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BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,)
Complainant)
vs.) DOCKET UE-111048
PUGET SOUND ENERGY, INC.) DOCKET UG-111049
(Consolidated)
Respondent.)

VOLUME IV

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HEARING BEFORE

ADMINISTRATIVE LAW JUDGE DENNIS L. MOSS

Wednesday, February 15, 2012

Washington Utilities and Transportation Commission
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1 JUDGE MOSS: We're back on the record now. We
2 have Ms. Seelig back with us this morning, and we're
3 going to finish her examination, as I said off the
4 record, with all due dispatch.

5 We do have one more question from the bench --
6 it's always risky to say one more question, isn't it?
7 But, anyway, we'll start with one more question from the
8 bench.

9 CHAIRMAN GOLTZ: Ms. Seelig, maybe you can just
10 answer this by referring to a document in the record.
11 The financial models that you've been discussing, do
12 they include revenues from sale of surplus renewable
13 energy credits?

14 THE WITNESS: Yes, they do include the sale of
15 RECs when there are surpluses.

16 CHAIRMAN GOLTZ: Where would I find a document
17 that describes how those were factored in?

18 THE WITNESS: I think in AS-3, but let me check.

19 CHAIRMAN GOLTZ: I guess, specifically, do they
20 include sales of RECs up through 2020, or the time when
21 we've -- there's been some discussion of the ability FOR
22 PSE to bank RECs.

23 THE WITNESS: Yes. So what the model does is it
24 calculates the surplus for what's been added. It will
25 sell the RECs, and it was sold at a voluntary -- based

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1 on the voluntary market estimate of prices for the
2 voluntary market, not a compliance market price. So
3 based on what PSE was seeing that we could sell RECs
4 at -- not to California, but, like I said, in a
5 voluntary market. Not -- I can't at this moment
6 identify exactly where those are at.

7 CHAIRMAN GOLTZ: That's okay. If we need some
8 more we'll -- okay. Thank you. That's all.

9 JUDGE MOSS: Maybe counsel at some convenient
10 time can find that for us and let us know.

11 Is that it? Anything else from the bench?

12 COMMISSIONER JONES: No.

13 JUDGE MOSS: Very good.

14 Now, Mr. Ffitch, you had indicated that you had
15 some additional questions for Ms. Seelig, and we had
16 discussed off the record whether we could continue this
17 morning in our nonconfidential status, as I would
18 prefer.

19 MR. FFITCH: I believe we can, Your Honor.

20 JUDGE MOSS: All right. Let's do that.

21 And let me ask you, Ms. Smith, do you have any
22 questions for this witness?

23 MS. SMITH: Thank you, Your Honor. I do not.

24 JUDGE MOSS: Okay. Very well. Then we'll let
25 Mr. Ffitch proceed before we go to the redirect, so that

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1 we can hopefully wrap it all up.

2 Go ahead.

3 FURTHER CROSS-EXAMINATION

4 BY MR. FFITCH:

5 Q. Good morning, Ms. Seelig.

6 A. Good morning, Mr. ffitch.

7 Q. Could you please turn to your Exhibit AS-3.

8 A. Yes.

9 Q. This is the RFP process document.

10 A. Yes. I'm at AS-3. Where would you like me to
11 go?

12 Q. If you could go to page 473, please.

13 A. Yes.

14 Q. All right. Now, in response to bench questions
15 yesterday, you talked generally about the RFP
16 reevaluation process that occurred after LSR was
17 approved. I believe those questions may have been from
18 Commissioner Jones.

19 A. Yes.

20 Q. If you look at this page, at the bottom of the
21 left-hand column, the box, there's a number, and I think
22 that's not confidential.

23 A. That is correct, the bottom number is not
24 confidential.

25 Q. That says total sunk cause of 114 million 600

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1 odd thousand dollars. Is that correct?

2 A. That's correct.

3 Q. And those are the costs that were spent by Puget
4 Sound Energy on LSR by the time this reevaluation
5 occurred. Do I understand that?

6 A. It's -- my understanding of these were
7 commitments, but Mr. Roger Garratt is a more appropriate
8 witness to discuss the commitments under the contracts,
9 contractual obligations.

10 Q. I'll follow up with him if we need to. But my
11 question is in terms of how the reevaluation was
12 performed. In other words, what this sunk cost -- let
13 me back up. Were those costs included as part of the
14 RFP reevaluation process?

15 A. They were included as reduction in -- as a
16 termination cost to LSR, so reduction in LSR
17 alternatively -- instead of including them as a cost to
18 other projects at that time.

19 Q. So, in other words, the other bids would have
20 had to be better than LSR by more than \$115 million, in
21 other words, to be selected in the RFP reevaluation
22 process?

23 A. That was the concept of the analysis. As I
24 explained yesterday, you could still look at the results
25 and compare them to the original LSR evaluation and see

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1 how it compared to LSR without the sunk cost factored
2 into the evaluation. And the bid -- the bids were no
3 better than what we had seen before in the main part of
4 the evaluation.

5 Q. But in the reevaluation process, the sunk costs
6 were considered as you just described?

7 A. They were considered, but they actually have no
8 bearing on the actual results. The results would have
9 been the same.

10 Q. The result was the same, LSR came out as the low
11 bid?

12 A. LSR was the lowest reasonable cost, and was cost
13 effective compared to the other bids.

14 Q. Did Puget Sound Energy submit a bid in this RFP
15 process?

16 A. We evaluated LSR alongside the RFP process.

17 Q. Was it treated as a formal bid in that
18 evaluation process?

19 A. I'm not sure what you mean by "a formal bid."
20 We evaluated it like we evaluated all of the other
21 projects. It's the same way we approached unsolicited
22 bids when we received an unsolicited bid into the RFP.
23 We evaluated them in the same manner.

24 Q. So the PSE position of LSR was evaluated just as
25 if it had been a bid from an outside third party?

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1 A. Same criteria was applied per the evaluation,
2 quantitative and qualitative.

3 Q. So there would have been no difference between
4 the LSR position and the process between Puget as a
5 formal bidder or the informal or some kind of informal
6 process?

7 A. I don't believe so.

8 MR. FFITCH: Those are all the questions I have.
9 Thank you, Ms. Seelig.

10 JUDGE MOSS: Thank you, Mr. ffitich.

11 Mr. Kuzma, we're up to you for redirect.

12 MR. KUZMA: Thank you.

13 REDIRECT EXAMINATION

14 BY MR. KUZMA:

15 Q. We talked a lot about the financial models used
16 in the quantitative analysis in the 2010 RFP. Can you
17 please describe the PSM I model?

18 A. Yes. It's a Microsoft Excel-based hourly
19 dispatch simulation model. It's used to look at
20 incremental cost to PSE's portfolio under a wide range
21 of resource alternatives and portfolio strategies.

22 Q. How long has PSE been using the PSM I model?

23 A. The PSM I model has been used since 2004.

24 Q. What is the purpose of the PSM I model?

25 A. As I said, it's to evaluate a variety of

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1 resource alternatives under a different -- under
2 different economic conditions. We compare it to a
3 generic resource, to measure how well the bids rank
4 relative to the generic as well as one another.

5 Q. What are the outputs of the PSM model?

6 A. The PSM model outputs are three primary metrics
7 that we look at: The portfolio benefit, a benefit
8 ratio, and the levelized cost. And the portfolio
9 benefit measures a control group; as I explained
10 yesterday, the benefit of a project bid to a generic of
11 equal size. And with the only -- only those two things
12 changing in the portfolio. And so the difference in
13 revenue requirement and the benefit ratio is the
14 portfolio benefit divided by the present value of that
15 revenue requirement of that particular project you're
16 evaluating.

17 And levelized cost is just the revenue
18 requirement over the 20 years divided by the present
19 value of the megawatt hours generated, just to represent
20 levelized cost over the -- of the revenue requirement of
21 the project.

22 Q. How does PSE use these metrics in its
23 quantitative analysis?

24 A. We use these metrics to help us screen and rank
25 alternatives. And we have relied more heavily on a

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1 benefit ratio compared to a portfolio benefit when
2 you're comparing similar technologies. And the -- and
3 that's because if you have two projects that are exactly
4 the same size, and one is a hundred megawatts and one is
5 50 megawatts, and they're exactly the same cost and the
6 same value, the 50-megawatt project is going to have
7 half the benefit of a hundred megawatt project, so the
8 benefit ratio helps make them more equivalent from the
9 size perspective.

10 Q. Yesterday there was a discussion that you used
11 only the 2010 trends price scenario in the PSM I model.
12 Why was that?

13 A. Our experience is that when you're comparing a
14 must run wind generation project to other must run wind
15 generation projects, the relative rankings won't change
16 across scenarios.

17 Q. What is the PSM III model?

18 A. The PSM III model is the -- is an optimization
19 model, as I defined yesterday, and it's basically
20 another Excel-based model with the PSM I financial --
21 financial model with the optimization model as an Excel
22 add-in on top of the PSM I financial model.

23 Q. Who developed the optimization model?

24 A. PSE -- pardon me, PSE developed the financial
25 model, the PSM I model. Front Line Systems, a

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1 third-party off-the-shelf product is the optimization
2 model -- optimizer.

3 Q. Would it be fair to say then that PSM III is
4 largely a PSM I model with the Front Line optimization
5 tool added with additional tweaks as necessary?

6 A. Basically the same model.

7 Q. Why did PSE build an optimization model?

8 A. After the 2005 and the 2007 lease talk plans,
9 WUTC staff actually had recommended that we go to an
10 optimization format. And this was because they didn't
11 understand how in PSM I we manually constructed
12 different portfolio strategies to compare to one
13 another, and they felt that going to a cost
14 minimization-type model, that using an optimization was
15 the way to go, and suggested that other utilities were
16 using that kind of approach. And I know Avista has used
17 that approach.

18 Q. How does the Front Line optimization tool work
19 within PSM III? How do you work the model?

20 A. Well, basically the model has available to it
21 the financial revenue requirement of each resource
22 alternative available, and so the Front Line Systems
23 software, all it does is combines different resources,
24 adds up a portfolio cost, and comes up with a minimum
25 cost portfolio, meeting a variety of constraints that

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1 are set in the model. And those are planning -- to meet
2 our planning reserve margin, to meet our RPS, to
3 build -- to limit the build of resources to a
4 commercially available -- commercially reasonable
5 maximum, because you wouldn't necessarily be able to go
6 out and contract for or build a thousand megawatts of
7 resources in any one year.

8 Q. We talked about different market price
9 scenarios. How are they input into the PSM III model?

10 A. The market prices are coming from Aurora, so the
11 PSE runs the five-market price scenarios in Aurora,
12 inputs the information about market prices and revenues
13 and generation and costs, variable cost of dispatching
14 as a gas plant into the model, and then the capital
15 costs and other operating costs of each of the bids in
16 PSE's existing -- well, actually just bids are then put
17 into the model to calculate each resource's -- resource
18 alternative's financial revenue requirement, and that's
19 how the data flows into the model.

20 Q. I believe you mentioned that you put some
21 constraints on the Front Line optimization tool. Why
22 did you put these constraints on?

23 A. As I said, the constraints were added to reflect
24 our planning reserve margin, commercial realities about
25 what could actually be built in any one given year or

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1 acquired in any one given year. There's also limits on
2 when federal incentives are available, so that's another
3 constraint. And we put those on so that you would only
4 be able to build, you'd only be able to create
5 portfolios that were feasible.

6 Q. Could you please turn to your Exhibit 5, page 5,
7 that was discussed at length yesterday.

8 A. Yes, I'm there.

9 Q. Yesterday you mentioned that PSE analysts
10 reconfigured the optimization tool in the PSM III
11 version 13.9 model to automatically select LSR phase 1.
12 Did PSE do this in each of the price scenarios reflected
13 on that chart?

14 A. No. PSE only did that in the low growth with
15 base capital cost scenarios.

16 Q. Was it unusual for PSE to reconfigure the
17 optimization model in the PSM III model to select
18 various resources?

19 A. Not really, not -- we actually, if you look at
20 page 3, we discuss some other testing that we had done.
21 We did this because --

22 Q. Could you point to a specific reference?

23 A. Yeah. On page 3, on Exhibit 5, there is a line
24 item. And this is -- I'm not going to mention the names
25 of the projects because they're highly confidential, but

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1 I'll refer to one as the first, one as the second.

2 So let me explain where I am. It discusses
3 PSM III 13.6 near the bottom. It talks about hand
4 testing some more optimal solutions, and in this
5 particular case we're talking about the first project
6 versus the second project.

7 The first project evaluated better in the PSM I
8 from a portfolio benefit ratio perspective, but yet the
9 second project was being selected, and so we were
10 curious about whether that was true, so we went in and
11 tested, because we had an expectation based on our PSM I
12 model results for ranking projects, and we had always
13 found, as I said earlier, that must run wind projects
14 didn't change rankings when you went to different
15 scenarios.

16 And what we found is it would switch in some
17 scenarios when you reconfigured the model to include the
18 first project and actually was lower overall. But when
19 you look at the two projects from a size perspective and
20 cost perspective, they're levelized cost, they're
21 virtually identical, so it's understandable that the
22 model would need to have -- would potentially get stuck
23 at a very near optimal solution.

24 Like I said, they are the same size and have the
25 same REC contribution and same levelized costs. They're

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1 very comparable projects.

2 Q. The second project listed on that chart on
3 page 3, was that selected in a low growth model?

4 A. No. The second -- well, so the second -- if you
5 look on that table on page 3, original Exhibit M, the
6 second project listed down in the PSM version 13.6 was
7 selected in five scenarios, all five scenarios. And
8 then when we go to page 5, you'll see that second
9 project down is not selected in the low growth scenario.

10 And so we were curious about this as well, and
11 we reconfigured the model to include it, to see if that
12 result may have been lower. And when we did that
13 reconfiguration, it did not, it did not -- the portfolio
14 that was shown to the board of directors -- or in this
15 report, was the lowest cost portfolio.

16 Q. So you forced the optimization model to select
17 the second project to test whether or not the portfolio
18 cost was the truly least cost?

19 A. Yes, we did.

20 Q. Thank you.

21 You mention that they would -- the optimization
22 model would sometimes create near optimal instead of
23 optimal solutions. Why would that be?

24 A. As I said, and tried to explain, is that the
25 constraints are complicated in the model, and some of

0341

1 the resources are fairly close in cost, and so the
2 combination of that led us to some near optimal
3 solutions. And PSE analysts are curious and try to
4 select what -- or try to understand what the model is
5 doing, but every scenario, run after run, in many
6 scenarios, early wind and early renewables were selected
7 across everything that we had looked at.

8 Q. You recall yesterday Mr. ffitch was asking you
9 questions about your Exhibit 76 CX, and that he was
10 identifying portfolio benefits, changes in version 13.6
11 and 13.9?

12 A. Yes.

13 Q. And he was demonstrating that there was a
14 hundred million dollar, approximately, change in the
15 portfolio benefits?

16 A. Right.

17 Q. Can you explain why that was?

18 A. Well, it's basically, as I said, the portfolio
19 builds overall were changing, because gas plants were
20 planned to be less cost effective, and with -- and
21 reducing portfolio costs. And they were causing a
22 significant reduction in portfolio costs. And so their
23 change in cost, becoming more expensive, obscures the
24 portfolio benefit of the early wind, so the reduction is
25 attributable to the gas plant changes, although as I

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1 said, it's really difficult to understand what's going
2 on with the portfolio benefit in the PSM III
3 optimization model. It wasn't -- it was designed, as I
4 said, as a survival of the fittest model, not as a way
5 to compare portfolios in a control group.

6 Q. Now, you mentioned yesterday that the portfolio
7 benefit in the PSM III model was a vestige of the PSM I
8 model. Can you explain why that would be?

9 A. Well, as we said, it was PSM I model financial
10 calculation, so that was the starting place for building
11 the model, and then adding the optimizer and data flows
12 for Aurora, so a lot of the tabs, worksheets within the
13 model, are common to both models.

14 Q. Yesterday Commissioner Jones asked about
15 reduction in turbine prices. You said that PSE was
16 reasonable to believe that in your opinion turbine
17 prices would not decline further. Is there any evidence
18 of this?

19 A. Well, throughout the -- as I indicated to
20 Commissioner Jones yesterday, the reevaluation of the
21 bids that we received between May and July, none of
22 those bids were substantially lower cost than anything
23 else we had seen in the 2010 RFP. In fact, nothing --
24 they didn't change the results. They weren't any more
25 cost competitive and didn't indicate lower turbine

0343

1 prices.

2 Additionally, there's an exhibit that Mr. Roger
3 Garratt has presented in his testimony, 23, that
4 reflects a Bloomberg analysis summary of wind turbine
5 prices in 2010, and that showed -- and this is I believe
6 public information.

7 So the cost estimate of turbines were for
8 delivery in 2010 and 2011, comparable timeframe as LSR,
9 were 1.3 million per megawatt at the -- at the minimum,
10 and 1.48 million per megawatt at the maximum. And the
11 Siemens turbines that we purchased, less the correction
12 costs, were 1.35 million and 1.376 million. That was
13 lower than the range of what the Bloomberg --
14 Bloomberg's analysis had shown. So all indications were
15 that we still had captured a favorable turbine cost.

16 Q. So that exhibit suggests that you purchased
17 turbines at a price lower than the range that Bloomberg
18 suggested turbines were going for during that period?

19 A. That's correct.

20 Q. Earlier today Chairman Goltz requested
21 information where he could find REC sales are included
22 in the PSM model.

23 A. In the PSM model --

24 Q. Correct. Could you please turn to page 28 of
25 your Exhibit 3.

0344

1 A. Yes.

2 Q. The very last sentence on that page talks about
3 sort of the variables that constitute the portfolio
4 cost. And does it mention the market price for REC
5 sales?

