portion of the
5 exhibit, I think this was getting to the point, a
6 somewhat related but slightly different point, so it was
7 pointing out to the board of directors that there was
8 this requirement for normalization. One thing I might
9 interject was some of the same kind of things applied in
10 the case of the Wild Horse expansion as well. There was
11 this requirement for normalization.

12 And maybe to back up a bit in terms of the some
13 of the history. So when the Congress passed the
14 stimulus bill that put the grants into place, they put
15 the language in the bill that led the Treasury
16 Department to conclude that normalization applied, and
17 shortly after that time when a group of us from PSE went
18 to Washington to meet with Treasury and ask about that,
19 essentially what they said to us, you know, you're
20 right, it requires that you didn't intend to do that,
21 but by the language of the bill, it does require that.

22 So one of the things that we asked about in that
23 meeting was -- because it talked about the need to
24 normalize, but it used language in the bill similar to,
25 so we said what if we normalized it over ten years,

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1 and -- which is also what we had ended up proposing in
2 the case of the Wild Horse expansion. And they thought
3 that would work. And then there was some subsequent
4 developments that took place that got us and got
5 Treasury comfortable with the ten-year normalization.

6 In this particular exhibit, we're really laying
7 out how going with a ten-year normalization as compared
8 to a 25-year normalization would benefit the customer on
9 a generic, if you will, 250-megawatt wind project. So
10 that's what you're seeing over on page 68.

11 But at the same time that all of this analysis
12 was going on, we were also talking about what if we
13 could make the normalization go away altogether and the
14 benefit would be even greater than this.

15 CHAIRMAN GOLTZ: What was the benefit of that?
16 Was that the \$87 million?

17 THE WITNESS: Well, the -- it wouldn't be
18 precisely 80 million in this particular example, because
19 this was --

20 CHAIRMAN GOLTZ: Right.

21 THE WITNESS: But in the actual case of Lower
22 Snake River, it's 80 million, a little bit more than \$80
23 million on a present value basis.

24 CHAIRMAN GOLTZ: Was there a time prior to --
25 let me get the day right -- May 5, 2010, when that

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1 dollar fee figure was presented to the board in some
2 way?

3 THE WITNESS: You know, I'm not sure we ever
4 presented a dollar figure to the board. I don't recall
5 if we did that. We did mention in the board document
6 the opportunity to do that.

7 CHAIRMAN GOLTZ: And then another event that was
8 talked about was the contract with Southern California
9 Edison for sale of RECs.

10 THE WITNESS: Yeah.

11 CHAIRMAN GOLTZ: As I understand it, and I'm
12 sure this is in one of the ten or so volumes, but the
13 contract with Southern California Edison had a contract
14 term that allowed Southern California Edison to back
15 off, back out of the contract. Is that an accurate
16 summary?

17 THE WITNESS: Well, the way I would describe it
18 is the contract had a condition precedent, so that it
19 required CPUC approval in order for the delivery -- or
20 the purchase and sale obligation to a third.

21 CHAIRMAN GOLTZ: And obviously Puget Sound
22 Energy, the company was aware of that off ramp in the
23 contract. Do you recall or is there some documentation
24 that you've submitted that shows that that contingency
25 was submitted to the board of directors so they knew

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1 about it in making their evaluation?

2 THE WITNESS: The -- I'm not sure to what extent
3 the board was aware of that particular requirement of
4 the contract. Certainly the board was generally aware
5 of these sales of RECs to the California utilities, and
6 at the time that this sale took place, we had had three
7 previous sales that had been executed with the
8 counterparty, and approved by the public utility
9 commission, including I think the -- I think all three
10 of these were approved just slightly before May 2010.

11 CHAIRMAN GOLTZ: So let me ask you sort of a
12 related question. My question was was the board aware
13 of this Southern California Edison contract and the
14 requirement for CPUC approval. And the answer was I
15 gather you aren't sure that happened. But was the board
16 aware of the fact of CPUC approval with the fully
17 implemented prior contracts?

18 THE WITNESS: So yes, I'm not -- I'm probably
19 not the right person to answer that question, so I was
20 not the person that presented any of these particular
21 contract -- presented contracts to the board of
22 directors. I think -- I think in general, they were
23 aware of the contracts, but to what extent they were
24 aware of the -- some of the terms I can't answer that.

25 CHAIRMAN GOLTZ: Maybe you can just -- is there

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1 a place -- we can -- more than happy or willing to go
2 through the ten volumes here, but I wondered if you knew
3 within a place in your testimony where that -- where
4 there's documentary evidence of that information of
5 those REC sale contracts that would have made it to the
6 attention of the board.

7 THE WITNESS: So I don't believe in my testimony
8 there is any indication of that information going to the
9 board of directors. Certainly that information went to
10 the energy management committee, and there's quite a bit
11 of documentation to that fact in the testimony.

12 CHAIRMAN GOLTZ: I'm sure we'll see about that
13 in the brief.

14 Let me ask you just one other question. I don't
15 know if this is a misstatement or I misunderstood, but
16 Mr. ffitich, at the beginning of his cross-examination,
17 asked you about PSE's wind energy strategy, and I think
18 he asked you -- I don't even know that this is
19 relevant -- but it started in 2006. I believe you said
20 it started in 2006. But I see on page 26 of your direct
21 testimony that the strategy was presented to the board
22 in August 2007. So when did the wind energy strategy
23 start? Was it 2006 or 2007?