6 A. Yes, it does.

7 Q. And why would that be indicated there?

8 A. Because that was included as a variable in the
9 model.

10 Q. So you were calculating any surplus REC sales?

11 A. We were calculating surplus REC sales.

12 Q. And the effect on each portfolio?

13 A. Yes.

14 Q. Or each project, I guess.

15 This is PSM I?

16 A. Right.

17 MR. KUZMA: Thank you, Your Honor. No further
18 questions.

19 JUDGE MOSS: Thank you, Mr. Kuzma.

20 It appears we have come to the end of our
21 questions for Ms. Seelig, which I'm sure she is
22 grateful.

23 We thank you for your long visit with us on the
24 stand, Ms. Seelig. And I always tell the witnesses
25 they're subject to recall, but we rarely have occasion

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1 to do that, so you can take your books and retire to the
2 gallery.

3 There was some discussion about having a
4 question for Mr. Garratt. So let's have Mr. Garratt
5 back just very briefly.

6 Thank you, Mr. Garratt. You remain under oath,
7 and Mr. Ffitch has one question for you.

8 MR. FFITCH: Well, one area, Your Honor. I'm
9 not sure we can get it done in one single question.

10 ROGER GARRATT

11 Witness herein, having been first previously
12 sworn on oath, was examined and testified as follow:

13 RE-CROSS-EXAMINATION

14 BY MR. FFITCH:

15 Q. Good morning, Mr. Garratt.

16 A. Good morning, Mr. Ffitch.

17 Q. Were you here in the hearing room yesterday when
18 there was discussion of Ms. Seelig's Exhibit AS-5, which
19 we've again been discussing just now?

20 A. I was in the hearing room. Is this the addendum
21 to Exhibit M?

22 Q. That's correct. We're calling it addendum M. I
23 think that's correct. That's the document.

24 MR. KUZMA: No, there was an Exhibit M to the
25 board book, and this was an addendum to that Exhibit M.

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1 MR. FFITCH: I understand that. We're referring
2 to this as addendum M.

3 MR. KUZMA: Puget refers to it as addendum to
4 Exhibit M.

5 MR. FFITCH: All right. How about we call it
6 Exhibit AS-5.

7 JUDGE MOSS: I think that's a great plan.

8 BY MR. FFITCH:

9 Q. You were here for the discussion of AS-5,
10 Mr. Garratt?

11 A. Yes.

12 Q. Ms. Seelig testifies in her rebuttal that this
13 exhibit was available to the board of directors at their
14 May 5th, 2010 meeting. Correct?

15 A. Yes.

16 Q. Were you present at the May 5th, 2010 board
17 meeting?

18 A. I was.

19 Q. When Ms. Seelig says that this was made
20 available to the board -- actually not made available,
21 was available to the board -- what did she mean by that?

22 A. I think the best way to answer that question is
23 that this information was put together by the analytical
24 team so that Kimberly Harris and I had it at the board
25 meeting. It was specifically put together for the

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1 purpose of evaluating an extension to the PTC, so an
2 extension to either 2016 or even out to 2020, to see
3 what the analysis would show in that particular case.

4 Since the analysis continued to show that LSR
5 was being selected in four out of five of the
6 portfolios, the same as all of the other analyses, there
7 was no reason to highlight this to the board of
8 directors.

9 If there had been a different result, if it had
10 shown that it made a dramatic -- that it made any
11 difference, then it would have been important to show to
12 the board, and we certainly had it available if the
13 board asked a question about the extension of the PTC
14 and how that might have affected the analysis.

15 Q. Well, the memorandum covers in addition to the
16 PTC a discussion of updates and changes to the model,
17 and it covers that topic as well as the PTC extension.
18 Correct?

19 A. It does.

20 Q. Did you get any questions about AS-5 in the
21 board of directors meeting?

22 A. None that I recall.

23 Q. Did you affirmatively present the information in
24 AS-5 to the board of directors yourself?

25 A. I don't believe that we discussed that. I think

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1 that there were other topics that were the discussion.

2 I think it's also important to understand that
3 by the time that we presented LSR to the board on May
4 the 5th that there had been many, many discussions with
5 both the board of directors and with a subset of the
6 board of directors, the asset management committee,
7 about the project, and so I don't think it was
8 unexpected that, you know, that the discussion was not
9 as long as -- certainly not as long as what it might
10 have been if this were the only time that they had had a
11 discussion on this topic.

12 Q. So there was no discussion at the board meeting
13 with regard to AS-5. Is that correct?

14 A. To the best of my knowledge, there was no
15 discussion of this particular addendum.

16 Q. And no one other than yourself presented AS-5 to
17 the board of directors at that meeting?

18 A. Could you rephrase that question?

19 Q. Well, I just --

20 A. Are you asking me if I presented it at the
21 meeting or are you asking me if someone else might have
22 presented it at the meeting? I'm not sure I follow your
23 question.

24 Q. That's correct. You just stated a moment ago
25 that you did not present it. I'm now asking if anyone

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1 else presented it to the board at that meeting.

2 A. Not to my knowledge; however, I was not in the
3 board meeting for the entirety of the time that the
4 board met.

5 Q. Was the memorandum itself, AS-5, physically
6 passed out to the board at that meeting as a piece of
7 paper?

8 A. Not that I recall.

9 MR. FFITCH: Those are all the questions I have.
10 Thank you.

11 Thank you, Mr. Garratt.

12 JUDGE MOSS: Nothing further from counsel?

13 Mr. Garratt, thank you for coming back and
14 joining us this morning.

15 It's too early to take our morning recess, so
16 let's go ahead and get our next witness on the stand.
17 This is Mr. Nightingale.

18 Mr. ffitch, do you still have cross-examination
19 for Mr. Nightingale?

20 MR. FFITCH: Yes, Your Honor, I do.

21 JUDGE MOSS: All right. Then we'll have
22 Mr. Cedarbaum present the witness and move from there.

23 Mr. Nightingale, I do need to swear you in.

24

25

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1 DAVID NIGHTINGALE

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

4 THE WITNESS: I do.

5 JUDGE MOSS: Thank you, please be seated.

6 Now, Mr. Cedarbaum.

7 DIRECT EXAMINATION

8 BY MR. CEDARBAUM:

9 Q. If you could please state your full name and
10 spell your last name, and your business address.

11 A. David Nightingale. Last name, Nightingale,
12 N-I-G-H-T-I-N-G-A-L-E.

13 Business address?

14 Q. Yes.

15 A. I'm sorry. I don't have it memorized. 1300
16 South Evergreen Park Drive Southwest, Olympia.

17 Q. Mr. Nightingale, you've prepared response
18 testimony on behalf of Commission Staff in this case?

19 A. Correct.

20 Q. Referring you to what's been marked for
21 identification as Exhibit DN-1HCT, is that your response
22 testimony?

23 A. 1HCT I believe is my original testimony.

24 Q. This is your response testimony to the company's
25 direct --

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1 A. To their case, yes.

2 Q. Did you also prepare a cross answering testimony
3 in this case?

4 A. Yes.

5 Q. Referring you to Exhibit DN-2T, and
6 Exhibit DN-3, is that your cross answering testimony and
7 associated exhibit?

8 A. Yes, it is.

9 Q. Now, turning to DN-1HCT, I know that you have
10 one correction to make to that on page 4. Can you
11 please go ahead and do that?

12 A. Yes. Page 4, line 8, the last word there is a
13 number, 2160, and it should be 21,610. The one of the
14 last ten was not included in that.

15 Q. So with that correction, are your Exhibits
16 DN-1HCT, DN-2T, and DN-3 true and correct to the best of
17 your knowledge and belief?

18 A. Yes.

19 Q. Obviously they were all prepared under your
20 supervision or direction?

21 A. Correct.

22 MR. CEDARBAUM: Your Honor, at this time I would
23 offer Exhibits DN-1HCT, DN-2T and DN-3.

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

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1 (Exhibit DN-1HCT, DN-2T and DN-3 was admitted.)

2 MR. CEDARBAUM: Mr. Nightingale is available for
3 cross-examination.

4 JUDGE MOSS: Thank you.

5 Mr. ffitch?

6 MR. FFITCH: Thank you, Your Honor.

7 CROSS-EXAMINATION

8 BY MR. FFITCH:

9 Q. Good morning, Mr. Nightingale.

10 A. Good morning.

11 Q. You are supporting Puget Sound Energy's position
12 in this cause as to the prudence of the Lower Snake
13 River wind project. Correct?

14 A. Yes.

15 Q. And you reached that conclusion after reviewing
16 Puget's testimony and exhibits and also reviewing
17 discovery, it's my understanding.

18 A. Yes.

19 Q. Now, you only issued five data requests yourself
20 with respect to Lower Snake River. Correct?

21 A. Beyond what the count was, but it was much less
22 than some others.

23 Q. Turn to your cross exhibit that's been marked
24 DN-4, please. Do you have that?

25 A. Yes.

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1 Q. Now can you answer the question about how many
2 data requests you issued with respect to LSR?

3 A. The question being asked in this data request
4 was specifically economic analyses supporting the
5 decision to construct LSR. And I asked other DRs in
6 addition to these listed here, and I didn't list them
7 here because that wasn't the subject of your question.

8 Q. Fair enough. I could phrase that more clearly.

9 I am asking you about the number of DRs that you
10 asked with respect to the economic analysis.

11 A. These are the ones.

12 Q. And that's five, the number is five. Correct?

13 A. Yes.

14 Q. And then you indicate that you also reviewed the
15 testimony and the -- excuse me, the data requests of
16 Mr. Norwood, and then the responses of PSE --

17 A. Yes.

18 Q. -- to those?

19 In this case, like Puget Sound Energy, you are
20 arguing that Mr. Norwood inappropriately focused on a
21 portion of the PSE LSR analysis during the IRP rerun,
22 and your position, similar to Puget's, is that the real
23 focus needs to be on the RFP stage of the process,
24 that's the definitive stage of the process. Correct?

25 A. As far as analysis, yes. The numerical

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1 quantitative analysis, yes.

2 Q. I'd like to have you look at one of the data
3 requests that the company made to Mr. Norwood,
4 presumably one that you reviewed, and that's
5 Exhibit AS-9. I just conferred with your counsel
6 briefly about how to get you one of those. If possible,
7 I'd like to keep mine.

8 A. The company has given me one here.

9 Q. Thank you. I better find mine. I'll give you a
10 minute to review that.

11 It looks like we're ready. In AS-9, it's a
12 Public Counsel data request that asked Puget to provide
13 the economic analysis which demonstrates that the
14 acquisition of LSR before it is required to meet RPS
15 targets produces benefits that offset the cost of early
16 acquisition. Is that correct?

17 A. Correct.

18 Q. In other words, we're asking essentially for the
19 economic cost effectiveness analysis to support Lower
20 Snake River. Correct?

21 A. Yes.

22 Q. If you look at this DR response, just in
23 general, starting with the middle of the page there, the
24 company lists four analyses, 2009 IRP, DCF, the IRP
25 rerun, and the comparative analysis in the RFP in 2010.

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1 Right?

2 A. Yes.

3 Q. And then those are discussed in a little more
4 detail with some citations as to where we can go to find
5 those analyses, each one of those items. And if you
6 could please turn to page 2 of the exhibit. Item four
7 is the description of the RFP analysis. Correct? It
8 says comparative analysis.

9 A. Yes.

10 Q. Okay. In the middle of that paragraph, the
11 answer states that LSR phase 1 was selected in four out
12 of five scenarios using the portfolio optimization model
13 version 13.6. Right?

14 A. Yes.

15 Q. And that's what's been discussed generally here
16 as the definitive analysis that led to the board
17 decision to approve LSR. Correct?

18 A. Yes.

19 Q. Have you reviewed Exhibit AS-5 in this case, the
20 addendum to appendix M?

21 A. Yes.

22 Q. Do you have a copy of that available to you?

23 A. I may. It looks like he's got a folder there
24 for me, so I'll use his.

25 Q. Thank you.

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1 That was placed into testimony for the first
2 time in rebuttal in this case. Correct?

3 A. I don't know when it was placed into the
4 testimony. I mean, I've read it, I'm not sure exactly
5 when in the process it came into --

6 MR. CEDARBAUM: Your Honor, I'll stipulate that
7 it was submitted by the company January 17th, 2012.

8 JUDGE MOSS: Thank you.

9 MR. FFITCH: And that's to the rebuttal, not the
10 opening phase of the case.

11 THE WITNESS: (Witness nods head.)

12 BY MR. FFITCH:

13 Q. Have you seen this document or a similar
14 document before that time?

15 A. I don't believe I had seen this document before
16 that.

17 Q. It was available in the work papers, and we'll
18 stipulate to that, but you have not seen it before it
19 was filed in rebuttal?

20 A. Well, some of these charts are very similar to
21 ones that I've seen in the original case. This may have
22 just been duplicate information, which often you'll see
23 in the testimony throughout. So I don't know for sure.

24 Q. Well, I'm not talking about the charts, I'm
25 talking about the specific memorandum, the information

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1 in the memorandum, as a document.

2 A. I don't recall if I've seen it or not.

3 Q. We've had quite a bit of discussion about this
4 document, AS-5, in the hearing room yesterday. Were you
5 present for that discussion?

6 A. Yes.

7 Q. If you turn to page 5 of the exhibit, that
8 reflects there, and again also based on the discussion
9 yesterday, this reflects that PSE staff had to override
10 the PSM III optimization function in order to make it
11 select LSR. Correct?

12 A. I remember that discussion.

13 MR. CEDARBAUM: Just a word of warning to the
14 witness. We are on a highly confidential document he's
15 being asked cross on, so I want to warn him not to
16 disclose any kind of confidential information.

17 JUDGE MOSS: Thank you, Mr. Cedarbaum.

18 MR. FFITCH: I'm planning to stay away from that
19 too. I appreciate the reminder.

20 BY MR. FFITCH:

21 Q. Mr. Nightingale, does it concern you that the
22 key modeling analysis upon which the definitive RFP
23 analysis, which was the basis of the recommendation to
24 the board in this case, isn't working to the point that
25 PSE has to force it to select LSR in the optimization

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1 process?

2 A. No, no, that doesn't concern me at all.

3 Q. This information does not affect your
4 recommendation in this case?

5 A. No, it does not. Let me -- let me expand on
6 that, if I could, just a little bit. The modeling
7 process is used in the optimization model that was
8 discussed previously this morning. There are -- it
9 requires attending by the analysts to make sure that in
10 fact it is working as it's supposed to work.

11 For instance, putting in different scenarios and
12 testing the model is standard procedure. If the company
13 had not tested, including putting in LSR in this case to
14 see what would happen, I would say they probably weren't
15 doing their job to make sure the model was running
16 correctly.

17 And so the fact that they took a run to explore
18 the idea of, well, what if you put in LSR, you require
19 the model to have that as an option, initially was
20 perfectly appropriate, and the results did not change
21 the overall analysis of all the options under all the
22 scenarios, which this chart and many others show that
23 indicate that the preponderance of what comes out of the
24 modeling exercise shows LSR tends to, in most cases, the
25 majority of cases, be a preferred option. Therefore

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1 this one particular instance where the model didn't do
2 what might have been expected, and so they explored it
3 by asking the model to not make that choice, but
4 requiring it to have that resource, is appropriate and
5 in the overall doesn't affect my opinion about the
6 appropriateness of that action.

7 Q. Well, this is not a what-if scenario where what
8 if we put in LSR. This model was represented to have
9 selected LSR through the normal operation of the model.

10 A. Yes.

11 Q. Correct? And this memorandum -- that's correct?

12 A. Could you say that again, please?

13 Q. This model is represented and was represented to
14 the board to have selected LSR as the optimal resource
15 solution. Correct?

16 A. In the total of the analysis, yes.

17 Q. Under PSM III versus 13.6 that was the basis of
18 the board recommendation. Correct?

19 A. That's correct.

20 Q. And we have an exhibit that was generated after
21 that board materials were presented, AS-5, which says
22 that PSM III version 13.9 model results originally did
23 not select LSR, and we've heard testimony that the
24 model -- there's a concern the model is not select the
25 optimal result. The staff has to step in and override

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1 that. That does not concern you?

2 A. I would characterize it as perhaps -- I wasn't
3 there to staff, but my interpretation of what has been
4 said is that they were surprised at the result, and so
5 they explored in the model to see what would happen if
6 instead it had.

7 It's possible with these models to get what's
8 called suboptimal or less than, or near optimal results,
9 where the model is designed to seek out the less -- the
10 least cost -- or the less -- the smallest revenue
11 requirement for the system as a whole, and it tries
12 different selections of different resources and
13 different timing to find out where that lowest revenue
14 requirement is.

15 In some cases these models can find something
16 that's very good, but not quite the actual peak of the
17 lowest possible solution. It sometimes can miss it. As
18 was said, it can get stuck on a near optimal solution,
19 and that is what the company is speculating likely
20 happened here.

21 There's actually a lower point off to the side
22 that the model didn't quite get to. It got to almost
23 the absolute lowest, and then running the model can see
24 whether or not by tweaking it and putting in, forcing
25 one resource or another LSR, or other ones that are

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1 stated that I'm not going to mention, trying what if
2 that was required to be put in, does that actually push
3 that revenue requirement down even a little bit further
4 or not, and that was what they did in this case.

5 Q. But doesn't that discussion incorporate an a
6 priori assumption that the modeler knows somehow, from
7 some information, that there is an optimal solution and
8 an optimal resource out there off to the side, as you
9 say, but, gee, the model isn't selecting that --

10 A. No.

11 Q. -- and we know better than the model, so we're
12 going to put that resource in there to -- we're going to
13 hand input it, we're going to fix it in there so the
14 model will operate with LSR as a selected choice?

15 That's the premise of your discussion. That's
16 essentially what's happening. Right?

17 A. No.

18 Q. Well, you are indicated that the company, or
19 whoever is running the model, in this case the company,
20 knows of a more optimal resource that the system is not
21 selecting, and a priori they know that. If the system
22 doesn't select it, they input it by hand. Isn't that
23 essentially what you just described as happening?

24 MR. CEDARBAUM: Your Honor, I'll object. This
25 question has been asked and answered a couple times.

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1 Mr. Nightingale has explained his understanding of this
2 exhibit and how the modeling works. It's just not the
3 answer Mr. ffitch wants.

4 JUDGE MOSS: I'll sustain the objection.

5 I don't need to hear from you, Mr. ffitch.

6 MR. FFITCH: Thank you, Your Honor. I'll
7 continue.

8 BY MR. FFITCH:

9 Q. Does it concern you that the information in
10 appendix M was not presented to the board of directors?

11 A. No.

12 Q. Does it change your recommendation in this case?

13 A. No.

14 MR. CEDARBAUM: Your Honor, I should have tried
15 to object --

16 JUDGE MOSS: Too late, Mr. Cedarbaum. Let's
17 just let it go.

18 MR. CEDARBAUM: Well, based on Mr. Garratt's
19 testimony just on the stand, it was not clear to me that
20 there was definitively established that the document was
21 not presented or considered by the board. So I don't
22 know whether the factual basis for Mr. ffitch's question
23 is presented in the record.

24 JUDGE MOSS: I think the question did assume a
25 fact not in evidence, Mr. ffitch, because Mr. Garratt's

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1 testimony was he did not recall and did not know, he was
2 not present for the entire presentation to the board.
3 But Mr. Nightingale has answered your question, and I
4 would take it to mean that it doesn't make a difference
5 to you, that -- whether it was or wasn't.

6 MR. CEDARBAUM: I don't get to object to that.

7 JUDGE MOSS: You don't even need to respond to
8 my remark, Mr. Nightingale.

9 Let's go on with the questions, Mr. ffitch.

10 BY MR. FFITCH:

11 Q. Did you know there were two versions of this
12 memorandum, Mr. Nightingale?

13 A. The memorandum M? No, no, I don't, I didn't
14 know that.

15 Q. Based on the cross-examination yesterday, you're
16 now aware that there are two versions of this, AS-5 and
17 AS-73? Would you agree to that?

18 A. If I recall correctly, it was there was some
19 footnotes and shading. Is that the discussion? Or was
20 that on another issue?

21 Q. That's correct.

22 A. All right. I remember that discussion.

23 Q. Are you aware that the version that was filed in
24 rebuttal in this case excludes a sentence from the
25 footnote which does show up in AS-73?

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1 A. Listening to the discussion yesterday, I recall
2 reading those footnotes, wherever they existed. So I
3 was aware of the footnotes and the existence and what
4 they had said previously.

5 MR. FFITCH: This is a question for Puget's
6 counsel. Is this sentence highly confidential? This
7 shaded sentence?

8 MR. KUZMA: No, it is not.

9 MR. CEDARBAUM: If the witness can be provided
10 with the document. He thinks he recalls it, but I
11 prefer he has the document.

12 JUDGE MOSS: The company has provided him with a
13 copy.

14 THE WITNESS: What page is that on? I'm looking
15 at AS-73 CX.

16 MR. FFITCH: Page 6.

17 THE WITNESS: Thank you.

18 BY MR. FFITCH:

19 Q. Can you read the shaded sentence, please?

20 A. "PSE analysts continue to explore reasons why
21 the PSM III model does not always find the optimal
22 solution."

23 Q. Does it concern you as a staff witness that a
24 sentence casting further doubt on the model was removed
25 from the version filed with the UTC?

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1 A. No.

2 Q. Does it concern you that we don't know on the
3 basis of this record which version of this memorandum
4 was available to the board?

5 A. No.

6 Q. Have you personally run the PSM III model in any
7 of its forms?

8 A. I would say -- I've examined it on my own. I
9 wouldn't say that I've run it, because I haven't
10 adjusted variables to see what would happen.

11 Q. Let's talk about the 2010 RFP analysis in a bit
12 more detail. Would you agree that the cost
13 effectiveness analysis presented to the board of
14 directors essentially consisted of two things: The
15 first thing, the first item was the results of the PSM I
16 screening model run, which created a savings estimate, a
17 single number savings estimate, and we've heard
18 reference to that number in the hearing room yesterday.
19 It is confidential. Do you recall that testimony?

20 A. Yes.

21 Q. And that was the PSM I screening model, not the
22 optimization model. Correct?

23 A. Yes.

24 Q. And the second item that was presented was the
25 results of the PSM III optimization model, 13.6, which

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1 generated an X in the box for LSR. Correct?

2 A. Yes.

3 Q. Now, with respect to the first item, the PSM I
4 result, you're aware that that included an end effects
5 trending problem?

6 A. Could you say that again, please?

7 Q. Are you aware that the PSM I result that was
8 presented to the board included an end effects trending
9 problem?

10 A. Yes.

11 Q. And that had not been corrected at the time it
12 was presented to the board. Correct?

13 A. Yes.

14 Q. So the only savings number that the board saw
15 included an end effects error, which its staff knew
16 about but did not draw to the board's attention?

17 A. I don't know if that's true or not.

18 Q. Do you have the number in mind, the specific
19 savings number in mind that was discussed yesterday? We
20 can get the citation if we need it, but --

21 A. No, I don't.

22 Q. It is Exhibit RG-13HC. A little bit cumbersome.
23 The folks probably know what the number is we're talking
24 about.

25 JUDGE MOSS: How far along into your ten-minute

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1 are you, Mr. ffitch?

2 Mr. ffitch?

3 MR. FFITCH: Your Honor, we're getting close to
4 the end of it.

5 JUDGE MOSS: I'll let you go ahead. I was going
6 to take a break if you were only a couple minutes into
7 it.

8 THE WITNESS: I have 13 here? What page on
9 RG-18HC?

10 MR. FFITCH: I apologize. I'm just trying to
11 locate that number reference.

12 Your Honor, perhaps this might be a good time
13 for a break. We can locate the number and finish up
14 quickly afterwards. It's going to take another minute,
15 I'm afraid.

16 JUDGE MOSS: All right. Let's take a 15-minute
17 break. We'll be back at ten before the hour.

18 (A break was taken from 10:35 a.m. to 10:51 a.m.)

19 JUDGE MOSS: Let's come back to order and be on
20 the record.

21 Mr. ffitch?

22 MR. FFITCH: I apologize for the delay. I think
23 we can do this quickly. We've got all the exhibits
24 lined up now.

25 I ask the witness to turn to Exhibit RG-13HC,

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1 page 195. And what we're doing here is we're getting
2 the savings number that was presented to the board
3 derived from the PSM I model. We're finding it on the
4 page because we can't say it out loud.

5 BY MR. FFITCH:

6 Q. You see that table four indicates the number
7 opposite LSR phase 1 self-build, and under the heading
8 portfolio benefit, that number is the savings number
9 that was presented to the board of directors. Correct?

10 A. I'm not sure if -- I believe this is the board
11 of directors packet. Let me just check.

12 Q. The document says PSE board of directors,
13 May 5th, 2010.

14 A. Yes, that's correct.

15 Q. Now, having that number in mind, please turn to
16 Ms. Seelig's direct testimony, AS-1, to page 36. Do you
17 have that?

18 A. Yes.

19 Q. And that's table 13. And under the first
20 column, under trends 2010 -- and I'll ask counsel for
21 the company if the portfolio cost number is
22 confidential. I don't believe it is.

23 MR. KUZMA: No, it's not shaded.

24 BY MR. FFITCH:

25 Q. That's approximately \$14 billion. Correct?

0369

1 A. Yes.

2 Q. So isn't it the case that even at the full
3 amount of savings projected and given to the board on
4 May 5th, that represents less than one percent of the
5 total portfolio cost over the study period for this
6 resource, less than half of one percent?

7 A. I'm not understanding your calculation of the
8 percentages and what you're comparing to what.

9 Q. Comparing the number on the first exhibit to the
10 14 billion.

11 A. Okay. The number on the first exhibit,
12 page 195, you're comparing that to the 14 billion.

13 Q. Right. That's less than half of one percent of
14 the portfolio cost, is it not?

15 A. If you divide those numbers -- if you divide
16 those numbers and convert it to a percentage, that
17 sounds about right to me without doing the calculation.

18 MR. FFITCH: Thank you, Your Honor. I don't
19 have any more questions.

20 Thank you, Mr. Nightingale.

21 JUDGE MOSS: Does the bench have questions for
22 Mr. Nightingale? Apparently not.

23 Mr. Cedarbaum, do you have any redirect?

24 MR. CEDARBAUM: I do have just a few questions.

25 ///

0370

1 REDIRECT EXAMINATION

2 BY MR. CEDARBAUM:

3 Q. Mr. Nightingale, you were asked some questions
4 about how many data requests you personally issued with
5 respect to Exhibit DN-4, and I think you indicated that
6 you had issued five on the economic analysis yourself.
7 Is that right?

8 A. Yes.

9 Q. Did you review data requests issued by other
10 parties in the case on the economic analysis?

11 A. Yes. Hundreds of them.

12 Q. Those would be data requests made by which
13 parties?

14 A. Multiple parties. Mostly by Public Counsel, but
15 there were others as well.

16 Q. By the economic analysis area you meant to
17 exclude the qualitative analysis area. Is that right?

18 A. Excuse me?

19 Q. When you said the economic analysis area, that
20 would mean the qualitative analysis area as well.

21 Correct?

22 A. Yes. And that's a question important thing to
23 include when I'm doing my prudence review.

24 Q. And you issued data requests on that subject
25 matter?

0371

1 A. Yes, I did.

2 Q. You discussed the qualitative factors of your
3 analysis in your testimony. Is that right?

4 A. Yes, I did.

5 Q. You were asked to look at a number of the
6 company's exhibits. If you can look at cross
7 Exhibit 73, AS-73.

8 Do you have that?

9 A. I do.

10 Q. This shows five scenarios in the columns, and
11 then there's a footnote one. Do you see that?

12 A. What page are you on?

13 Q. I'm sorry. I'm on page 6. Page 6, as indicated
14 in the upper right-hand corner.

15 A. Yes.

16 Q. Is it correct that footnote one applies only to
17 the most extreme right-hand scenario, the LG with base
18 capital cost scenarios?

19 A. Yes, that is correct. So the only point at
20 which the analysts were doing that particular thing was
21 on that one particular scenario.

22 Q. Now switching over to Exhibit AS-5HC, which was
23 part of Ms. Seelig's prefiled materials, page 5.

24 A. Yes.

25 Q. She has a similar type of table on that same

0372

1 footnote designation applies for that LG with base
2 capital cost scenario. Is that right?

3 A. Yes.

4 Q. And does not apply with any of the other
5 scenarios?

6 A. That's correct.

7 Q. Now, you indicated in a response to Mr. ffitch
8 that the sentence that's shaded on AS-73 did not concern
9 you that it was not in Ms. Seelig's AS-5HC.

10 A. Yes.

11 Q. Do you recall that? And he didn't ask you to
12 explain why, so I'll ask you to explain why.

13 A. This is -- I would characterize this even to be
14 similar to the discussion yesterday about the comments
15 tab, where this is reflective of an ongoing dialogue, if
16 you will, of the analysts looking and testing the model
17 to make sure that it's functioning at -- correctly, not
18 to give the answer that it's supposed to give, or
19 a priori that it ought to give, but rather is the model
20 running correctly.

21 And any time an analyst finds things that are
22 unexpected results they test the model, and so this is
23 one of the normal type of due diligence I want expect
24 the company to pursue.

25 Q. And AS-5HC, is it your understanding this is

0373

1 part of the company's work papers?

2 A. Yes.

3 Q. And you reviewed the company's work papers?

4 A. Yes, I did.

5 Q. Finally, you were asked if you had run the PSM
6 model yourself, and you indicated that you had not. You
7 had reviewed the company's runs. Is that correct?

8 A. Yes.

9 Q. Do you think it was necessary for you to run the
10 model yourself in order to do your analysis in this
11 case?

12 A. No. I don't believe my job is to demonstrate
13 prudence at the companies, so for me to become a modeler
14 and an analyst to run their models in different forms
15 and fashions I don't think is part of what I'm supposed
16 to be doing in this role.

17 Q. Is that because of the prudence standard that
18 the commission applies to a resource acquisition?

19 A. Yes, yes, it is.

20 Q. Which asks you to -- well, the standard is
21 fairly well established.

22 MR. CEDARBAUM: Thank you. Those are all my
23 questions.

24 JUDGE MOSS: Thank you, Mr. Cedarbaum.

25 Mr. Nightingale, we appreciate you being here

0374

1 today and testifying, and you may retire from the
2 witness stand.

3 THE WITNESS: Thank you, Your Honor.

4 JUDGE MOSS: We have had some further
5 discussions about witnesses. I do want us to go ahead
6 with Mr. Norwood at this time. For him there will be
7 questions from the bench. Following that we're going to
8 have Mr. Gorman, and after Mr. Gorman we're going to
9 have Mr. Cavanagh. These witnesses have some travel
10 issues that we are happy to accommodate, or willing to
11 accommodate as the case may be. And so that's what
12 we'll do in terms of our witness order.

13 Mr. Roseman? Does this need to be on the
14 record?

15 MR. ROSEMAN: Mr. Howat also is from Boston,
16 here for today. So I know the company and the other
17 parties are aware of this, this was the date for him to
18 appear, to be available for questioning.

19 JUDGE MOSS: It does not appear that there's any
20 cross indicated for Mr. Howat.

21 MR. ROSEMAN: This is correct, Your Honor. But
22 there might be cross from the bench.

23 JUDGE MOSS: We'll determine that at the next
24 break and act accordingly.

25 SCOTT NORWOOD

0375

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

3 THE WITNESS: Yes, I do.

4 JUDGE MOSS: Thank you, please be seated.

5 Go ahead and put your witness on, if you would,
6 Mr. ffitch, and then we'll turn to the bench.

7 MR. FFITCH: Thank you, Your Honor.

8 DIRECT EXAMINATION

9 BY MR. FFITCH:

10 Q. Mr. Norwood, good morning. Could you please
11 state your name and business address for the record.

12 A. Yes. My name is Scott Norwood. My business
13 address is 9408 Bell Mountain Drive, Austin, Texas.

14 Q. Were you retained by Public Counsel in this case
15 to review Puget's analysis that was offered in support
16 of the Lower Snake River wind project?

17 A. Yes.

18 Q. Did you prepare testimonial exhibits which have
19 been marked in this case and tendered into the record?

20 A. Yes, I did.

21 Q. Do you have any corrections to those exhibits?

22 A. I have one correction, which is found on
23 page 51, line 5 of my testimony. And the change is I
24 referred to a figure four. That needs to be changed to
25 figure two.

0376

1 Q. Do you have any other changes or corrections to
2 your testimony?

3 A. No.

4 Q. With that correction, is your testimony and
5 exhibits true and correct to the best of your knowledge?

6 A. Yes, it is.

7 MR. FFITCH: Your Honor, I would offer Exhibits
8 SN-1CT through SN-13.

9 JUDGE MOSS: There being no objection, those
10 will be admitted as marked.

11 (Exhibit SN-1CT through SN-13 were admitted.)

12 MR. FFITCH: Thank you, Your Honor.

13 Mr. Norwood is available for questions.

14 JUDGE MOSS: All right. We have questions from
15 the bench?

16 CHAIRMAN GOLTZ: Mr. Norwood, good morning.

17 THE WITNESS: Good morning.

18 CHAIRMAN GOLTZ: So I don't have very many
19 questions, and I thank you for being here.

20 First turning to pages 5 and 6 of your
21 testimony, there are some confidential numbers in that.
22 I don't want to get into them. But you list on pages 5
23 and 6, you have basically six what you call errors, or
24 flaws, and you have a number associated with each one.

25 THE WITNESS: Yes.

1 CHAIRMAN GOLTZ: So my question is if we
2 basically wanted to ascertain how far off you think the
3 company was, do we add these numbers up and that's the
4 total number, or are they not additive?

5 THE WITNESS: Well, as you know, with production
6 cost modeling it's rarely a straight addition of these
7 types of problems. So what you would need to do to
8 quantify this and to see the overlap potentially in
9 these adjustments would be to rerun the model.

10 JUDGE MOSS: So, in other words, if -- so what
11 are we to make, or can we, based on this record, make
12 some sort of judgment as to the magnitude, the overall
13 magnitude of this summation of what you call errors?

14 THE WITNESS: Well, I think the important thing
15 to know, this is what I was trying to point out, is if
16 you took the company's savings estimates, face value,
17 that -- and that's what my tables one and two try to do,
18 you don't see any benefits for 20 years, get benefits
19 for 20 years. And so to further that, I felt like it
20 was appropriate to point out, just on my analysis, and
21 somewhat limited to the timeframe in this case, there
22 were other errors in the modeling, what I considered to
23 be errors or extreme assumptions.

24 And to give you some sense of how big those were
25 and what they would mean to these results in table one

0378

1 and two, these are values, these are estimates, and they
2 may be off by, you know, 10 or 20 percent, but the point
3 is we're already saying under their calculations no
4 benefits for 20 years, and if you just correct a few
5 other things, those negative numbers go much further
6 negative, and in my view would eliminate the estimated
7 savings in this case, which is, if you get down to
8 addendum M we've been talking about, those are in the
9 order of 20 million for the total portfolio, including
10 other wind resources.