24 THE WITNESS: I would say 2006. That in terms
25 of the way that I would think of a strategy part of, you

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1 know, part of a strategy is pulling it together,
2 conceptually pulling it together, and so it wasn't until
3 2007 that it was sufficiently pulled together to present
4 to the board of directors. So we didn't take action, if
5 you will, towards that strategy before presenting it to
6 the board, but --

7 CHAIRMAN GOLTZ: It certainly had the board
8 imprimatur or after August of 2007? You're nodding yes?

9 THE WITNESS: Yes.

10 CHAIRMAN GOLTZ: Thank you. I have nothing
11 further.

12 COMMISSIONER JONES: Thank you, Judge, I just
13 have a couple.

14 I have an exhibit of your presentation to the
15 board of directors on May 5th, 2010. I have it as a
16 Seelig exhibit, but I think it's your exhibit as well.
17 Could you turn to that?

18 JUDGE MOSS: Do you have a number for it?

19 COMMISSIONER JONES: Seelig AS-3HC.

20 JUDGE MOSS: Do you know if Mr. Garratt also has
21 that, Ms. Carson? Mr. Kuzma?

22 MR. KUZMA: He does not. That is the RFP
23 documentation.

24 JUDGE MOSS: We can provide him with a copy of
25 Ms. Seelig's exhibits. That's 3HC?

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1 COMMISSIONER JONES: 3HC. Could you get it in
2 front of him?

3 While everybody is -- and I'll be --
4 Mr. Garratt, if you could refer -- I have page 10 on
5 that, page 10 of your presentation to the board.

6 THE WITNESS: It doesn't -- 3HC?

7 JUDGE MOSS: This is Ms. Seelig's exhibit, AS
8 3HC. It's the 2010 RFP process document.

9 THE WITNESS: Oh, okay. Which -- this
10 particular document was part -- was also included as
11 part of the board memo.

12 COMMISSIONER JONES: I'm sorry. Let me clarify
13 the record.

14 JUDGE MOSS: Let me caution, we can only have
15 one person talking at the time or the court reporter
16 cannot transcribe what we're saying. So let's slow
17 down.

18 COMMISSIONER JONES: Page 372.

19 THE WITNESS: Of 3HC?

20 COMMISSIONER JONES: Correct.

21 JUDGE MOSS: I'm sure it's my hearing,
22 Commissioner Jones. Was that page 272?

23 CHAIRMAN GOLTZ: 372.

24 JUDGE MOSS: As I suspected.

25 COMMISSIONER JONES: 372.

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1 THE WITNESS: Okay.

2 COMMISSIONER JONES: Are you there?

3 THE WITNESS: I am.

4 COMMISSIONER JONES: Just to set the stage for
5 this question, I think in your rebuttal testimony you
6 say that early wind acquisition was cost effective.
7 Correct?

8 THE WITNESS: Yes.

9 COMMISSIONER JONES: And it met the standard
10 under our renewable policy statement to be cost
11 effective?

12 THE WITNESS: Yes.

13 COMMISSIONER JONES: In fact, you make the
14 argument that under all your modeling, what you call
15 your PSM, and your optimization modeling, I think you
16 make the statement that even more wind acquisition,
17 early wind acquisition, was cost effective. Correct?

18 THE WITNESS: That's right.

19 COMMISSIONER JONES: So what I'm trying to get
20 at is the relative weighting of what factors that lead
21 to that being cost effective. I think in your testimony
22 you list two, three, four factors, and the most
23 important of which I think is the Treasury, the 1603
24 Treasury grant. Correct?

25 THE WITNESS: That's right.

0201

1 COMMISSIONER JONES: But there were others as
2 well. So could you just summarize for me again what
3 were the most important factors to make early wind
4 acquisition cost effective.

5 THE WITNESS: I would say there were three, and
6 the Section 1603 Treasury grant certainly being the most
7 significant of the three.

8 I think second was the Washington state sales
9 tax exemption. And under the sales tax exemption, there
10 was a hundred percent sales tax exemption for a period
11 of time, and we're now in a period of time where it's 75
12 percent exemption, and then by the middle of 2013 it
13 goes away altogether. I think we estimate that's worth
14 about \$45 million.

15 And then I would say a third piece was at the
16 time period of making this decision, so in early 2010,
17 we were seeing pricing for wind turbines coming down and
18 so certainly the opportunity to take advantage of
19 somewhat softer prices was part of the decision as well.

20 COMMISSIONER JONES: And regarding that third
21 factor, I think I agree with you on the first two
22 factors, those are based in law and statute. The third
23 factor is not. That's based on market conditions.
24 Correct?

25 THE WITNESS: Yeah. And some sort of judgment

0202

1 about where you think the prices will be in the future.

2 COMMISSIONER JONES: What has happened? You
3 mentioned in your colloquy with Mr. ffitch this morning
4 that even after the RFP and during the RFP you're
5 continually in touch with wind developers and other
6 IPPs. Correct?

7 THE WITNESS: Yes.

8 COMMISSIONER JONES: What has happened since
9 this date to the price of wind turbines and to the
10 general market conditions for wind? Has it continued on
11 a downward path or stayed about the same or gone up?

12 THE WITNESS: I would say that it has continued
13 on a downward path.

14 Now, the -- it's a fairly short-term window
15 because of where we sit today. The Treasury grant, and
16 the PTC is set to expire at the end of 2012, the end of
17 this year, and so unless there's some sort of extension
18 to that incentive, even if the -- even if some of the
19 equipment pricing would have stayed abreast, the overall
20 cost would be significantly higher without those federal
21 incentives.

22 COMMISSIONER JONES: Okay. And so could you
23 just elucidate this graph again, at least for my
24 benefit? The top graph here, because my copy is not
25 good enough. I think that's LSR 1. Correct? The

0203

1 graph, that upper line?