11 So LSR 1's contribution to that 20 million or so
12 of benefits for the system, you know, it might be half,
13 you're talking \$10 million over 50 years, and so, you
14 know, what I want you to know is those numbers from a
15 modeler's perspective, you're talking about less than a
16 tenth of a percent in the ultimate final runs of total
17 system costs. You can't forecast to that level of
18 accuracy. Nowhere close.

19 So what I wanted you to know is these numbers
20 are very small, and even taken at face value, in my
21 judgment there are other things that you would need to
22 adjust that would drive them even lower, and in my view
23 would make them noncost effective.

24 So that's what these numbers were presented for.
25 They're not meant to be accounting adjustments or

0379

1 something you add up and say therefore the disallowance
2 would be. They're to give you a sense that in my view
3 there are other problems that would need to be reflected
4 to these numbers. They're already negative.

5 CHAIRMAN GOLTZ: Turning to page 13 of your
6 testimony, and it's got pages after that, you actually
7 spend a fair amount of time talking about the prudence
8 issue, and later the used and useful issue. And I
9 gather -- would you agree that the prudence analysis is
10 a combination of legal analysis and the factual
11 analysis?

12 THE WITNESS: Yes, I do.

13 CHAIRMAN GOLTZ: To the extent my questions get
14 you into legal issues that you don't feel comfortable
15 answering, just say Mr. Fitch will address them in the
16 brief, and we'll move on. But having said that, would
17 you agree that a decision can be prudent even if in
18 hindsight it was a mistake? In hindsight it was a
19 mistake.

20 THE WITNESS: Yes. I mean, I think everything
21 we did here, I'm going to make clear, was putting
22 ourselves in their position and looking at their studies
23 at the time the decision was made. So we're not trying
24 to, for example, account for the fact that gas prices
25 are now three bucks instead of seven bucks, which would

0380

1 drive these numbers obviously much, much lower.

2 CHAIRMAN GOLTZ: And you'd also agree that a
3 decision could be prudent even if at the time of the
4 decision reasonable minds could differ about that
5 question?

6 THE WITNESS: Yes, yes, I agree with that.

7 CHAIRMAN GOLTZ: Over on page 17, I believe it
8 is, you were talking about the failure of, I believe you
9 were talking about the failure of Puget Sound Energy to
10 consider rate payer impacts as part of its analysis. Is
11 that correct?

12 THE WITNESS: Yeah, I think I used the term rate
13 payer impact, but quite frankly, my analysis was done
14 at, you know, just pure economics.

15 CHAIRMAN GOLTZ: My question is is there any --
16 when you're talking about rate payer impact, is that
17 really any different than looking at just the overall
18 economics of the project?

19 THE WITNESS: My conclusions are the same.
20 Really, quite frankly, the way I did the analysis was to
21 look at the economics.

22 CHAIRMAN GOLTZ: Right. The rate payer impacts
23 are just a fallout of that?

24 THE WITNESS: That's just a fallout.

25 CHAIRMAN GOLTZ: So one of the concerns you had

0381

1 with the analysis was a failure to accurately -- to use
2 appropriate estimate of carbon prices. Is that correct?

3 THE WITNESS: There was initial concern about
4 the 2009 IRP. If you'll recall from testimony, they
5 were assuming in 2012 that we had carbon implemented at,
6 you know, the price of \$40, which is -- it seemed very
7 high to me at the time when I looked at the prior
8 forecasts. It was certainly way higher than they had
9 estimated in the past. So I felt like in terms of being
10 kind of a reasonable base case number, that was a little
11 high to me. Ultimately that didn't figure into my --

12 CHAIRMAN GOLTZ: I guess what I want to get at,
13 is there room in the prudency analysis for a utility to
14 do something other than strict economics when it comes
15 to carbon prices.

16 That is to say, hypothetically, if there was no
17 price on carbon, you know, we're not going to see
18 anything at the federal level, nothing more at the state
19 level for whatever political reasons, but yet the
20 utility nudged a little bit in favor of carbon-free
21 resources, because it was the right thing to do, is
22 there room in the prudency analysis for that, or are we
23 limited to just economics, dollars and sense?

24 THE WITNESS: In fact, we've been talking about
25 results here. The final results presented to the board

0382

1 had carbon in them, and I'm not really -- I'm not really
2 questioning that.

3 I think it would have been appropriate to look
4 at a range of prices and see what that told you, but
5 again these final results numbers are just so small, and
6 when you add that to -- you know, we had a seven or
7 eight-page list of, you know, errors and corrections
8 that many of which had the effect of swinging the
9 results by a billion dollars or more, and we have a memo
10 saying at the end we're still finding problems with the
11 optimization logic, I think the carbon issue, although I
12 pointed it out in my testimony, is really kind of a
13 minor thing.

14 And if you just accept these numbers, I'm just
15 saying as a business person, and I know you guys have
16 some of that background, if you just accept these
17 numbers for what they're worth and say would I be
18 willing to make a \$850 million investment, knowing that
19 my run showed no savings for the next 20 years, and
20 maybe a tenth of a percent of savings over 50 years, is
21 that something smart to do. And putting the rate payer
22 part of it aside, these numbers are just too small.

23 CHAIRMAN GOLTZ: That was exactly my question.
24 My question was focused on just basically is there room
25 in the prudency analysis -- again, if you want to say

0383

1 this is a legal issue -- is there room in the prudency
2 analysis for the utility, and for us in reviewing the
3 utility's judgment, for us to say, you know, more
4 carbon-free energy is a good thing, so we're going to
5 error on that side.

6 THE WITNESS: Yeah, absolutely. I just -- the
7 only thing I wanted to make clear to you is that's not
8 the determining factor.

9 CHAIRMAN GOLTZ: My last question is there's a
10 quote you have on page 49 of your testimony, toward the
11 top, you're parsing our words in something we wrote,
12 which is our renewable resource policy statement. And
13 you quote that in the context of whether the acquisition
14 of LSR is used and useful.

15 There the second sentence in your quote, I'm
16 sorry, the third sentence in your quote, says that
17 therefore the utility must show that the resource
18 produces benefits that offset the cost of early
19 acquisition. And you conclude it doesn't. But are you
20 basically reading the term "offset" to mean totally
21 offset as opposed to offset in part? Don't you have to
22 read totally offset to reach your conclusion?

23 THE WITNESS: I'm a layman, I'm reading this, it
24 made sense to me just from a reasonable standpoint that
25 particularly if you're adding RECs -- you already have

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1 excess RECs. You're above your RPS. If you're adding
2 plant that will further that excess, that there ought to
3 be, as the company has suggested in this case, some
4 economic payback to that over time. And that -- so what
5 I'm saying is I don't think that economic payback over
6 time is there with this project.

7 CHAIRMAN GOLTZ: Right, but in this context
8 you're venturing into the legal aspect of the used and
9 useful determination, and --

10 THE WITNESS: Yeah.

11 CHAIRMAN GOLTZ: -- I guess I was just wondering
12 if that was premised on reading the term "offset" to
13 read, quote, to totally offset, unquote, as opposed to
14 partially offset. And if you want to punt that to
15 Mr. ffitich for the brief, that's fine.

16 THE WITNESS: Again, my reading was more in
17 terms of does it -- does doing it early economically
18 benefit the customers. And my conclusion, based upon
19 review of the facts, and the company studies, is that it
20 doesn't.

21 CHAIRMAN GOLTZ: I have nothing further.

22 Thank you.

23 MR. OSHIE: No.

24 JUDGE MOSS: Mr. Jones?

25 COMMISSIONER JONES: Thank you for coming up,

0385

1 Mr. Norcross. Just a couple of questions.

2 It's on page 41 and 43 of your responsive
3 testimony concerning end effects and alternative REC
4 purchases.

5 THE WITNESS: All right.

6 COMMISSIONER JONES: I'm getting a little bit
7 confused by this end effects analysis, the difference
8 between you and the company, and I think it's important
9 to understand this.

10 I won't mention the confidential number that
11 you -- I think that is still confidential, your proposal
12 for adjustment. But summarize for me and help me
13 understand why you disagree. I understand there are two
14 fundamental reasons that you disagree with the company's
15 analysis on end effect.

16 THE WITNESS: Right. Well, yeah, this is all
17 very detailed modeling. You got to keep in mind that
18 again even with this end effect issue, the savings
19 numbers are tiny; you know, in my view, insignificant.
20 Certainly in the end runs they're totally meaningless.

21 But the issue with end effects is what the
22 company does. They run a fairly detailed model for the
23 first 20 years, and then on the last 30 years, years 21
24 through 50, they just look at the new resources that
25 were added in the first 20 years, and they run

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1 essentially a discounted cash flow calculation of those
2 resources. And when those units, those new resources
3 retire, they assume the system would not have to replace
4 them.

5 The problem with that is there would still be
6 RPS requirements, there will still be capacity need, so
7 to calculate the last 30 years based upon a scenario
8 that really has no bearing to reality, it's not based
9 upon a production cost model, it's essentially a
10 spreadsheet analysis. And to then say that calculation
11 out near 20 to 50, where I don't know anything, or very
12 little, is determinate of what I believe to be benefits
13 are for this project, which essentially that's what
14 happened, the end effects ended up being the determinate
15 benefit, I just think it's unreasonable.

16 I've seen other utilities -- we didn't present
17 evidence, but a lot of other utilities in these end
18 effects calculations essentially just run the model for
19 50 years, and that way you see the full effects of not
20 just those new units you added, but the complete
21 dispatch. And when units retire, they're replaced in
22 kind, so you fully assess that 50-year period. But in
23 my view, the way they calculated that was inappropriate.
24 It was unrealistic.

25 And then the secondary problem we came up with

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1 or we found later was that there was this problem with
2 the way they calculated market prices in the end effects
3 period that drove those numbers up to in the range of
4 \$400 a megawatt hour that was a byproduct of an era that
5 had carbon forecasting. That contributed to the
6 problem.

7 COMMISSIONER JONES: And we heard a lot about
8 that yesterday, didn't we.

9 THE WITNESS: Yes.

10 COMMISSIONER JONES: The company criticizes you
11 I think for not proposing anything specific on what is
12 called a replacement methodology for an end effects
13 analysis.

14 THE WITNESS: Yeah.

15 COMMISSIONER JONES: I just would like you to
16 respond to that, why you didn't submit anything specific
17 for this record.

18 THE WITNESS: Yeah, quite frankly, I did some
19 calculations, and it did show that for cases where
20 you're adding plants later, and they were retiring
21 later, that they would have greater value than, in the
22 end effects period, than if you assumed you just retired
23 units and didn't replace them in kind. I looked at
24 that.

25 But it's -- this is a very complicated

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1 calculation and, you know, I had, to be honest, I had
2 limited budget. And the bottom line was when I got back
3 and I looked at the results, even with this problem, the
4 savings were tiny. I mean, they're a fraction of a
5 percent.

6 And so all I wanted to raise to your attention
7 is I felt like this was another piece of the calculation
8 that was problematic, and if it was done right, you
9 know, would probably make a project look worse.

10 COMMISSIONER JONES: On failure to evaluate REC
11 purchase alternatives on page 43, is -- Judge, is that
12 number on line 12, that per megawatt hour number, is
13 that still confidential? Or the company?

14 MR. KUZMA: No, Your Honor.

15 JUDGE MOSS: The number on line 12 is not
16 confidential, no.

17 COMMISSIONER JONES: So your argument here in
18 criticizing the company for early wind build is
19 basically with the declining wind turbine, the softening
20 of the market, the basically what I would call the
21 overcapacity in the wind market and the more favorable
22 prices that were attainable in 2011 and 2012, that the
23 company and the rate payer would be much better off by
24 purchasing RECs at \$8 a megawatt hour. Correct?

25 THE WITNESS: You're in the middle of a

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1 recession, everybody had surplus, and there was, you
2 know, certainly at least an opportunity that in 2017,
3 '18, '19, where you started having a small need, instead
4 of building this plant you could have purchased in the
5 interim RECs.

6 I guess my point is that would have been a
7 fraction of the cost that we're talking about in this
8 plan. Revenue on this plan, even after credits for the
9 energy, is \$125 million a year, and so if you could
10 purchase for three years, defer this out three years
11 for -- I think I say in my testimony about \$35 million.
12 If that was an option, at least that should have been
13 looked at and evaluated in studies, and it never was
14 looked at in the generic case.

15 They did evaluate some REC bids, but -- I'm just
16 saying this is another area that I think if you'd have
17 taken a look at another alternative, a logical
18 alternative, you would have seen -- come up with a more
19 cost effective result.

20 COMMISSIONER JONES: But your overall position
21 is that these two adjustments, end effects and
22 alternative REC purchases, still pale in comparison
23 to -- what was the number you quoted on the mistakes in
24 PSM I and PSE III, the optimization portfolio screening
25 models?

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1 THE WITNESS: Well, when you get to addendum M,
2 which was the final run, again it didn't select LSR 1
3 and 2, the runs, they forced it to select LSR in one of
4 the runs.

5 But the other three, the savings, including the
6 benefits of other wind resources that they modeled, the
7 total savings was in the range of 20 and 25 million. So
8 that means you got like \$10 million of savings perhaps
9 of LSR 1. Maybe it's half of that. And that turn -- if
10 you do the math, given the total cost of the portfolio,
11 it's less than -- I have to get this right -- five
12 hundredths of a percent. If you assume all that savings
13 was LSR 1, it's about a tenth of a percent.

14 And you, you know, all this modeling stuff
15 aside, you can't calculate savings to that degree of
16 accuracy over 50 years. I mean, you can't do that for
17 the next year. And so I think that throws it back into
18 a situation of therefore does it make sense to invest
19 \$850 million and incur all these costs upfront that we
20 know are certain, and those are not going away, those
21 are certain, to chase this tiny benefit that we think
22 might happen sometime in the future.

23 COMMISSIONER JONES: So finally on page 51, and
24 this is my last question, Mr. Norwood, your
25 recommendation is to, as I read it, is to reduce the

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1 revenue requirement for this case by \$55 million.

2 Correct?

3 THE WITNESS: That's correct.

4 COMMISSIONER JONES: But you will allow the
5 company to recover requested O&M, cost appreciation and
6 the like. Correct?

7 THE WITNESS: That's correct.

8 COMMISSIONER JONES: And the basis for that is
9 what? You say that's a conservative -- your
10 disallowance is somewhat conservative is the word I
11 think you use on line nine there.

12 THE WITNESS: If you look at figure two of my
13 testimony --

14 COMMISSIONER JONES: What page is that?

15 THE WITNESS: That's on page 7.

16 COMMISSIONER JONES: Okay.

17 THE WITNESS: Again, why I rely upon this
18 earlier analysis is this is the only analysis the
19 company did where they explicitly looked at what if we
20 don't add wind to 2016, what if we just did nothing. So
21 what I did was -- they looked at a number of wind
22 scenarios, wind build scenarios. What I did was looked
23 at the difference between -- or looked at the net loss
24 associated with the 2009 IRP resource plan case. So if
25 you look at midway down that table, there is a wind

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1 build case called 2009 IRP resource plan.

2 COMMISSIONER JONES: Yes, I see it.

3 THE WITNESS: That most closely of these build
4 cases approximated what they're proposing to do with
5 LSR 1. In other words, it had about the same amount of
6 capacity being added between now and 2016. So what I've
7 done in my adjustment, I said that's a fairly reasonable
8 conservative proxy of what they thought, what their
9 calculation showed the net cost per year of adding LSR 1
10 was, and that's if you go to the far end of that row,
11 the average per year --

12 COMMISSIONER JONES: Yes.

13 THE WITNESS: -- that's the 55.482. That's
14 actually thousands, so it's 55.4 million. So, you know,
15 obviously the negative effects much greater than that
16 now, but we're not trying to do hindsight, we're saying
17 use what they thought, what their models showed at the
18 time.

19 And I know there's criticism that we didn't use
20 the 2010 RFP runs, but the 2010 RFP runs, the savings
21 were much lower than in this 2009 rerun analysis. The
22 savings went down as they kept doing these studies and
23 fixing these errors. So I think if I reran it on the
24 2010 RFP, the final results, you know, this number
25 probably would have been higher, but I feel like it's a

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1 proxy. It gives them some recovery, but it reflects
2 some protection of the customers for, you know, what I
3 think was unjustified investment.

4 COMMISSIONER JONES: So you were here yesterday
5 when I had the exchange with Ms. Seelig on the IRP
6 versus the RFP question, because in her testimony she
7 states that the RFP analysis was the, quote, definitive
8 analysis that the board voted on.

9 THE WITNESS: Right.

10 COMMISSIONER JONES: So you disagree with that
11 by relying on the 2009 IRP resource plan. Correct?
12 You're choosing a different proxy to do the analysis?

13 THE WITNESS: If the final RFP runs had this
14 kind of analysis which broke out, you know, if we
15 explicitly delay what that impact would be for a case
16 that only considered LSR 1, you know, I would use that.

17 Again, I think it would have probably resulted
18 in a higher disallowance, but the way they did the runs
19 in the 2000 RFP, as you recall, they did one single
20 analysis with just LSR 1, and then they did a group of
21 what they call portfolio optimized runs that included
22 LSR 1 and other wind resources. So you can't -- they
23 said we can't break out what the effect of LSR 1 is
24 exactly in these other runs.

25 So I really was in -- I mean, used what I had

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1 that was -- that could be used to identify the LSR 1
2 effect, but again the savings went down, so I feel
3 pretty good that relative to the final runs this number
4 represents a conservative adjustment.

5 COMMISSIONER JONES: Thank you, Judge. Those
6 are all my questions.

7 JUDGE MOSS: Thank you.

8 Any follow-up, Mr. ffitch?

9 MR. FFITCH: Just a point of clarification.

10 FURTHER DIRECT EXAMINATION

11 BY MR. FFITCH:

12 Q. Mr. Norwood, you were just describing the RFP
13 analysis that included the PSM I modeling, and then the
14 PSM III optimization models, and you said it was the
15 2000 RFP. Which RFP were you referring to there?