2 THE WITNESS: That's right.

3 COMMISSIONER JONES: So that shows the early
4 purchase, the early wind acquisition in 2012 and '13,
5 and then it describes further ramping up in 2018, '19,
6 and then going above 450 annual megawatts, that would be
7 out beyond 2020. Correct?

8 THE WITNESS: Right. And in general I think as
9 you go out beyond 2016 the additions that were shown on
10 this graph were simply reflecting what had come out of
11 the 2009 IRP. So I think if you look at that gray bar,
12 on my copy it's a gray bar, that's on the top of the
13 graph, that was basically the IRP results, and then what
14 we added here was this dotted gray line that you
15 referred to that shows wind coming on in 2013.

16 And in general I would say the purpose of this
17 Power Point slide was to summarize a great deal of
18 analytical results that were contained elsewhere in the
19 memo.

20 COMMISSIONER JONES: Right. Which you have to
21 do for the board of directors presentation I'm sure.

22 THE WITNESS: Right.

23 COMMISSIONER JONES: I don't want to get into
24 confidential information here, but there were a certain
25 number of proposals that came forth to you during the

0204

1 RFP phase two, after your -- once you got your short
2 list of renewable acquisition targets, there were a
3 number of candidates -- well, I'm not sure if it was on
4 the short list or the long list. But there were some
5 candidates of wind at least on that list that have
6 remained open, I think, in the Pacific Northwest.
7 Correct?

8 THE WITNESS: Correct.

9 COMMISSIONER JONES: Have some of those prices
10 come down substantially since the date of May 2010?

11 THE WITNESS: I would say some have and some
12 haven't. There's certainly one particular project
13 that -- where the developer went ahead and built the
14 project without a contract, and so I think there might
15 be an opportunity for someone to pick that up at a
16 fairly attractive price.

17 Going back to the timeframe of this decision in
18 May of 2010, you know, part of the challenge that we had
19 was that -- so the early part of 2010 most of these
20 developers tended to see the California market as the
21 market of opportunity, and so it tended to be much later
22 in time, or at least somewhat later than after the board
23 decision that people got a lot more aggressive with
24 pricing.

25 And at the time that we were making the decision

0205

1 on LSR 1, we needed to, in order to qualify for the
2 grant, needed to start by the end of 2010 and meet the
3 five percent safe harbor threshold, and so that -- it
4 was that dynamic of trying to meet the five percent safe
5 harbor threshold, so moving it out to May to give us
6 time to make comparisons but still time to do that
7 amount of work.

8 COMMISSIONER JONES: When you use the wordtrump,
9 treasury grant incentives trumps just-in-time renewable
10 additions, there were a number of factors such as that
11 that lead you to the final decision that LSR 1 was the
12 most cost effective of the renewable options, such as
13 construction of the safe harbor of five percent had to
14 be in place by December 2010.

15 THE WITNESS: Right.

16 COMMISSIONER JONES: Okay. Just one line of
17 question, one further line of questions on the process,
18 and then I'll finish here.

19 You ran -- and this may be better for
20 Ms. Seelig. But in the 2010 RFP scenarios, you
21 initially ran four scenarios. Correct? Trends 2010,
22 business as usual, green world, and low growth. I think
23 that was your run of the scenarios in phase one. And
24 then you went back and ran another one for phase two of
25 the RFP called LG, low growth I think, low growth, with

0206

1 base capital costs.

2 My question is why did you go back and run it
3 again -- develop this new scenario, low growth with base
4 capital costs?

5 THE WITNESS: I think I'll defer that question
6 to Ms. Seelig.

7 COMMISSIONER JONES: Okay.

8 THE WITNESS: Thanks.

9 JUDGE MOSS: Anything further?

10 So I almost lost track of things there.

11 Mr. Ffitch, did the questions from the bench follow any
12 need for follow-up from you?

13 MR. FFITCH: Yes, Your Honor, just a couple of
14 questions, if I may.

15 JUDGE MOSS: Go ahead.

16 FURTHER CROSS-EXAMINATION

17 BY MR. FFITCH:

18 Q. Mr. Garratt, you were asked about the Southern
19 California Edison II contract. You were asked some
20 questions about that, were you not?

21 A. Yes.

22 Q. And in part the questions asked about what the
23 board knew. Could I ask you to turn to cross
24 Exhibit RG-37, please.

25 A. I'm there.

0207

1 Q. In that data request Public Counsel 505, we
2 asked that very same question, did we not? We inquired
3 of the company whether the risk of termination of the
4 Southern California Edison contract was discussed with
5 the board, and you answered that the company has no
6 specific recollection whether or not that was discussed.
7 And you further state that it was unlikely that the
8 board discussion would have covered such granular
9 detail. Correct?

10 A. That was my response, yes.

11 Q. You don't have any different response today?

12 A. I certainly don't recall whether that item would
13 have been discussed or not.

14 Q. You describe the risk, if you will, as a
15 condition precedent. Correct?

16 A. Yes.

17 Q. Isn't it true -- or are you aware that the off
18 ramp for the contract was imminent, that the contract
19 was up for termination decision by June 10th, one month
20 after the board of directors meeting?

21 A. That's true. But in addition, the contract was
22 subsequently amended to give the commission additional
23 time, and the explanation that we were given was that
24 the reason for -- that it hadn't been approved had to do
25 with how busy the docket was at the utility commission,

0208

1 so we were not given any indication that indicated it
2 wasn't going to be approved.