16 A. I'm sorry. I meant 2010 if I said the wrong
17 thing.

18 MR. FFITCH: Thank you. I don't have any
19 further questions on redirect, Your Honor, unless
20 there's something after.

21 JUDGE MOSS: I apologize, Mr. ffitch, I was
22 distracted at the bench. What was your question?

23 MR. FFITCH: I'm finished, Your Honor, I just
24 clarified a point.

25 JUDGE MOSS: Thank you very much. I appreciate

0395

1 that.

2 I believe that will complete our examination
3 then of Mr. Norwood. Thank you very much for appearing
4 today.

5 THE WITNESS: All right. Thank you.

6 JUDGE MOSS: Let's go. Mr. Gorman is here.

7 Yes?

8 MR. FFITCH: Your Honor, may I ask if
9 Mr. Norwood can be excused?

10 JUDGE MOSS: Yes, I believe Mr. Norwood can be
11 excused, because we only had the questions from the
12 bench, so yes.

13 MR. FFITCH: Thank you very much.

14 JUDGE MOSS: Thank you very much.

15 Let's be off the record.

16 (Discussion off the record.)

17 MICHAEL GORMAN

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

20 THE WITNESS: I do.

21 JUDGE MOSS: Why don't we have a brief recess,
22 just 5 minutes.

23 (A break was taken from 11:35 a.m. to 11:39 a.m.)

24 JUDGE MOSS: We've sworn Mr. Gorman, he's on the
25 stand and available for questions. I believe there's no

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1 cross designated by parties. We do have questions from
2 the bench?

3 Before we begin, as I recall, there's a
4 footnote -- I don't have your testimony yet, Mr. Gorman,
5 but you refer to an article by Gordon. Is that right?

6 THE WITNESS: Yes.

7 JUDGE MOSS: That's perhaps footnoted in your
8 testimony.

9 THE WITNESS: Yes.

10 JUDGE MOSS: It appears to us that it would be
11 useful to have that article, which I happen to have a
12 copy of up here. I'm simply going to make it a bench
13 exhibit in the record. The article title is Choice
14 Among Methods of Estimating Share Yield. "The Search
15 for the Growth Component in the Discounted Cash Flow
16 Model: A topic of great interest to those in the
17 business of doing cost of capital."

18 So with that, I don't have a number for it yet,
19 but it will of course appear in the exhibit list.

20 MR. CEDARBAUM: Your Honor, just for the record,
21 that was a cross exhibit that staff has for Dr. Olson,
22 so everyone should have had it.

23 JUDGE MOSS: Had I known that, I wouldn't have
24 made it a bench exhibit. I won't bother to make it a
25 bench exhibit.

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1 Do you have a number for that right offhand?

2 MR. KUZMA: CEO-18.

3 JUDGE MOSS: CEO 18 CX I'm told. All right. So
4 we'll be able to refer to that exhibit number if
5 necessary during the -- we're in the same book here --
6 all right.

7 So Mr. Gorman is available for questions from
8 the bench. Commissioner Jones, I believe you were going
9 to start us off.

10 We'll just have Mr. ffitch put him on, and then
11 we'll --

12 MR. SANGER: I'll put him on, Your Honor.

13 JUDGE MOSS: I'm sorry.

14 MR. SANGER: If Simon wants to.

15 JUDGE MOSS: That's all right. I'm so
16 accustomed to Mr. ffitch having a cost of capital
17 witness it just slipped right by me. Sorry about that,
18 Mr. Sanger.

19 DIRECT EXAMINATION

20 BY MR. SANGER:

21 Q. Can you please spell your name for the record,
22 Mr. Gorman?

23 A. My name is Michael Gorman, M-I-C-H-A-E-L,
24 G-O-R-M-A-N.

25 Q. Are you the same Mr. Gorman that previously

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1 prepared or had prepared under your direction testimony
2 and exhibits which have been identified as MPG-1 to
3 MPG-23?

4 A. Yes.

5 Q. Do you have any changes or corrections to those
6 testimony or exhibits?

7 A. One correction. On Exhibit No. MPG-12, page 1,
8 under columns two and three, there are footnote
9 references for the source of those numbers. Those
10 references were reversed. Consequently that schedule
11 under column two, the footnote No. 2 that comes over the
12 word "dividend" should be struck, and three should be
13 inserted, and under column three, where the footnote
14 No. 3 follows "growth" the three should be struck and
15 two should be inserted. That completes my changes.

16 Q. Based on that one correction, is your testimony
17 true and correct to the best of your belief and
18 understanding?

19 A. It is.

20 MR. SANGER: I would move for the admission of
21 MPG-1 through MPG-23.

22 JUDGE MOSS: Being no objection, those will be
23 admitted as marked.

24 (Exhibit MPG-1 through MPG-23 was admitted.)

25 MR. SANGER: Mr. Gorman is available for any

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1 questions, Your Honor.

2 JUDGE MOSS: Thank you so much, Mr. Sanger.

3 Commissioner Jones, if you'll start us off. We
4 can go for -- let's just see how it goes. It's a
5 quarter to 12 now.

6 COMMISSIONER JONES: Good morning, Mr. Gorman.
7 Thank you for coming out.

8 THE WITNESS: Good morning. It's a pleasure to
9 be here.

10 COMMISSIONER JONES: When were you last before
11 the commission?

12 THE WITNESS: It was in a PacifiCorp rate case
13 approximately six to nine months ago.

14 COMMISSIONER JONES: In that rate case you
15 testified on cost of capital, and I think your final
16 recommendation in that case was for a return on equity
17 of 9.50 percent, was it not?

18 THE WITNESS: I believe it was 9.8 percent.

19 COMMISSIONER JONES: 9.8.

20 THE WITNESS: Yes.

21 COMMISSIONER JONES: In that analysis, did you
22 use all three methods of calculation that you used in
23 this case, meaning DCF, discounted cash flow, risk
24 premium --

25 THE WITNESS: Yes.

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1 COMMISSIONER JONES: -- and capital asset
2 pricing methodology? Did I get that right?

3 THE WITNESS: Method, yes.

4 COMMISSIONER JONES: So I'm going to focus more
5 on DCF with my questions, but I will come back to risk
6 premium and CAPM as well.

7 In your opinion, isn't the real crux of this
8 case, the DCF analysis in this case, what the growth
9 factor is, what people call small g?

10 THE WITNESS: That is generally the point of
11 argument between myself and the company witnesses. And
12 it is so in this case, yes.

13 COMMISSIONER JONES: Doesn't the short form DCF
14 method require that small g to be both constant and
15 perpetual?

16 THE WITNESS: Yes.

17 COMMISSIONER JONES: If it isn't constant and
18 perpetual, don't you need to carry out a calculation in
19 multiple stages, such as a multi-stage calculation which
20 you did, or some other sort of multiple stage
21 calculation?

22 THE WITNESS: If the constant growth assumption
23 does not hold, then you need to use a discounted cash
24 flow analysis which will accommodate a nonconstant
25 growth outlook. So that's a long answer. The short

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1 answer is yes.

2 COMMISSIONER JONES: There has been a great
3 academic debate among practitioners like yourself over
4 which method of calculating G should be relied on in
5 cases like this. Correct?

6 THE WITNESS: That is the point of difference
7 between company witnesses and consumer witnesses on rate
8 of return and with respect to the DCF study, correct.

9 COMMISSIONER JONES: So if you could turn to
10 page 18 of your testimony, please.

11 THE WITNESS: I'm there.

12 COMMISSIONER JONES: So in this section we're
13 talking about dividend growth rates. Right? And what
14 you used in your DCF model. And just summarize for me
15 again -- you used three types of DCF analysis. Correct?
16 Just describe them for me.

17 THE WITNESS: I used three sources for my
18 constant growth analyst projected growth rate DCF. They
19 were all consensus analyst projections of earnings
20 growth. So the sources essentially survey security
21 analysts and their projected three- to five-year growth
22 rate outlooks for the utility companies, and the
23 surveyor compiles those projections and publishes the
24 average and high and low growth outlooks for those
25 companies.

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1 I relied on three different companies that
2 compiles those consensus. And the average based on a
3 wide spectrum of analysts is generally referred to as a
4 consensus outlook. So I relied on three sources of
5 companies which gather that information from security
6 analysts and publish a consensus outlook for analyst
7 three- to five-year growth rate outlooks for the utility
8 companies in my proxy group.

9 COMMISSIONER JONES: And those three sources
10 were Zachs, S & L and Reuters.

11 THE WITNESS: Correct.

12 COMMISSIONER JONES: Were those the same three
13 sources that you used in the PacifiCorp case?

14 THE WITNESS: Well, I believe they were. I
15 would need to check that. Sometimes the availability of
16 the consensus analysts resources change from case to
17 case.

18 COMMISSIONER JONES: It's not important for my
19 line of questioning here.

20 So on page 18 at the bottom, as Judge Moss just
21 referenced in footnote 13, there's an reference to an
22 article by David Gordon, G-O-R-D-O-N, and Myron Gordon,
23 and Lawrence Gould. I guess that's a cross reference, a
24 cross exhibit that counsel for staff is going to use.

25 You refer to the article in your direct

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1 testimony here, "A Choice Among Methods of Estimating
2 Share Yield." A couple of questions on that. Do you
3 take from that work that analyst forecasts are always
4 the best data for estimating the small g in the standard
5 DCF model?

6 THE WITNESS: Well, if you're going to use a
7 constant growth discounted cash flow study without
8 question as to whether or not the growth rate in it
9 meets the mathematical requirements of that model, then
10 the consensus analyst growth rate estimate has been
11 shown by researchers to be more reflective of what
12 rational growth outlooks will be going forward, at least
13 during the period the forecast was designed to reflect.

14 So for the next three to five years, analyst
15 growth rate estimates do reflect the best available data
16 on what the growth outlook is for that company. And the
17 research typically reflects the analysts' growth
18 outlooks relative to other methods of estimating what
19 the future growth rate would be. And that typically
20 entails a review of historical growth, and translating
21 that out into -- that historical growth on a linear
22 basis out into the future.

23 The analyst growth rate estimates have been
24 shown to be more reliable than the historical derived
25 growth rates, simply because there can be circumstances

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1 which will drive earnings in the future which are not
2 relevant in the past, or conversely there may have been
3 factors in the past which are relevant into the future.
4 Consequently analyst growth rate projections has
5 historically been shown to be more reliable for the
6 period the growth rate projections are designed to
7 reflect.

8 COMMISSIONER JONES: But those short term, those
9 three- to five-year growth rates reflect, as you say,
10 both the historical evidence as well as prospectively,
11 looking forward?

12 THE WITNESS: The analysts don't tell us
13 specifically what they're looking at, but generally one
14 would expect them to consider all information available
15 to them in order to draw their expectations of future
16 growth. Looking at historical data is certainly
17 relevant information, and a professional and competent
18 security analyst would consider that in forming his
19 growth outlooks, or her growth outlooks.

20 COMMISSIONER JONES: In this article by Gordon,
21 do the authors state any conclusions about whether
22 analysts' estimates in the short term are the best
23 estimate of sustainable growth over the long term, what
24 is called perpetuity, required by the standards in DCF
25 modeling?

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1 THE WITNESS: The Gordon study essentially found
2 that analyst growth rates are more reliable than growth
3 rates derived from historical data and other means for
4 accomplishing that.

5 COMMISSIONER JONES: Turning to your
6 applications of the DCF methodology in this case that
7 you in the subsequent pages set forth, help me
8 understand your reasoning behind the multi-stage
9 analysis you used. You used short term. I think it was
10 three to five years --

11 THE WITNESS: Yes.

12 COMMISSIONER JONES: -- medium terms, six to ten
13 years, and then going out into perpetuity, you -- I
14 guess I would call that longer term, but just --
15 perpetuity, long term.

16 THE WITNESS: Well, the first stage growth was
17 the first five years.

18 COMMISSIONER JONES: Yeah.

19 THE WITNESS: That was based on security analyst
20 three- to five-year growth outlooks for the company.
21 The third stage was based on that perpetuity growth
22 rate. The highest sustainable long-term growth rate
23 that's rational to expect if utilities company could
24 sustain. That's proxied by the overall growth of the
25 U.S. economy. And the reason that's generally -- that

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1 the highest sustainable long-term growth rate is
2 companies are in the business to provide services or
3 products to the economy. So the companies can grow
4 faster than the economy that they're selling goods and
5 services to because it's that economy that produces the
6 revenue that produces the earnings.

7 The transitional stage, stage two then is a
8 transitional stage that moves the short-term growth rate
9 on a linear basis to the high term -- to the long-term
10 sustainable growth rate. In this instance, it's scaled
11 down.

12 The robust or abnormally high short-term growth
13 outlooks analyzes down to a lower sustainable long-term
14 growth rate outlooks for these companies. Consequently
15 the multi-growth stage model reflects essentially a
16 ten-year period, abnormally high growth outlooks for
17 these companies.

18 After that point, then it converges down to a
19 lower sustainable long-term growth rate, albeit it is
20 the highest rational sustainable outlook for these
21 companies.

22 COMMISSIONER JONES: By "rational," you mean
23 what?

24 THE WITNESS: I mean it's not reasonable to
25 believe that these companies can sustain indefinitely a

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1 growth rate that is higher than the growth rate of the
2 economy of which they do business. The economy has to
3 support the revenue streams of the companies to support
4 the earnings of the companies, and the companies simply
5 can't grow faster than the economy over an indefinite
6 period of time. It can happen over a short period of
7 time, but not indefinitely.

8 COMMISSIONER JONES: For that GDP growth rate
9 you used 4.9 percent. Correct?

10 THE WITNESS: I did.

11 COMMISSIONER JONES: And that was based on the
12 blue chip economic forecasters. Correct?

13 THE WITNESS: It is. Again, that is based on
14 the consensus outlook of economists published growth
15 forecast for GDP growth.

16 COMMISSIONER JONES: Excuse me, did you --

17 THE WITNESS: I'm sorry. That's generally
18 consistent with the Gordon model to use analysts'
19 projected growth as a reasonable proxy for rational
20 investor expectations.

21 COMMISSIONER JONES: Back to your multi-stage
22 growth DCF growth model analysis. Again, what's the
23 relative weighting between those three points? Do you
24 quantify those, or do you just use your best judgment to
25 apply some sort of relative weighting between those

0408

1 three stages of growth?

2 THE WITNESS: It's based on a period over which
3 I think robust, abnormally high sustainable growth could
4 be sustained. I didn't include it in this analysis, but
5 I have studied a period of sustainable long-term growth
6 rate for utility companies, and I believe a ten-year
7 period is reasonable based on this study.

8 First, utilities earnings grow based on growth
9 in their rate base. Growth in rate base is tied to
10 invested capital outlooks. Utility companies have over
11 the years increased their capital spending budgets to
12 the point where rate base is growing at a very high
13 elevated rate, and likely will stay high and elevated
14 for some time; however, there's limits in the amount of
15 capital a utility can manage from year to year. Capital
16 programs require expert engineers and expert project
17 managers, so there's a finite level of the capital
18 program that a utility company can sustain.

19 So after they get full capacity in their ability
20 to manage a capital program, the level of capital
21 expending for a utility will stay relatively high, but
22 won't continue to grow over time. It will based on
23 inflation and other costs to the capital programs, but
24 it can't grow as a result of increasing the amount of
25 capital expenditures simply because the expertise,

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1 capital resource and human resources to continue to grow
2 it are limited.

3 Once you reach that point, and most utilities
4 have, because we've been in a period of elevated capital
5 expenditures for quite some time now, then the means of
6 growing your earnings, of growing your rate base, is a
7 function of growing the embedded plant of the utility.
8 And as the embedded plant grows, that relatively stable
9 level of capital expenditures will grow at a decreasing
10 percentage rate over time.

11 And here's an example kind of illustrating that.
12 If a company had an initial rate base of a thousand
13 dollars, it had an elevated capital expenditure level of
14 a hundred dollars, that's a ten percent growth of its
15 outstanding capital. Well, ten years down the road, if
16 it increases its capital base by a thousand dollars a
17 year, ten years from now it's got a \$2000 embedded
18 capital base, but it's still growing it at a hundred
19 dollars a year.

20 Well, then the growth rate declines to five
21 percent in year ten from ten percent in year one.
22 That's not because the utility doesn't continue to be in
23 an evaluated period of capital expenditures, it's simply
24 a result of its embedded investment growing to a much
25 higher level over time than it did initially, while

0410

1 consequently the growth rate for capital and the related
2 earnings associated with that capital base will decline
3 over time.

4 So it was based on that assessment that I
5 thought a ten-year period of elevated capital
6 expenditures is a pretty conservative and optimistic
7 outlook for the industry before eventually the utilities
8 earnings would drop to a sustainable long-term growth
9 low.

10 COMMISSIONER JONES: Did you have a chance to
11 review Mr. Olson's rebuttal to your testimony?

12 THE WITNESS: I did.

13 COMMISSIONER JONES: I think at one point, I
14 forget the page number, I could find it, he says that
15 you don't understand the dynamics of the utility
16 industry and the capital expenditure cycle. Do you have
17 any comment on that?

18 THE WITNESS: I disagree with him. I've been
19 studying the dynamics of the utility industry for over
20 25 years. I've been doing rate of return testimony for
21 most of that time period. I've done reviews of
22 integrated resource plans for utilities, commented on
23 those, reviewed prudence utility decisions, looked at
24 regulatory structures, rate structure to help assess the
25 predictability of cash flows and earnings for utilities.

0411

1 I have been involved in this industry through
2 significant variations of this industry. In the 1980s,
3 when rate base was growing at an unprecedented level,
4 largely because of nuclear investments, in the '90s,
5 where rate base was declining, largely because utilities
6 were limiting capital investment in the utility
7 infrastructure and were instead gearing up for a
8 deregulated marketplace, which largely did not happen.

9 Since the turn of the century, the utility
10 industry again has started to reinvest, because the
11 mantra of the industry has gone back to basics where
12 they're growing their utility earnings outlooks by again
13 reinvesting in utility infrastructure.

14 During that time period I think I have a very
15 detailed and long-standing experience in the utility
16 industry looking at capital investments, how that
17 relates to earnings, how that relates to dividend paying
18 abilities.

19 I've also studied the dividend paying ability of
20 the utility industry. In the 1980s,
21 dividend-to-book-value ratios of utilities was over ten
22 percent, but authorized returns of equity dropped from
23 12 percent down to the 11 percent area. That caused
24 payout ratios of the utilities to go extremely high,
25 consequently giving increases, essentially flattened to

0412

1 result -- the utility industry reduced their dividends
2 in order to bring the dividend-to-book ratio down to a
3 point where the current authorized returns on equity
4 could support those dividend payments.

5 COMMISSIONER JONES: Okay. I think you answered
6 my question. It's getting close to lunch time too.

7 Turning briefly to risk premium and CAPM. Did
8 you read our order, in order 06 in the PacifiCorp case,
9 our final section on cost of capital?

10 THE WITNESS: Yes.

11 COMMISSIONER JONES: What did it say on the use
12 of the three methodologies, to the best of your
13 recollection?

14 THE WITNESS: To the best of my recollection you
15 generally agreed that the growth or outlook must reflect
16 irrational investment considerations and that use of the
17 more than one DCF model to help accomplish that, measure
18 that investor outlook, generally was consistent with
19 enhancing the accuracy of the return of equity
20 investment.

21 COMMISSIONER JONES: It also commented on the
22 risk premium of the CAPM methodology, did it not, and
23 asked the analysts to carry out analysis in both of
24 those areas?

25 THE WITNESS: Yes.

0413

1 COMMISSIONER JONES: So briefly, in this
2 economic environment, with the Federal Reserve having
3 interest rates loose -- what people call loose monetary
4 policy for the foreseeable future -- I think Chairman
5 Bernanke said he's going to keep short-term interest
6 rates at close to zero until 2014 -- which of these
7 methodologies do you think carries more weight, DCF,
8 risk premium, or CAPM, or a combination of all three?

9 THE WITNESS: I would recommend to be very
10 cautious with relying just on one model. As I've seen
11 over the last 25 years, there can be periods where one
12 model gives a pretty reliable result on a pretty
13 consistent basis, but then the market changes.
14 Parameters that underlined the DCF model, which
15 historically has been given primary consideration, can
16 change and suddenly you're getting a DCF return estimate
17 that's either too low, like we saw in the early 1990s,
18 or too high, like we see currently, largely because, in
19 my view, of what's going on in the utility capital
20 program.

21 The early '90s there was no investment in
22 utility rate base, so we saw very low three- to
23 five-year earnings growth rate outlook projections by
24 security analysts. That produced very low, unreasonable
25 low DCF return estimates. Right now it's the opposite.

0414

1 We're seeing growth rate numbers very high, because
2 capital investments are very high. Rate base is growing
3 very robustly right now.

4 So in the '90s the DCF number was too low.
5 Right now the DCF number is too high. So in the early
6 '90s, and now I started using multi-growth stage models
7 in order to capture return from too -- to low growth
8 rates to more normally higher growth rates, in the early
9 '90s and right now conversely from high growth rates to
10 lower sustainable growth rates to support a return on
11 equity, which I felt was more reflective of other market
12 indicators, suggesting it was a reasonable estimate of
13 what the market required to make an investment in the
14 utilities equity security.

15 The risk premium and the CAPM are two tools that
16 help gauge whether or not the DCF return estimates are
17 producing reasonable results. In some cases I think
18 they probably produce more reliable estimates; not
19 necessarily in this case, but there are times.

20 COMMISSIONER JONES: To bring this to a close,
21 the risk free rate you use for both risk premium and
22 CAPM was basically -- was it a ten-year treasury or a
23 30-year treasury bond?

24 THE WITNESS: It was 30-year treasury bonds when
25 I used treasury bonds, but I used utilities bonds that

0415

1 are risk premium also.

2 COMMISSIONER JONES: How many are those right
3 now? How much are they yielding?

4 THE WITNESS: We're down to about three percent
5 right now.

6 COMMISSIONER JONES: Okay.

7 THE WITNESS: 3.8 percent in my study.

8 COMMISSIONER JONES: The end results were -- as
9 commissioners we're very focused on end results, with
10 Hope and Bluefield and all of that, but your end results
11 for DCF were 9.8 something. Right?

12 THE WITNESS: Yes.

13 COMMISSIONER JONES: For risk premium they were
14 9.4, 9.3?

15 THE WITNESS: I want to make sure I give you the
16 correct answer.

17 COMMISSIONER JONES: I think it's 9.43 if memory
18 serves.

19 THE WITNESS: At page 36 of my testimony, 9.83
20 for DCF and 9.5 for risk premium.

21 COMMISSIONER JONES: But that 9.5 was rounded up
22 from 9.43. Right?

23 THE WITNESS: Yes.

24 COMMISSIONER JONES: On CAPM, your
25 recommendation, I think you rounded up again. It was

0416

1 8.83. Right?

2 THE WITNESS: Yes.

3 COMMISSIONER JONES: You rounded up to?

4 THE WITNESS: Nine.

5 COMMISSIONER JONES: So why are you rounding up
6 instead of rounding down? That's one question. And
7 then why -- give me a sense of the relative weighting of
8 these three methodologies in arriving at your final
9 recommendation of 9.7, without a decoupling-like
10 mechanism, and 9.5 with a decoupling-like mechanism.
11 Give me a little sense of how you weighted the three
12 different methods. Because if you just take the average
13 of the three, 8.83, 9.43, 9.83, you get a different
14 result. Right?

15 THE WITNESS: Right. I talk about that at
16 page 36 of my testimony. The treasury bond yield was
17 used in my CAPM study predominantly, and I felt that the
18 treasury bond yield, 3.8 percent used in that study, was
19 abnormally low. Even with the outlook of relatively low
20 inflation, it concerned me to place too much emphasis on
21 the treasury bond yield being sustainable at that level.
22 So that was No. 1.

23 No. 2 is I've been doing this for 25 years, I
24 have a pretty good idea of where my -- where I'm
25 comfortable recommending a return on equity. I also

0417

1 think that there's some value for a regulatory
2 commission to get comfortable with the level of capital
3 cost before they significantly reduce the authorized
4 return on equity. And I say that because utility has
5 contractual obligations for embedded debt cost. It
6 can't automatically refinance their embedded debt cost
7 to bring them down to lower market levels. It takes
8 time to get there.

9 So if you automatically reduce your authorized
10 return on equity down to a lower capital market cost you
11 may not produce adequate cash flow coverages at debt
12 obligations, and that could have implications on the
13 financial integrity of the utility. So I'm
14 conservatively moving in the direction of capital
15 markets, lower capital market cost, but I'm not
16 recommending you be so aggressive to move there so fast
17 that you may have negative impacts on the utility's
18 financial integrity.

19 COMMISSIONER JONES: As part of your research,
20 you know, PSE is the regulated utility of a parent
21 company called PE. Correct?

22 THE WITNESS: Yes.

23 COMMISSIONER JONES: PSE is rated BBB, it's
24 triple B by Standard & Poor's. Right?

25 THE WITNESS: Yes.

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1 COMMISSIONER JONES: PE is rated below
2 investment grade, is it not?

3 THE WITNESS: A double B rating.

4 COMMISSIONER JONES: Double B. That's due to
5 the high leverage in the parent company. Right?

6 THE WITNESS: Amongst other things, yes.

7 COMMISSIONER JONES: As part of your analysis,
8 did you have any data as to how much PSE is paying to PE
9 in dividends? I know you used the proxy group, the nine
10 companies for all of your analysis, but did you have any
11 actual data in terms of what PSE is actually dividending
12 up to the parent?

13 THE WITNESS: In the FERC, Federal Energy
14 Regulatory Commission, Form 1, that information is
15 available. And it is -- what the FERC Form 1 tells you
16 is they're paying dividends up to the parent company
17 that exceeds their net income. And that's illustrated
18 in my capital structure position, which is outlined at
19 my Exhibit MPG-4.

20 On that schedule MPG-4 you see the common equity
21 ratio starting in December of '09, start from around
22 49.1 percent and drop down to about 44.8 percent by
23 December of 2010. That was in part impacted by the
24 retained earnings of utility company, and in part sale
25 of nonregulated subsidiary companies and issuance of

0419

1 debt. But the level of retained earnings was one
2 component which helped describe that relationship.

3 COMMISSIONER JONES: Okay. So you made an
4 adjustment in the capital structure for the dividending
5 up or the equity and the debt in the regulated utility
6 and what that should be? That's where you made your
7 adjustment rather than doing it in the ROE?

8 THE WITNESS: It's reflected in the capital
9 structure. The company accurately reflected the amount
10 of retained earnings for the utility company. So that
11 wasn't an adjustment I made.

12 COMMISSIONER JONES: That is available on the
13 FERC Form 1?

14 THE WITNESS: It is.

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

17 JUDGE MOSS: Thank you.

18 MR. OSHIE: No questions.

19 CHAIRMAN GOLTZ: I can get this done in probably
20 five minutes.

21 JUDGE MOSS: Let us proceed.

22 CHAIRMAN GOLTZ: Mr. Gorman, my only questions
23 relate to the recommendation you made that if we were to
24 adopt the conservation savings adjustment or some other
25 similar -- or some decoupling mechanism, scratch the

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1 word "similar" -- that there would be a reduction in
2 your ROE recommendation. So you recommended that if we
3 were to adopt PSE's proposed conservation savings
4 adjustment, or CSA, that your recommendation would go
5 from 9.7 ROE to a 9.5. Is that correct?

6 THE WITNESS: That is.

7 CHAIRMAN GOLTZ: But what we have in front of us
8 are a number of proposed mechanisms that address either
9 conservation issues or regulatory lag issues, including
10 a full decoupling mechanism that's proposed by the NW
11 Energy Coalition, and we have -- well, I'll just use the
12 term fast track true-up mechanism that the Commission
13 Staff has proposed.

14 So I'm a little bit confused as to what your
15 recommendation would be if we were to adopt a full
16 decoupling recommendation. And the reason for my
17 confusion is I believe you said while it should be the
18 low end of the range, which would also be 9.5, but yet
19 you say that full decoupling mechanism doesn't reduce
20 risk for the company as much as the CSA.

21 So maybe you can explain to me what your
22 recommendation is if we were to adopt the full
23 decoupling mechanism and why.

24 THE WITNESS: Well, I understood the company's
25 CSA to do more than just decouple.

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1 CHAIRMAN GOLTZ: Right.

2 THE WITNESS: In their original testimony they
3 were talking about recovering increased cost associated
4 with conservation. I believe they retracted that
5 statement, or revised their description to say it really
6 is just decoupling sales levels. So I think I
7 misunderstood the company's CSA initially, but I
8 attribute that to the way they described it in their
9 direct testimony.

10 But, in any event, the regulatory mechanisms
11 that change the stability of the utility rates can have
12 benefits for one stakeholder and can have detriments to
13 the other. If you change the regulatory mechanisms in a
14 way that provides the company more assurance that their
15 costs are going to be recovered, that they're going to
16 earn their authorized return, that lowers their
17 operating risk, but that risk reduction comes at the
18 expense of rate payers who then will pay rates that are
19 adjusted to reflect any variations in sales or
20 variations in other factors which may have otherwise
21 limited the company's ability to earn its authorized
22 return. So you're shifting the risk return tradeoff
23 between investors and customers.

24 If you're not doing that, then one would -- I
25 would wonder why there's a need to change the regulatory

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1 mechanisms if there's no benefit to shareholders from
2 doing it. So if you are benefiting shareholders by
3 reducing their risk, it's reasonable to give them a
4 lower rate of return because they're assuming less risk.

5 Conversely, if customers are going to take on
6 more rate risk through reconciliations of sales and
7 other factors, then it's reasonable to ask them to pay a
8 lower cost of service reflective of a lower return on
9 equity, because they're picking up more of that
10 operating risk through rate adjustments. So it just
11 seems like a balance proposal.

12 CHAIRMAN GOLTZ: So you're basically saying that
13 it's -- that the -- as the risk on the utility is
14 reduced, the REO would be reduced, and conversely if the
15 risk is increased, the ROE would be increased?

16 THE WITNESS: Yes.

17 CHAIRMAN GOLTZ: So let's just shift for a
18 second to, like, weather adjustments. If you were to
19 have a mechanism so you can basically normalize weather,
20 but that basically -- that's an adjustment that can go
21 both ways. In some years it can benefit the company, in
22 some years it can benefit the rate payer. Does that
23 mean less ROE control, or is there something just in the
24 lack of volatility or the reduction of volatility that
25 would go to impact the ROE?

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1 THE WITNESS: Well, I mean, a lot of these
2 regular- -- can go both ways.

3 CHAIRMAN GOLTZ: Right.

4 THE WITNESS: And the benefit to the company of
5 having it go both ways is that its cash flows are more
6 predictable. So even if they have to give back high
7 cash flows and high earnings from a strong sales year
8 but are allowed to recover more from customers to
9 enhance earnings and cash flows in a bad sales year
10 doesn't take away the fact that their operating risk is
11 reduced because their cash flows and earnings are now
12 more predictable.

13 CHAIRMAN GOLTZ: As I understand -- we'll hear
14 from Mr. Cavanagh after lunch I assume -- that the
15 decoupling mechanism that the NW Energy Coalition is
16 proposing would operate to go both ways: In some years
17 there might be in effect a return to the company, other
18 years, depending on the load shifts or the use per
19 customer, it might inure to the benefit of the
20 customers. But you're saying that even if there's a --
21 it goes both ways, if there's a lack of -- the lower the
22 volatility, that also would serve to reduce the ROE?

23 THE WITNESS: If it enhances the ability to
24 accurately predict earnings and cash flow, it reduces
25 risk.

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1 CHAIRMAN GOLTZ: But you also then said, as I
2 read your testimony, that your range was, the lower end
3 of your range is 9.5, and you said if we were to adopt
4 the conservation savings adjustment, that's what --
5 that's your ROE recommendation.

6 THE WITNESS: Yes.

7 CHAIRMAN GOLTZ: But if it was a full decoupling
8 mechanism that's also your recommendation as well.

9 THE WITNESS: If you significantly modify
10 regulatory mechanisms to stabilize earnings and cash
11 flow, and that is produced by implementing regulatory
12 mechanisms which throw more stability in the rates
13 customers pay, I think a lower return on equity is fair.

14 CHAIRMAN GOLTZ: And then is that two-tenths of
15 one percent difference, is that just a kind of a gut
16 level number, or is there something about some deeper
17 analysis that you went through for that?

18 THE WITNESS: It's largely a gut level reaction.
19 I don't think it would be appropriate to go outside of
20 my range, because I think that would not be fair
21 compensation to the company, but moving down below the
22 midpoint of the range I think is reasonable for all the
23 reasons we've already gone through.

24 CHAIRMAN GOLTZ: I have no further questions.

25 THE WITNESS: Thank you.

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1 JUDGE MOSS: Mr. Sanger, do you have any follow
2 up?

3 MR. SANGER: No, Your Honor.

4 JUDGE MOSS: All right. Fine.

5 Well, Mr. Gorman, thank you very much for being
6 here today, and we appreciate your testimony. You may
7 step down.

8 THE WITNESS: Thank you very much for allowing
9 me to go out of order. I appreciate it.

10 JUDGE MOSS: No problem.

11 Well, then this is a very convenient time for us
12 to recess.

13 We'll still come back at 1:30, even though we're
14 recessing a few minutes here late at the noon hour,
15 about a quarter after. So let's be back then and ready
16 to go with our next witness, who is Mr. Cavanagh.

17 (A luncheon recess was taken from 12:16 p.m. to
18 1:28 p.m.)

19 JUDGE MOSS: Ms. Kyler?

20 MS. KYLER: Your Honor, no party has indicated
21 that they have a cross for Mr. Higgins, and the bench
22 has indicated they don't have cross either, so if that
23 is the case, Kroger would move for the admission of
24 Mr. Higgins' testimony and exhibits filed December 7th,
25 2011 in this case.

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1 JUDGE MOSS: All right. That's for Nucor and
2 from Kroger?

3 MS. KYLER: It's just for Kroger.

4 JUDGE MOSS: Just for Kroger. We'll take care
5 of Nucor at the same time. Is there any objection?

6 All right. Then Mr. Higgins' exhibits for Nucor
7 and Kroger will be admitted as marked.

8 MS. KYLER: Thank you.

9 (Exhibits KCH-1T through KCH-6T were admitted.)

10 JUDGE MOSS: He will not need to be here. Thank
11 you, Ms. Kyler.

12 We have Mr. Cavanagh, who seated himself
13 comfortably, but we do need to swear you in.

14 RALPH CAVANAGH

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 Now, I had initially an indication from
20 Mr. Sanger, or I assume you -- no, cross. Okay. Then
21 Mr. Cavanagh is here for the benefit of the bench, and
22 we'll just have him put on, and then we can proceed.

23 DIRECT EXAMINATION

24 BY MS. BOYLES:

25 Q. Mr. Cavanagh, please state your name and title

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1 and spell your name for the court reporter.