3 Q. That amendment occurred after the May 5th, 2010
4 board meeting?

5 A. It did.

6 Q. And am I correct -- and if you want to defer
7 this to Ms. Seelig you can -- am I correct that none of
8 the modeling that was presented, that was used to
9 develop the board presentation, modeled the scenario in
10 which the SCE II contract RECs were available to Puget
11 Sound Energy? In other words, modeled the scenario of
12 contract termination.

13 A. I think I will defer that to Ms. Seelig.

14 MR. FFITCH: That's all I have. Thank you, Your
15 Honor.

16 JUDGE MOSS: Mr. Kuzma, any redirect?

17 MR. KUZMA: Yes, Your Honor.

18 REDIRECT EXAMINATION

19 BY MR. KUZMA:

20 Q. Mr. Garratt, earlier in your exchange with
21 Mr. ffitch, you both refer to a 2007 RFP. Was that in
22 fact a 2007 RFP?

23 A. I believe the RFP took place in 2008.

24 Q. Between the conclusion of the 2008 RFP process
25 and the board of directors decision on May 5th, 2010,

0209

1 did PSE consider other renewable projects?

2 A. Yes. We considered a variety of other projects,
3 and, in fact, we got to the point of making -- at least
4 making preliminary offers on three other renewable
5 projects in the region; in terms of what we offered to
6 pay for development rights was somewhat higher than
7 Lower Snake and yet these offers were rejected. And
8 then in addition to that, there was another -- some
9 other projects that we had ongoing I would say
10 commercial discussions about.

11 Q. If you would, could you turn to page 73 of
12 RG-14. I'm sorry, it's 93. I can't read my own
13 writing.

14 MR. FFITCH: Your Honor, may I request
15 indulgence of counsel until we can find that exhibit
16 also to follow the inquiry?

17 MR. KUZMA: Sure.

18 JUDGE MOSS: Sure. We'll time it by when I get
19 it.

20 What was the page? It's RG-14?

21 MR. KUZMA: RG-14, page 93.

22 BY MR. KUZMA:

23 Q. Do you have page 93 before you?

24 A. I do.

25 Q. Does this page indicate the range of

0210

1 possibilities with respect to normalization presented to
2 the board of directors with respect to the Lower Snake
3 River wind project phase one?

4 A. Yes, in fact it does, it shows -- it
5 specifically does show a potential for not normalizing.

6 Q. Thank you.

7 Earlier you discussed the differences in timing
8 between the IRP, the IRP rerun, the DCF and the RFPs,
9 and I believe you indicated that you agreed with
10 Ms. Seelig that the 2010 RFP analyses were the
11 definitive analyses?

12 A. Correct.

13 Q. If the 2010 RFP analyses had indicated that the
14 construction of wind resources was not cost effective,
15 what would have been your recommendation to the board?

16 A. We would have -- we would not have taken Lower
17 Snake River to the board in that particular case.

18 Q. If the 2010 RFP analyses had indicated that the
19 construction of wind resources in advance of need was
20 cost effective, but there were other resources better
21 suited than LSR phase one, what would your
22 recommendation have been?

23 A. So in that particular case, we would have taken
24 the alternative resources to the board of directors.

25 Q. And one last question. You were talking about

0211

1 benefits of customers earlier. When will LSR phase one
2 begin serving PSE load, approximately?

3 A. At the end of February.

4 MR. KUZMA: Thank you, Your Honor.

5 JUDGE MOSS: Thank you.

6 There appear to be no further questions.

7 Mr. ffitch, during your cross-examination of
8 Mr. Garratt, you referred to Exhibit RG-37 CX, RG-42 CX,
9 and RG-47 CX. At least those three by my notes. Do you
10 wish to move the admission of those three?

11 MR. FFITCH: Your Honor, we'd like to move the
12 admission of all of the exhibits that we offered for
13 cross for Mr. Garratt.

14 JUDGE MOSS: All right.

15 Is there any objection?

16 MR. KUZMA: No objection, Your Honor.

17 JUDGE MOSS: All right. There being no
18 objection, we will admit them as marked. No doubt look
19 forward to seeing reference to all of them in the
20 briefing.

21 (Exhibit RG-31 CX through RG-47 CX was admitted.)

22 JUDGE MOSS: With that, Mr. Garratt, I believe
23 we have completed your examination, and subject to
24 recall, if the need should arise, you are released from
25 the witness stand.

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1 THE WITNESS: Thank you.

2 JUDGE MOSS: You believe our next witness is
3 Ms. Seelig. She can take her turn when Mr. Garratt
4 clears the deck there.

5 MR. KUZMA: Your Honor, the witness requests a
6 short break.

7 JUDGE MOSS: The witness who's about to appear?

8 MR. KUZMA: Yes.

9 JUDGE MOSS: All right. That seems reasonable
10 to me. Let's make it a brief one, since we just got
11 back in here. Let's make it 25 after the hour, please.

12 MR. KUZMA: Thank you, Your Honor.

13 (A break was taken from 2:17 p.m. to 2:26 p.m.)

14 ALIZA SEELIG

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

17 THE WITNESS: I do.

18 JUDGE MOSS: Thank you. Please be seated.

19 DIRECT EXAMINATION

20 BY MR. KUZMA:

21 Q. Ms. Seelig, could you please state your name,
22 title, and spell your name for the court reporter.

23 A. Aliza Seelig. My title is consulting energy
24 resource planning and acquisition analyst. My name is
25 spelled A-L-I-Z-A, S-E-E-L-I-G, as in George.

0213

1 Q. Ms. Seelig, do you have before you what have
2 been marked for identification as Exhibits Nos. AS-1HCT
3 and AS-5HC?