2 A. My name is Ralph Cavanagh. I am the energy
3 program co-director for the Natural Resources Defense
4 Council. And my name is spelled C-A-V-A-N-A-G-H.

5 Q. Do you have before you what has been marked for
6 identification as Exhibits RCC-1 through RCC-7?

7 A. Yes.

8 Q. Do these exhibits constitute your prefiled
9 direct and cross answering testimony and the related
10 exhibits?

11 A. Yes.

12 Q. Were they prepared by you or under your
13 supervision?

14 A. Yes.

15 Q. Do you have any corrections to this testimony at
16 this time?

17 A. No.

18 Q. Are your prefiled direct and cross answering
19 testimony and accompanying exhibits true and correct to
20 the best of your information and belief?

21 A. Yes.

22 MS. BOYLES: Your Honor, NW Energy Coalition
23 offers exhibits RCC-1T through RCC-7 into evidence.

24 JUDGE MOSS: There apparently being no
25 objection, those be will be admitted as marked.

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1 (Exhibit RCC-1T through RCC-7 was admitted.)

2 MS. BOYLES: Your Honor, no one has actually
3 reserved any cross-examination time for Mr. Cavanagh.
4 He is prepared, if it's helpful to the commissioners, to
5 offer a short summary of his testimony.

6 JUDGE MOSS: Pleasure of the bench.

7 CHAIRMAN GOLTZ: That's fine with me.

8 JUDGE MOSS: All right, Mr. Cavanagh, proceed.

9 THE WITNESS: Judge Moss, commissioners, it's a
10 privilege to resume a 30-year conversation. It's a
11 privilege to resume a 30-year conversation with this
12 commission, the longest of my career. In doing so, I'm
13 mindful of a collective ambition that I'm confident is
14 shared by everyone in this room, which is for
15 Washington's utilities to continue to lead the nation in
16 achievement on cost effective energy efficiency.

17 The objective of all cost effective energy
18 efficiency pioneered in Washington state, enshrined in
19 statute in I-937, but a goal of this commission long
20 before I-937, has never been more important or more
21 challenging. We're in a world of higher targets, with
22 the council having raised its regional target by almost
23 80 percent in the last plan, with a whole host of new
24 technologies, new challenges in terms of integrating
25 across a complex field that has far more opportunity and

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1 far more potential certainly for failure than we've ever
2 seen before.

3 When I first testified on revenue decoupling
4 before this commission in 1993, when my lawyer was a pro
5 bono attorney named Jon Wellinghoff who nobody had ever
6 heard of, Puget's aggressive energy efficiency program
7 was trying to get 15 average megawatts a year. The
8 Puget targets today are more than double that. And I
9 think even at that level, one percent of system-wide
10 consumption, that's the target, Puget is trying to save
11 one percent, I don't know that there's many of us who
12 wouldn't expect and hope that we could do better if the
13 result was to both reduce customers' bills and reduce
14 emissions to the environment.

15 And that's the context in which the NW Energy
16 Coalition brings to you today a proposal for addressing
17 a fundamental and long-standing obstacle to aggressively
18 accelerated progress on energy efficiency. That
19 proposal comes directly in the wake of this commission's
20 November 2010 policy statement on regulatory mechanisms,
21 including decoupling, to encourage utilities to meet or
22 exceed their conservation targets. And every part of
23 the proposal is informed by that statement.

24 What I most want to leave with you as you
25 consider the choice before you is the fact that this

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1 testimony, and Puget's testimony, really are the only
2 concrete responses to the invitation you provided for
3 parties to bring forward solutions to the barriers to
4 energy efficiency progress that are fundamentally
5 captured by the continuing reality for Puget, for
6 Avista, for most of the electric utilities in the
7 country, that their financial health is tied directly to
8 kilowatt hour sales, that increases in sales are
9 automatically more profitable than reductions, that
10 there is implicit in our traditional form of utility
11 regulation a through-put addiction which we would never
12 have introduced consciously or deliberately if we had as
13 an initial objective arming and encouraging our
14 utilities to secure all cost effective energy
15 efficiency.

16 The coalition's proposal to solve that problem
17 is, we submit, better than Puget's, and closer to the
18 spirit of the commission's policy statement, recognizing
19 that you didn't pick winners, you gave guidance. We
20 tried to follow it. And in trying to follow it, we
21 tried to present you with a mechanism that was as simple
22 as possible, having a mind to your concern about
23 complexity of administration; a mechanism that in terms
24 of accounting actually drove off the same categories
25 that Puget used in its own conservation savings

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1 adjustment proposal; a mechanism that drew upon a number
2 of the suggestions that appear in Staff's response to
3 your bench request.

4 I feel like we're closer today on an issue that
5 I'll acknowledge to the commissioners there's been
6 plenty of discord in Washington, and not a lot of
7 agreement over the years, but we're making progress
8 together. And the focus of my cross answering testimony
9 are all of the areas where we agree with staff on key
10 elements of their views as to the proper design of a
11 decoupling mechanism.

12 I want to leave you with simply this thought, in
13 terms of thinking about the design we've proposed. And
14 its key elements are easy to summarize. We're proposing
15 essentially that only those portions of nonproduction
16 fixed costs that are captured in variable charges would
17 be included in the decoupling mechanism. For a company
18 with about a \$2.1 billion revenue requirement, we're
19 talking about roughly \$500 million of nonproduction
20 costs that are now being recovered in variable charges.

21 The mechanism would use those costs in the same
22 way basically that Puget does for its conservation
23 savings adjustment, except that unlike the Puget
24 proposal, ours is a true-up mechanism that can move
25 rates either up or down, depending on total consumption,

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1 as a rate cap of three percent a year, that's on the up
2 side, no constraint on the down side reductions. And
3 there will be both. The mechanism doesn't add costs to
4 Puget's revenue requirement, it simply provides that the
5 revenue requirement you adjudicate will be recovered
6 independent of fluctuations in sales.

7 On the crucial issue that you raised of what
8 about off-system sales, how do you deal with the fact
9 that conserved kilowatt hours may be moving over into
10 wholesale markets, we have tried to present a proposal
11 that is completely consistent with and requires no
12 adjustment in the power cost adjustment mechanism which
13 you've spent so many years perfecting and did not invite
14 us to muddle with in this proposal. We think we've
15 dealt with that in a way that will minimize any conflict
16 and also make the mechanism simpler in operation.

17 Finally, Commissioners, what we've tried to do
18 on the critical question of return on equity -- which is
19 the question, Chairman Goltz, that you were posing in
20 cross-examination of your own right before lunch. This
21 has been an issue that's divided Washingtonians in
22 discussion of decoupling for a whole generation. We
23 have tried to put a new proposal on the table, which
24 tries to bridge the gap between those who have said
25 historically that decoupling has nothing to do with

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1 return on equity and those who said it absolutely
2 requires an upfront reduction.

3 In our proposal, which is modeled on the recent
4 treatise by the Regulatory Assistance Project, which is
5 an exhibit to my testimony, is for the commission to
6 pass through any reductions in cost of capital resulting
7 from changes in the capital structure of Puget, or any
8 other Washington state utility, for whatever reason, in
9 the aftermath of the adoption of a decoupling mechanism,
10 not a prospective reduction, as to which there's no
11 evidence, but a commitment to pass through any savings
12 that are realized in practice.

13 Our hope is that that proposal will help the
14 commission set a precedent nationally for addressing an
15 issue that is bedeviling this conversation everywhere in
16 the country.

17 Commissioners, I know you will have questions
18 for you to flesh out any part of this that you wish, and
19 I want now to turn to that part of the discussion. I'm
20 grateful for the chance to provide an overview.

21 JUDGE MOSS: Mr. Cavanagh, thank for your
22 statement.

23 We can turn to questions from the commissioners.

24 CHAIRMAN GOLTZ: Sure. I'll go first. Well,
25 thank you. Actually, I'm sure if you hadn't made an

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1 opening statement it would have gotten out anyway in
2 response to some of my questions. So you mentioned our
3 policy statement, but I gather you think we didn't get
4 it quite right. I was wondering if you could just
5 briefly summarize the differences between your proposal
6 and what we said we would be amenable to in our policy
7 statement.

8 THE WITNESS: So, Mr. Chairman, to be clear, I
9 think our proposal is compliant with every part of your
10 policy statement. There was only one element that I
11 encouraged you to rethink.

12 The one element that I encouraged you to rethink
13 was requiring an earnings test as a condition for a
14 decoupling mechanism. And my reason for doing that
15 is -- and this is an issue that staff also took up in
16 its response to the bench request. It isn't obvious --
17 the only way that under decoupling Puget or any other
18 utility can over earn is if it is unexpectedly
19 successful in reducing costs, since they can't boost
20 earnings by increasing sales any more.

21 It isn't obvious why you would want to place a
22 constraint on their doing that, but, Mr. Chairman, if
23 you are determined to do it, we are not in the business
24 of rethinking policy statements for the commission. We
25 did, in fact, propose an earnings test in response to

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1 your directive that our procedures include one. And we
2 did not consciously omit any portion of the policy
3 statement from our proposal.

4 The other place where we, I guess, could be
5 characterized as having suggested a friendly amendment
6 is on the issue of ensuring that low income customers
7 receive proportional benefit, because it turns out --
8 and, Commissioners, this came as a shock to me. I don't
9 think we have a record based on the current reporting
10 for energy efficiency programs, certainly for Puget, to
11 determine whether there are currently proportional
12 benefits being delivered, and our proposal includes a
13 specific element aimed at overcoming that problem and
14 making sure that we get that information as quickly as
15 possible.

16 And I want on that point to be clear the
17 coalition strongly supports the commission's objective
18 of proportional benefit for low income customers and is
19 eager to see that objective achieved.

20 CHAIRMAN GOLTZ: So you mentioned return on
21 equity impact.

22 THE WITNESS: Yes.

23 CHAIRMAN GOLTZ: I'm correct, am I not, that a
24 number of other commissions around the country have
25 either -- in the process of approving decoupling have

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1 required an hourly adjustment or have said they're going
2 to consider that in their next rate case?

3 THE WITNESS: I would say, Chairman Goltz, that
4 the majority of commissions have not made a prospective
5 downward adjustment. Some have, and the record shows,
6 for example, the Maryland and DC commissions made a 50
7 basis point prospective reduction, which I think was a
8 large mistake without foundation in the record.

9 It is absolutely true that almost every
10 commission has said, hey, we're going to track this,
11 we're going to follow it, we're going to see if there is
12 a discernible effect over time on cost of equity, on
13 cost of capital. And I don't dispute for a moment that
14 that's an issue that ought to be followed.

15 I think it is instructive, though, that as of
16 this moment, and in particular in the record of this
17 proceeding, there is no actual evidence on the effect on
18 cost of capital for any decoupled utility in the
19 country. There are plenty of statements about
20 commissions who have made prospective reduction, but
21 what I can tell you, Chairman Goltz, I think I've been
22 involved in most of those cases, it is typically -- the
23 exchange you had with the witness, Mr. Gorman, when you
24 said what's it based on, and he said it's a gut feeling,
25 that's what's been going on.

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1 The problem is if you use a gut feeling to reduce
2 return on equity prospectively as part of a decoupling
3 mechanism, there's a certain inconsistency, a flagrant
4 inconsistency with the objective you established in your
5 policy statement. And I want to read it. I'm
6 encouraging utilities to meet or exceed their
7 conservation targets. Introducing a prospective
8 reduction in return on equity really doesn't have that
9 effect.

10 Our hope would be that you would consider our --
11 we certainly responded to your request for analysis of
12 the impact on the return on equity, and the cost of
13 equity. And our view is that decoupling mechanisms have
14 minimal effect in practice, because they don't move
15 enough money to matter much from the standpoint of the
16 entire utility's finances. They matter hugely in terms
17 of energy efficiency and energy efficiency obstacles,
18 but looking at the utility as a whole, we introduced a
19 study of 88 decoupling adjustments, almost all of which
20 were at or below seven cents a day for electricity, five
21 cents a day for natural gas utilities. That's a decade
22 of experience across the country. Those are not big
23 enough swings to matter materially in terms of the
24 overall financial health of the enterprise.

25 We argued also that what limited evidence is

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1 available does not support the proposition that having a
2 decoupling mechanism has a significant effect or a
3 discernible effect on cost of equity for utilities that
4 have it.

5 So we've addressed your question, but we hope
6 we'll also given you a different place to go in terms of
7 assuring customers that if there are savings, they'll
8 get them as soon as they materialize.

9 CHAIRMAN GOLTZ: You stated that you were here
10 in 1993 giving testimony, and that was when the
11 commission adopted at the request of then Puget Sound
12 Power and Light to approve a decoupling mechanism. Is
13 that correct?

14 THE WITNESS: Actually, Mr. Chairman, my
15 testimony was evaluating the mechanism after its first
16 two years. You adopted it in 1991.

17 CHAIRMAN GOLTZ: Okay. And isn't it a little
18 bit of we've been there done that? What's different now
19 than -- because ultimately that was then -- everyone
20 said, okay, let's stop this. And Puget did, and the
21 commission staff did. So what's different now?

22 THE WITNESS: Oh. So first of all,
23 Mr. Chairman, by consensus at the time, the decoupling
24 mechanism itself, I think it's fair to say, was
25 tremendously successful. And in the aftermath of my

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1 testimony in 1993 the commission extended the mechanism.
2 What was not successful and not popular were other
3 elements to which the mechanism was attached.

4 Chairman Goltz, the decoupling mechanism was a
5 very small part of a very large edifice, which included
6 adjustments for hydropower risk, for fuel costs, for a
7 whole host of other elements having nothing to do with
8 energy efficiency or decoupling, which was big enough by
9 itself to require some significant rate adjustments that
10 were hugely unpopular.

11 But if you go back and look at record, you'll
12 see that the decoupling mechanism was never responsible
13 in the most significant year of its rate increases for
14 more than a two percent shift in rates. It was the rest
15 of the so-called PRAM, P-R-A-M, mechanism -- and I can't
16 even remember what program stood for --

17 CHAIRMAN GOLTZ: Periodic rate adjustment
18 mechanism.

19 THE WITNESS: It sure didn't stand for
20 decoupling. It had a lot more in it, and people didn't
21 like it. If you ask what happened since, flash forward,
22 the elements of PRAM that were unpopular and viewed as a
23 failure have been replaced, with, for example, the power
24 cost adjustment mechanism. We don't do hydropower risk
25 insurance in anything like the same way.

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1 The other thing that's changed, though, is we
2 have a massively expanded commitment to, and
3 expectations about, energy efficiency achievement. And
4 I'm glad to go back -- in this respect I'm glad to go
5 back to 1991 for the proposition that Washington adopted
6 a simple mechanism for Puget that worked as intended,
7 and it is in important respects the foundation for what
8 we're bringing back to you today.

9 CHAIRMAN GOLTZ: So at that point Puget Power
10 and Light Company was behind the mechanism. Correct?

11 THE WITNESS: Yes.

12 CHAIRMAN GOLTZ: But they aren't testifying in
13 support of your proposed mechanism today. Why do you
14 think that is? I'll ask that of Mr. DeBoer too.

15 THE WITNESS: I -- yeah, I think it's
16 important -- I'm very seldom asked to speculate on
17 Puget's motivation, and I'm almost hesitant to do it,
18 but I think it's a matter --

19 CHAIRMAN GOLTZ: But you'll do it anyway.

20 THE WITNESS: I'll do it anyway, since you're
21 asking, Mr. Chairman.

22 A problem -- you can also ask -- the policy
23 statements note that decoupling has been slow to take
24 hold in the electricity sector in the United States.
25 The principal reason for that has been that the electric

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1 sector itself has been reluctant to back it.

2 What you're observing is a general phenomenon.
3 Part of that is undeniably I think attached to the fact
4 that historically utilities have done very well by
5 having their financial health tied to increases in
6 sales. If you look at the record, electricity
7 consumption in the United States since the mid '70s has
8 more than doubled. Natural gas and oil use are flat.

9 Electricity was the big winner. Electricity
10 consumption has steadily grown in most of the country
11 for most of the last two generations, much more rapidly
12 than the, for instance, the growth in population. And
13 utilities that had their financial health tied to
14 increases in electricity use, which was most utilities,
15 did very well by it. Decoupling makes them give up that
16 up side.

17 The other source of concern within the utility
18 sector, Chairman Goltz, is something that your earlier
19 question undoubtedly set off among every Puget
20 participant in this hearing, which is the tendency of
21 many commissions at least to raise the possibility that
22 decoupling will bring with it a reduction in authorized
23 return on equity upfront. And for a typical utility
24 manager or a rate case strategic planner that's a poison
25 pill. It's understandable that they are reluctant to

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1 embrace a proposal that might have that as the cost.

2 For those reasons, I can understand why Puget's
3 not joining in the proposal, but I think it is
4 significant -- Puget clearly agrees with us that
5 something needs to be done, that the commission
6 cannot -- if the commission simply keeps in place the
7 regulatory status quo, the damage associated with
8 successful efficiency programs is unacceptable from a
9 shareholder perspective. Puget agrees with that.

10 And on many of the key accounting questions, as
11 to what are the fixed costs that are being recovered in
12 variable charges, and how should the mechanism
13 accommodate them, our proposal is in parallel with
14 Puget's proposal.

15 The final place where we clearly don't disagree,
16 and I'm grateful for this and want to call it out, is
17 that Puget clearly shares our aspirations for energy
18 efficiency achievement. Puget understandably doesn't
19 want to see those advanced at the expense of
20 shareholders, and we're looking for a way to put
21 shareholders' and customers' interests together in this
22 case.

23 CHAIRMAN GOLTZ: And you would agree also to put
24 public policy goals of the United States in alignment --
25 of the state of Washington in alignment with the company

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1 goals as well?