4 A. I do.

5 Q. Do these exhibits constitute your prefiled
6 direct and rebuttal testimony and exhibits in this
7 proceeding?

8 A. Yes.

9 Q. Were these exhibits prepared under your
10 supervision and direction?

11 A. Yes.

12 Q. Do you have any corrections to your prefiled
13 direct or rebuttal testimony and accompanying exhibits?

14 A. I do have two small corrections.

15 Q. To your prefiled?

16 A. Not to the prefiled. Pardon me.

17 Q. So you have some revisions to some of the
18 potential cross-examination exhibits?

19 A. I do.

20 Q. Could you please give those to us.

21 A. Yes. They are potential cross-examination
22 Exhibit 69. In that data request exhibit we reference
23 Public Counsel data request No. 415. It should have
24 been 416.

25 MR. FFITCH: Sorry, Your Honor, trying to catch

0214

1 up here.

2 JUDGE MOSS: The copy I have is Public Counsel
3 data request 416. That's the correct one, Mr. Kuzma?

4 MR. KUZMA: Yes, it is, Your Honor.

5 THE WITNESS: It's Exhibit AS-69.

6 CHAIRMAN GOLTZ: It 415.

7 JUDGE MOSS: Not in my book. In my book I have
8 416. Just so we're all clear, Exhibit No. 69 for
9 Ms. Seelig, 69 CX is supposed to be the response to
10 Public Counsel data request No. 416.

11 MR. KUZMA: Your Honor, did you renumber after
12 the 48?

13 CHAIRMAN GOLTZ: That's right.

14 JUDGE MOSS: I'm using somebody else's book.
15 I'm sorry. Yeah, I did indicate earlier this morning
16 that we had gone back to the original numbering system,
17 and while some of us did that with our books, apparently
18 Judge Friedlander didn't get to that. So I apologize
19 for the confusion. It's entirely my fault once again.

20 All right. Let us go ahead then.

21 THE WITNESS: And then the second --

22 MR. FFITCH: Sorry. I apologize for
23 interrupting the witness. I'm still confused. What is
24 the exhibit number that's being corrected?

25 THE WITNESS: The exhibit number that I have is

0215

1 AS-69, and it is a data request No. 415, and it
2 references itself. It should reference data request
3 416.

4 MR. FFITCH: Thank you.

5 THE WITNESS: And there was a second correction
6 on AS-82, which was a response to Public Counsel data
7 request 514, and in the first paragraph in the response
8 it refers to an XL file, AS-4HCT table one dot XLS. I
9 thought it was in the prefiled -- rebuttal work papers,
10 however, it was just a values table that looks exactly
11 like what's in the rebuttal testimony, and no work paper
12 exists for it. It's just face values from the
13 information provided below in the models. It's just
14 right below in this particular request.

15 BY MR. KUZMA:

16 Q. Are your prefiled direct and rebuttal testimony
17 and accompanying exhibits true and correct to the best
18 of your information and belief?

19 A. Yes.

20 MR. KUZMA: Thank you, Your Honor. PSE offers
21 Exhibit AS-1HCT through AS-5HC into evidence and offers
22 Ms. Seelig for cross-examination.

23 JUDGE MOSS: Hearing no objection, those will be
24 admitted as marked.

25 (Exhibits AS-1HCT through AS-5HC were admitted.)

0216

1 MR. FFITCH: Your Honor, just for the record,
2 before we proceed, for the education of everyone, I just
3 wanted to clarify again that Exhibit AS-48 does not
4 exist.

5 THE WITNESS: Correct.

6 MR. FFITCH: The numbers break at 48. There is
7 no omission. All of Public Counsel's cross-examination
8 exhibits were correctly listed, they've been
9 distributed, they're all on the list, and they all have
10 a number, it's just that No. 48 got missed. So the key
11 is to not renumber your cross exhibits, otherwise as we
12 saw we run into trouble.

13 JUDGE MOSS: All right. Thank you.

14 You may proceed.

15 CROSS-EXAMINATION

16 BY MR. FFITCH:

17 Q. Good afternoon, Ms. Seelig.

18 A. Good afternoon.

19 Q. You are the witness for Puget Sound Energy
20 that's presenting the economic analysis developed to
21 support the cost effectiveness of Lower Snake River as
22 part of the prudence case in this docket. Is that
23 right?

24 A. That is correct.

25 Q. And that includes sponsoring the details of the

0217

1 modeling that was done as part of that analysis?

2 A. That is correct.

3 Q. I think we've already heard Mr. Garratt defer
4 some of those questions to you.

5 Did you oversee and participate in the modeling
6 and economic analysis that was performed yourself?

7 A. I had a role in some of the oversight and
8 performing some of the analysis.

9 Q. Did you also participate in the preparation and
10 analysis of the 2010 request for proposals, the RFP in
11 this case?

12 A. I'm a little confused, because I thought that
13 was your prior question.

14 Q. My prior question related to all of the economic
15 analyses being presented by the company in the case.

16 A. I had a role in some of the prior analyses. I
17 had a bigger role in the 2010 RFP as project manager for
18 the RFP.

19 Q. All right. Is it correct that the analysis that
20 PSE is presenting to support its case here consists of
21 four main components, the 2009 IRP, 2009 IRP rerun, the
22 discounted cash flow or DCF analysis in the 2010 RFP
23 ultimately?

24 A. Yes. There are those four analyses presented.
25 I will say I had a -- I was not an analyst doing the

0218

1 evaluation in the 2009 IRP.

2 Q. All right. Were you involved in the other three
3 stages of the analysis?

4 A. I was less involved with the DCF and the rerun
5 of the IRP, but I'm familiar with those analyses.

6 Q. Could you please turn to the cross exhibit
7 AS-18, please.

8 A. Yes.

9 Q. Are you there?

10 A. Yes, I am.

11 Q. This is in response to our request to provide a
12 timeline for the four analyses that I just listed, and
13 the company indicates there that the -- what the
14 timelines are. Could you sort of read those off,
15 summarize those for us?

16 A. Yes. This was in response to a data request 38
17 that responded to the analyses that were performed and
18 presented in the board of directors book. The 2009
19 integrated resource plan was conducted from April 2008
20 to July 2009, the discounted cash flow was conducted in
21 September 2009 to November 2009, the rerun of the IRP
22 models, September 2009 to October 2009, comparative
23 analysis in the 2010 RFP March 2010 to April 2010.

24 Q. Okay. Thank you.

25 And is it correct that PSE conducted a number of

0219

1 modeling analyses in conjunction with all these phases?

2 A. Yes, we used a lot of different modeling
3 approaches in all these phases.

4 Q. I just want to ask you a little bit more about
5 the models that Puget uses. Basically the main model
6 PSE is using is the portfolio screening models, PSM
7 models?

8 A. Yes. PSE has used three different generations
9 of the portfolio screening model.

10 Q. In the RFP process, the last stage of the
11 process that you mentioned, the primary models were the
12 PSM I model and the PSM III model. Is that correct?

13 A. Yes.

14 And I just want to clarify just on one model,
15 the screening model, in PSM III model, the optimization
16 model, it got rather confusing when you talk PSM I and
17 PSM III. As I refer to the optimization model, I'm
18 referring to PSM III.

19 Q. You're ahead of me, because I was about to get
20 to that. So I appreciate that.

21 Now, the models are available in your work
22 papers. Isn't that right?

23 A. Yes.

24 Q. And those have been identified as an exhibit in
25 the case as AS-78. Correct?

0220

1 A. All of the work papers, which includes
2 development of inputs and additional analyses conducted
3 just by the analysts, were included in my work papers.

4 Q. This may be more of a question for counsel, but
5 I think it's -- it's not in dispute that those were
6 provided to all parties and also a set of those was
7 provided to the commission. Correct? Those are
8 available?

9 MR. KUZMA: Those paper works consist of seven
10 DVDs of information, some of which is public, I believe,
11 some of which is confidential, some of which is highly
12 confidential. So it would depend on -- they were
13 provided, but it would depend on what level of
14 confidentiality of the paper.

15 THE WITNESS: I don't think that there were any
16 public DVDs. There were a couple confidential, maybe
17 one or two, I can't recall off the top of my head, and
18 the rest were highly confidential.

19 MR. FFITCH: It's my understanding a set was
20 also provided to the commission so that it's available
21 to the commission for review.

22 MR. KUZMA: Yes, it was.

23 BY MR. FFITCH:

24 Q. As you've indicated, Ms. Seelig, the PSM I model
25 is essentially your screening model, a simpler model,

0221

1 uses a simplified dispatch algorithm. It is sometimes
2 called the fatal flaw analysis model. Is that right?

3 A. Yes. The PSM model was designed to screen
4 resources. We used to use it to conduct our further due
5 diligence with it, but now we use it primarily as a
6 screening tool to look at bids that come in and rank
7 them relative to one another.

8 Q. The PSM III model, as you already stated, that's
9 the optimization model, so when we see optimization
10 model we're talking about the PSM III model. Is that
11 right?

12 A. That is correct.

13 Q. That model is more robust, more detailed, more
14 precise than the PSM I model. Right?

15 A. That model relies on dispatch and -- from the
16 Aurora model, the Aurora XMP model, it -- as well as has
17 the Aurora model looks at a greater number of scenarios
18 for the dispatch.

19 Q. Now, is it correct that the analyses that are
20 done using these models are essentially 50-year
21 forecasts of the production cost and market prices of
22 the PSE system for various wind resources options?

23 A. Not exactly. We have a 20-year planning
24 horizon, and we look at resources that extend beyond the
25 20-year horizon, we look at their -- what we're doing

0222

1 with end effects is bringing the remaining life costs or
2 the remaining book costs less the positive cash flows,
3 so the -- some sort of estimate of market value, the
4 difference between those back into the planning horizon.

5 And PSE has done this since its 2003 lease cost
6 plan as far as I am aware, that it wasn't done before,
7 but that's the methodology since we've had this
8 screening model.

9 Q. All right. So the 20-year time horizon is
10 essentially -- well, it's the long IRP planning horizon
11 and then the remainder of the 50 years is 30 years of
12 end effects analysis?

13 A. We're planning to meet load need for 20 years,
14 and then we are just bringing those costs back into the
15 planning period of the -- of the individual resources.
16 So if a resource starts at the end of the model, we're
17 going to be bringing back in the cost. But for a
18 resource that ends right after the model horizon, like a
19 Lower Snake River, we're just bringing in six years of
20 the remaining cost or five years of the remaining cost.

21 Q. So if I understand it, what you end up with is
22 the costs and the forecasted revenues for 50 years as a
23 result of all of those components?

24 A. Only for some of the resources.

25 Q. Do you mean that you don't do the end effects

0223

1 analysis for all resources?

2 A. No. I mean that a resource that only has a
3 25-year life, and that starts in 2010, isn't going to
4 have a 50-year analysis of its cost.

5 Q. But for a new resource, you will have the
6 20-year forecast and then the 30 years of end effects
7 analyses for the total 50-year life cycle?

8 A. I will have an analysis of end effect for the
9 term of the life of that resource. None of our
10 resources have a 50-year life. Well, I'll correct that.
11 None of the resources analyzed in the RFP have a 50-year
12 life. Hydro and other projects may have a longer life.

13 Q. You only considered new resources in the end
14 effects period? Is that right?

15 A. Yes. It's the end of effects is designed to
16 look at the incremental -- the portfolio model is really
17 designed to look at the incremental cost of new
18 resources.

19 Q. The modeling analyses that we've been talking
20 about evaluate the cost effectiveness of Lower Snake
21 under a range of scenarios, as we've already discussed:
22 Green world, low growth, business as usual, et cetera.
23 Correct?

24 A. Yes. We presented five different scenarios in
25 the 2010 RFP.

0224

1 Q. And those scenarios attempt to address
2 uncertainty in issues such as loads and market prices
3 and growth. Right?

4 A. That is correct.

5 Q. And you'd agree that even with the best of
6 models, it's difficult to forecast production costs or
7 market prices for the company's system with great
8 accuracy over a 20-year or 30-year, 40-year, 50-year
9 period?

10 A. Yes. It's difficult to look at -- to know with
11 accuracy what a resource or what a portfolio is going to
12 cost from the standpoint of how it's going to interact
13 with the market for 20 to 50 years; however, that's why
14 we conduct scenario analysis. We do a wide range of
15 scenarios.

16 Q. I guess I'm just asking, there's some inherent
17 uncertainty in the process itself.

18 A. There is always uncertainty in the process.

19 Q. Well, let's look at the RFP process a little
20 more closely. In your rebuttal testimony, you state
21 that the RFP analysis performed by Puget was the
22 definitive analysis relied on by the board to go forward
23 with the Lower Snake. Is that correct?

24 MR. KUZMA: Do you have a page and line number?

25 MR. FFITCH: I can find one. To be honest, I

0225

1 wasn't expecting this to be questioned. I just assumed
2 that --

3 MR. KUZMA: It wasn't that, Your Honor, I was
4 just trying to get some context. Would it be -- it
5 looks like page 23, or, I'm sorry --

6 JUDGE MOSS: Are we on the direct or rebuttal?

7 MR. FFITCH: I have a reference, Your Honor.

8 BY MR. FFITCH:

9 Q. Ms. Seelig, if you turn to page 2 of your
10 rebuttal testimony at the top, line two. Do you see
11 that?

12 A. Yes. That was stated in response to Public
13 Counsel's -- Public Counsel's response testimony,
14 because all of their analysis of Lower Snake River was
15 focused on the discounted cash flow analysis and the
16 2009 IRP reruns.

17 Q. Are you sure that Public Counsel's analysis was
18 based on the DCF?

19 A. The analysis -- I guess depending on what you
20 are specifically referencing, the numbers are on the
21 2000 -- the tables that he presented are based on the
22 2009 IRP reruns, but there was some discussion of the
23 DCF, I believe. Let me look back.

24 Q. Ms. Seelig, that's okay. The testimony speaks
25 for itself.

0226

1 I think the point I wanted to ask you about was
2 your testimony is pretty straightforwardly, I think, the
3 definitive analysis in the end is the 2010 RFP analysis,
4 that's what the board relied on. That's your testimony.
5 Right?

6 A. Yes. That was the final analysis.

7 Q. That's all I'm asking.

8 A. Before the decision.

9 Q. As you've just said, you know, part of your
10 critique of Mr. Norwood is he was in your view looking
11 at some earlier analysis. Right?

12 A. That was what we were responding to in his
13 testimony.

14 Q. So let's look a little bit more closely at the
15 2010 RFP. I want to ask you some questions about that.
16 We've already looked at the RFP process document once.
17 Let's go back to that hefty tome. It's your
18 Exhibit AS-3. If you go to page 23.

19 Are you there?

20 A. Yes.

21 Q. Page 23. I just want to ask you some basic sort
22 of process framework questions. Page 23, figure 14,
23 depicts your traditional RFP process. Correct?

24 A. That is correct.

25 Q. And so you have a box for phase one, that's the

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1 discrete screening process for all the proposals, where
2 the company's is the PSM I model. Correct?

3 A. That is correct.

4 Q. And then under that process the company on this
5 chart as shown that they would generate a short list by
6 May of 2010. Correct?

7 A. A candidate short list.

8 Q. All right. And then that moves into the phase
9 two evaluation, which is a due diligence evaluation of
10 the proposals, along with a portfolio optimization and
11 risk analysis. Correct?

12 A. That is correct.

13 Q. And in that phase, phase two, you're using the
14 PSM III optimization model?

15 A. That is correct.

16 Q. And that process generates the shorter short
17 list, which ultimately under this scenario is presented,
18 it's announced in July of 2010, then presented to the
19 board of directors at some later point after that?

20 A. The process that's shown here is the proposed
21 evaluation process, and when you complete the process,
22 when a decision is ready to go to the board of directors
23 for their approval, that's when you take it to the board
24 of directors, but that's after negotiations, generally,
25 for a project.

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1 Q. But in this case, with the Lower Snake project,
2 Puget Sound Energy decided to use a more accelerated
3 process, a different process. Is that right?

4 A. The -- we used the same basic process, but we,
5 as explained I believe --

6 Q. I think you want to go to page 26, which is
7 where I was about to take you. Another schematic.

8 A. Right. As Mr. Garratt had mentioned in his
9 testimony, we were operating under a safe harbor
10 provision for projects that might want to get --
11 reach -- or for projects that might need -- rely on the
12 Treasury cash grant. And so the process was amended to
13 accommodate that evaluation by focusing on the renewable
14 evaluations first.

15 Q. And so what we see on page 26 is a graphic
16 description -- depiction, excuse me, of the actual
17 process that Puget Sound Energy followed. Is that
18 right?

19 A. That's correct.

20 Q. And so under this timeline of the entire phase
21 one and phase two processes, that took place between
22 March 3rd and April 22nd. Correct?

23 A. As presented in the board of directors book,
24 that is true. There was some additional analyses
25 conducted subsequent to April 22nd.

0229

1 Q. We will talk about that in a second. Under this
2 process, the distinct phase one and phase two analyses
3 are no longer delineated. Right?

4 A. There's more overlap in the process, because we
5 needed to start evaluating qualitatively projects, and
6 then do further due diligence, so as promising projects
7 were identified, we -- the qualitative team started
8 asking data requests to get more information about those
9 projects, so it was a more fluid process with -- with
10 more feedback at different points in time.

11 Q. Puget Sound Energy made the decision to
12 accelerate this process on March 3rd, 2010. Is that
13 correct?

14 A. That is correct. To bifurcate the process on
15 March 3rd I think is probably more correct. We had to
16 determine how many bids we received to know how quickly
17 we could go through the evaluation. And so we were --
18 we felt that we could separate the process and look at
19 the renewables to meet the RPS first, that we could get
20 that conducted within that time period.

21 Q. So for our purposes, though, the process, the
22 RFP process that you are relying on to support LSR,
23 although it was bifurcated, the only piece that you're
24 relying on here is the piece that took place between
25 March 3rd and April 22nd?

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1 A. And the additional analyses done before the
2 board meeting.

3 Q. All right. You're not relying on this process
4 that extended on to August?

5 A. Well, part of this RFP documentation talks about
6 our reevaluation after the board meeting.

7 Q. Sure. I'm talking about August. That's okay.
8 Withdraw the question.

9 I guess the next thing I want to ask you is
10 essentially there were two key presentations that
11 summarized the results of your analyses, and those were
12 the April 22nd, 2010 presentation to the energy
13 management committee, and then the May 5th, 2010
14 presentation to the board. Right? Those are the two
15 key presentations in support of LSR?

16 A. In my -- are you talking -- referring to
17 presented here in AS-3 or just in general?

18 Q. In general.

19 A. For the RFP, there was a presentation to the EMC
20 related to the RFP on April 22nd, and there was a
21 May 5th board meeting.

22 Q. So let's look at the April 22nd energy
23 management committee. You took the RFP analysis to that
24 April 22nd committee meeting. Correct?

25 A. That's correct.

0231

1 Q. And that was a recommendation to go forward on
2 LSR?

3 A. That's correct.

4 Q. And that was on the same day that the
5 presentation materials for the board of directors was
6 finalized. Correct?

7 A. Yes. Well, finalized so that we could send them
8 out for review at a board of directors -- before the
9 board meeting.

10 Q. How did Puget Sound Energy know that the EMC
11 would approve the LSR recommendation?

12 A. We don't, but we have to present materials; that
13 we knew that those meetings are close together, and so
14 we had to present some materials.

15 Q. So there's no gap to wait and see what the EMC
16 does? You simply -- whether they had questions or
17 wanted new analysis, you don't wait, you just give the
18 same materials to the board on April 22nd?

19 A. You'll have to ask Mr. Roger Garratt more
20 specifically about what was decided and how it was
21 decided to go to the board of directors.

22 Q. Can you please turn to your rebuttal testimony,
23 which is Exhibit AS-4. Do you have that?

24 A. Yes, I do.

25 Q. Could you please turn to page 11, that

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1 testimony. As you relate in your rebuttal here,
2 after -- and you've mentioned this already -- after
3 April 22nd, PSE staff continued to work on its analysis.
4 Correct?

5 A. That is correct.

6 Q. You describe the added analysis in your
7 Exhibit 5 that was presented with your rebuttal. Can
8 you turn to that, please.

9 MR. FFITCH: Your Honor, just to confirm that we
10 are in highly confidential session at this time, because
11 we're starting to get into the confidential material.

12 JUDGE MOSS: And we will be continuing with that
13 sort of material for how long? The balance?

14 MR. FFITCH: The balance, Your Honor.

15 JUDGE MOSS: All right. Mr. Sanger?

16 MR. SANGER: I was going to ask if I could be
17 excused for the remainder of the day. I've not signed a
18 highly confidential protective order.

19 JUDGE MOSS: You may be excused.

20 CHAIRMAN GOLTZ: That's pretty clever.

21 MR. BROOKS: The same request.

22 JUDGE MOSS: Mr. Brooks is similarly a good
23 planner.

24 All right. Anybody in the room who has not
25 signed the highly confidential agreement that's part of

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1 the protective order in this proceeding, or who is not
2 an employee of the company, will need to leave the room
3 at this time. We don't have a waiting room, so you can
4 go out and enjoy the sunshine I guess.

5 It looks like this is going to take the balance
6 of the afternoon, is it, Mr. ffitch?

7 MR. FFITCH: I'm not sure, Your Honor. A good
8 chunk of it, I think.

9 JUDGE MOSS: I'm also going to just alert you,
10 those of you on the conference bridge line, I'm going to
11 hit the mute/send switch here in the hearing room, so
12 you will not be able to hear us during the confidential
13 session. I will unmute it when we're finished, so if
14 you wish to linger on the line you'll know when we're
15 back in nonconfidential session.

16 (Confidential transcript continues at Volume 3.)

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C E R T I F I C A T E

I, SHERILYNN V. MCKAY, a Certified Shorthand Reporter in and for the State of Washington, do hereby certify that the foregoing transcript of the proceedings on February 14, 2012, is true and accurate to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF, I have hereunto set my hand and seal February 21, 2012.

SHERILYNN V. MCKAY, RMR, CRR