2 THE WITNESS: Very much so. And I think they
3 are.

4 CHAIRMAN GOLTZ: So that brings me to a question
5 that Mr. DeBoer raised in his testimony. And you made
6 the point -- actually, I enjoyed it -- I think you
7 referred to Puget wanting to hit the accelerator and the
8 brake at the same time.

9 THE WITNESS: Yes.

10 CHAIRMAN GOLTZ: And the accelerator portion, at
11 least one element of it, was implementing the state
12 policy favoring further development of electric vehicles
13 to get the state more off of petroleum and into electric
14 cars.

15 So isn't it in alignment of the state policy --
16 if you want to align Puget's policy with state policy in
17 that regard, shouldn't we be encouraging them to profit
18 by selling more electricity?

19 THE WITNESS: Absolutely not. I welcome the
20 question. The state objective is not wasteful electric
21 vehicles. The state objective is vehicle
22 electrification. The last thing you'd want to do is to
23 give Puget an incentive to support electrification based
24 on commodity sales to the cars. What you want are the
25 cars, and you want the cars to be as efficient as

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1 possible.

2 To me this is -- the electrification example is
3 a classic case. You could use it for any form of
4 electric technology. You could do it for water heaters,
5 you could do it for flat screen televisions. All of
6 these things have the potential to make life better, but
7 you want them to be as efficient as possible. And when
8 you tie the Puget earnings incentive squarely to
9 commodity sales, as opposed to the efficiency of the
10 equipment, you're getting the equation almost precisely
11 wrong.

12 I've spent enough time on vehicle
13 electrification, Mr. Chairman, which we support, NRC,
14 NWECC supports it, but I know there are tremendous
15 variations in the efficiency of the vehicles that are
16 emerging in the first generation of electrification, and
17 I'd like to see us doing all we can to encourage all
18 cost effective efficiency in electric vehicles, the same
19 way we're doing with TVs, water heaters, commercial
20 lighting. It's one and the same.

21 CHAIRMAN GOLTZ: Right. But encouraging
22 efficiency in electric lighting, no one is going around
23 even suggesting that it's state policy to have
24 everyone's lights be brighter or to have more light.

25 THE WITNESS: Right.

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1 CHAIRMAN GOLTZ: It's just most efficient light.
2 No one is really saying we ought to all have four big
3 screen TVs. One ought to be plenty. But people are
4 saying we ought to have more electric vehicles. And
5 even if they're less efficient electric vehicles,
6 they're better than having petroleum.

7 THE WITNESS: Sure. But let's go for the
8 optimum. The optimum would be efficient electric
9 vehicles, because then our limited supply of affordable
10 electricity can displace more oil.

11 The proposal we're making would allow you to
12 pursue -- it's not inconsistent with the supported
13 vehicle electrification, Mr. Chairman. If you wanted,
14 for example, to create an earnings incentive tied to the
15 number of electric vehicles, it would make far more
16 sense than promoting -- than effectively rewarding Puget
17 based on the simple through-put through the plugs into
18 the vehicles. That strikes me as an incredibly
19 shortsighted and blunt-edged incentive when you clearly
20 could do better.

21 Let's be clear. Decoupling certainly will not
22 penalize Puget for supporting vehicle electrification
23 any more than it penalizes Puget for promoting
24 efficiency in any other end use. We support this.
25 We're not against vehicle electrification.

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1 CHAIRMAN GOLTZ: Right. But it just seems to me
2 there's some -- you know, I don't want to say I'm
3 agreeing with Mr. DeBoer on this point, but if there is
4 some element of truth there, where, you know, you've had
5 this, as you a mentioned, a rapid increase in
6 electricity use in the country, but that's not
7 necessarily bad.

8 THE WITNESS: And I want to be clear. To the
9 extent Mr. DeBoer is concerned that perhaps I'm
10 anti-electricity -- and there was a celebrated
11 environmental leader who once when pressed on what his
12 favorite form of generation was said flashlight
13 batteries. That's not me. I recognize the value of
14 efficient electric end uses across a whole host of
15 spectrums.

16 But, Mr. Chairman, there's one other point that
17 I think is helpful in putting this into perspective.
18 Mr. DeBoer kindly provided us in response to a discovery
19 request with Puget's internal projections as to how much
20 electricity use vehicle electrification might represent
21 under aggressive scenarios over the next 20 years.
22 Under the most aggressive scenario, vehicle
23 electrification doesn't even affect one percent of
24 electricity use 20 years out.

25 So this is by any -- we are not yet at a point

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1 when this is a significant issue, even if you think I'm
2 crazy in urging you to view this as one more end use,
3 where energy efficiency is an important part of the
4 calculation. Even if you think that it's important to
5 make sure that Puget is behind vehicle electrification,
6 the commodity sales aspect of vehicle electrification
7 isn't going to matter much for 20 years at least. After
8 that, maybe, and perhaps we can after a productive
9 experiment with revenue decoupling and enhanced energy
10 efficiency look at some in-course corrections then.
11 This is not an imminent problem.

12 CHAIRMAN GOLTZ: It's not imminent in that
13 sense. But there may be in the near, relatively near
14 term, I mean five, ten years out, some issues with
15 certain areas, I would suspect, probably the higher
16 income areas, where a lot of people are going to be
17 buying electric cars that may necessitate some
18 infrastructure changes by Puget or other utilities.

19 THE WITNESS: Sure.

20 CHAIRMAN GOLTZ: I guess I'm beating a dead
21 horse here, but shouldn't they have some incentives to
22 make those sales so they can go off and try to figure
23 out creative ways to get the electricity to those
24 customers?

25 THE WITNESS: But now I think what the most

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1 important things Puget will need to do, and you just hit
2 on it, these vehicles are going to go initially into
3 certain places. There's going to be some interesting
4 congestion problems. There's going to need to be some
5 distribution upgrades. None of those have anything to
6 do with raw through-put in terms of the reward. Puget
7 is going to need reasonable cost recovery for the
8 measures associated with upgrading the distribution
9 system. That's not affected by revenue decoupling.

10 You commissioners, if you become convinced that
11 you need an aggressive program of vehicle
12 electrification, it's in society's interests, and there
13 are costs associated with it, adjust the revenue per
14 customer implicit in our -- not implicit, explicitly
15 part of our proposal, to accommodate those costs.
16 That's what Puget needs. It needs reasonable assurance
17 that it will recover the costs of upgrading the system,
18 it doesn't need a through-put incentive.

19 CHAIRMAN GOLTZ: So as mentioned, Puget in this
20 proceeding is not favoring your proposal, they're
21 favoring their conservation savings adjustment.

22 THE WITNESS: Right.

23 CHAIRMAN GOLTZ: I'll ask Puget this too I
24 guess. Is it a problem that if we were to adopt your
25 proposal and in effect order Puget to do it we'd be

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1 imposing this on perhaps an unwilling utility? Does
2 that pose a problem?

3 THE WITNESS: I think that's an excellent
4 question, Mr. Chairman. And the issue -- if I thought
5 that Puget was dug in against and determined to resist
6 and that the consequences might actually be visible in
7 degraded efficiency performance, please rest assured I
8 wouldn't be making this proposal. I take some comfort
9 from literally now decades of interchange with the Puget
10 management. They know we're trying to solve the same
11 problem they are.

12 I think what they will tell you is that our
13 proposed solution is objectionable to them primarily
14 because it doesn't solve all of their problems.
15 Remember, they've got two problems. One is the linkage
16 between financial health and sales. The other is their
17 contention that their costs are increasing faster than
18 their revenue requirement, an attrition problem, which
19 is also addressed by the staff.

20 Mr. Chairman, we are not solving the attrition
21 problem that Puget has brought to you. If you believe
22 that's a problem that needs to be solved, raise the per
23 customer revenue requirement to grant Puget more cost
24 recovery. That is the solution if you believe them on
25 attrition. And I'm taking no position. You do need to

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1 adjust the revenue per customer.

2 But the problem that they're identifying, the
3 problem they're trying to solve with that per customer,
4 with that conservation savings adjustment, is as much a
5 problem of under recovery of costs as it is a problem
6 with the linkage between through-put and financial
7 health. And I hope and believe that Puget will tell you
8 that as to the second problem, the linkage between
9 financial health and sales, we've proposed a reasonable
10 alternative. They're just concerned that we're not
11 solving their cost recovery problem. And they're right.

12 CHAIRMAN GOLTZ: Well, except if to the extent
13 that attrition is caused by lower per customer usage,
14 your proposal would address that if that solved it,
15 partially solved it.

16 THE WITNESS: It partially solves it, but you
17 still have to decide what a reasonable revenue
18 requirement is.

19 CHAIRMAN GOLTZ: Sure.

20 THE WITNESS: If they're right, you should raise
21 it.

22 CHAIRMAN GOLTZ: So isn't another way of solving
23 Puget's problem and your issue is to just increase the
24 fixed charge per customer substantially?

25 THE WITNESS: And in some parts of the country

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1 they're doing that, exactly that, Mr. Chairman. Of
2 course the reason they think that's a perfectly terrible
3 idea is that, yes, it solves the utility's problem, but
4 it creates a new problem for the customer. It reduces
5 the customer's reward for saving energy.

6 Our view is a -- and some of the most inveterate
7 opponents of decoupling in the room are probably with me
8 on this one. The last thing you want to do in a state
9 that's trying to get more aggressive on energy
10 efficiency is reduce customers' rewards for saving
11 energy. That's what you get when you raise the fixed
12 charge and reduce the variable charge.

13 CHAIRMAN GOLTZ: On page 17 of your testimony, I
14 think I have this right, you said -- yes. It's starting
15 on line eight. You cite a study that found that 88 gas
16 and electric adjustments under decoupling mechanisms,
17 less than one seventh involved increases exceeding three
18 percent.

19 THE WITNESS: Right.

20 CHAIRMAN GOLTZ: I think you were saying that's
21 not very much. That seems like a big number to me,
22 three percent, and we're going to hear this tonight when
23 we have our public comment hearing. People -- if we
24 said, hey, it's only three percent, they would not be
25 happy.

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1 THE WITNESS: Mr. Chairman, I recognize that for
2 many people any increase is a problem, but I think it's
3 important to recognize that under decoupling adjustments
4 go both ways, and that that three percent average --
5 look at the parenthetical that follows the statement you
6 quoted. That number represents less than a dollar 50
7 per month in higher or lower charges for gas customers,
8 less than \$2 a month for electricity, or seven cents a
9 day for electricity, a nickel a day for gas.

10 For some people that matters. I'm not
11 suggesting that it's completely irrelevant. But any
12 claim that this is somehow going to lead to massive
13 volatility in rates or any appreciable reduction in
14 customers' reward for saving energy is I think refuted
15 by these numbers. Seven cents a day.

16 CHAIRMAN GOLTZ: I have no further questions.

17 COMMISSIONER OSHIE: I want to follow up on a
18 question that I believe you responded to, Mr. Cavanagh,
19 with the chairman, and that has to do with, you know,
20 basically the, you know, a fixed variable rate design,
21 and your concerns about that, and as well as others. I
22 mean, you're not the only person that has explained
23 their position on that subject in the same manner.

24 But one of the things we do here is, in frequent
25 public hearings, is that individuals say to us we've

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1 conserved and our rates go up. They have a link, they
2 have -- they have determined, if you will, probably, I
3 don't know whether it's something that they've read or
4 just maybe talking to one another, or perhaps just on
5 their own, that although they invest in conservation,
6 their bills continue and rates and bills continue to go
7 up.

8 And so isn't that really one of the -- that
9 link, understood by the customer -- I want you to
10 compare your proposal with that of the company's if
11 people really understand how the mechanism works, and
12 what you believe or at least you have an opinion on the
13 reaction of customers to either one.

14 THE WITNESS: Well, I think there are two
15 questions there, Commissioner Oshie. One is to compare
16 our proposal with straight fixed variable rate
17 design and then --

18 COMMISSIONER OSHIE: No, excuse me, no.
19 Compared to Puget.

20 THE WITNESS: Compared to Puget.

21 COMMISSIONER OSHIE: I take as you've stated it
22 that a straight fixed variable rate design reduces the
23 benefits to customers from conservation investments
24 today.

25 THE WITNESS: Yep.

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1 COMMISSIONER OSHIE: So I take that as a given.

2 THE WITNESS: Okay.

3 COMMISSIONER OSHIE: So the question is if
4 people really understand the relationship between their
5 conservation and some bill modification that is affected
6 by their use, is your -- maybe put it directly, is your
7 proposal better than Puget's because if you accept that
8 if people understand that if because of the CSA if they
9 invest in conservation their rates are going to go up
10 directly because of their savings?

11 THE WITNESS: Yes, Commissioner Oshie, I think
12 the other perhaps decisive difference is that Puget's
13 proposal is an automatic rate increase every year,
14 assuming that Puget is minimally meeting its
15 conservation goals, and our proposal can move rates in
16 either direction.

17 The other thing that's appealing about our
18 proposal I think for customers, Commissioner Oshie, and
19 it is very well put in your own policy statement, is
20 that our proposal is a form of extreme weather insurance
21 that Washingtonians do not have at present. Our
22 proposal guaranties that increases in revenues
23 associated with extreme weather conditions will go back
24 to customers, and we don't have that now. Those are
25 appealing features of our proposal I think from a

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1 customer perspective that the Puget proposal doesn't
2 have.

3 COMMISSIONER OSHIE: Let's go to your testimony
4 very briefly. There you recommend, I believe on page 9
5 of -- and I'm going to have to find it here,
6 Mr. Cavanagh.

7 THE WITNESS: Sure.

8 COMMISSIONER OSHIE: RCC-1T. In there you
9 describe beginning on line six, and you run down through
10 18, some of the mechanics of the mechanism that you
11 propose.

12 THE WITNESS: Yes.

13 COMMISSIONER OSHIE: I just want you to describe
14 your view, or what you mean, let's put it that way, of
15 per customer decoupling. Straightforward form of per
16 customer decoupling, what does that mean?

17 I mean, I can -- maybe I'll just try to lay a
18 foundation here a little differently just for the
19 statement, is that you can have a by class form of
20 decoupling, where you look at -- you set a baseline of
21 expected revenue by class, what your expected sales will
22 be from that class, set a rate, and if that class moves
23 up or down, at least under your mechanism, just in
24 general terms, the decoupling mechanism would either
25 compensate the utility for sales it did not have or

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1 credit the customers for sales that it made extra.

2 Now, when it gets into per customer it
3 complicated things in my mind, but I want to know what
4 you mean by it. Is it just another way of saying it the
5 way I described it, as kind of a determine it by class,
6 or is this one where per customer you look at any
7 individual customer's use and their particular impact on
8 the system to be measured by the utility, so they will
9 have a bill based on their use in any given year that
10 will float?

11 THE WITNESS: It's certainly not that,
12 Commissioner Oshie. We're actually -- per customer
13 decoupling was invented by the Washington Utilities and
14 Transportation Commission in 1991.

15 COMMISSIONER OSHIE: I wasn't here then.

16 THE WITNESS: That's right. But I think it's an
17 honorable origin at least. The reason for doing it --

18 COMMISSIONER OSHIE: I accept that.

19 THE WITNESS: -- then and now Washington used a
20 historic year, and decoupling -- there was only one
21 other decoupling jurisdiction at that time, a large
22 state to the south that we won't mention, that used a
23 future test year.

24 Washington state didn't want to move to a future
25 test year, but the fundamental notion of per customer

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1 decoupling is that the commission approves a revenue
2 requirement per customer, that the revenue requirement
3 obviously then between rate cases can move up as the
4 number of customers moves up. Without decoupling it
5 moves up as kilowatt hour sales move up.

6 The adjustments that are made reflect a
7 difference. There's a balancing account that tracks
8 whether the utilities are over or under recovering per
9 customer. You have to do a -- you have to count the
10 customers too.

11 The difference between what we proposed and what
12 the commission did in 1991, in 1991 the commission had
13 one customer account and one revenue requirement. So
14 there was a revenue per customer that equally applied to
15 Microsoft and you. We are not proposing that. We're
16 proposing a division with the residential customers
17 treated as one pool for purposes of revenue per
18 customer, and everybody else in the mechanism treated as
19 a second pool.

20 COMMISSIONER OSHIE: Thank you.

21 Now, do you think -- and this kind of goes back
22 to your general explanation of why you favor the
23 proposal that you've offered. One of the questions that
24 come to mind, and one that has been discussed at least
25 more recently in some of our commission meetings, is the

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1 impact of I-937, are you familiar with that?

2 THE WITNESS: Yes.

3 COMMISSIONER OSHIE: I thought you would be.

4 Did you write it?

5 THE WITNESS: No. No, Commissioner Oshie, I did
6 not write it. I was happy to support it.

7 COMMISSIONER OSHIE: Sorry, Mr. Cavanagh, I had
8 to ask that.

9 So do you think that I-937 at least implicitly
10 makes it a policy of the state to -- and I'll use this
11 term, I don't really know if it applies -- but to cap
12 electricity sales --

13 THE WITNESS: No.

14 COMMISSIONER OSHIE: Okay. Now, and so -- I was
15 going to finish it, but that's okay. Because I was
16 going to -- I was going to talk about -- wanted you to
17 talk about the relationship between conservation, which
18 has the impact -- all cost effective conservation.

19 Perhaps I'm not satisfied that it's one percent of any
20 utility's load, that it can be more, particularly with
21 what the power council describes as its potential for
22 the northwest. So if that were the case, and I know
23 you've had some experience in California where there is
24 load growth on the system, but that load growth, as
25 described by the counsel, can be met through a

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1 combination of renewable resources and conservation, and
2 in my mind, the combination of the two in I-937 really
3 may be saying the same thing. And that's what I wanted
4 your opinion on.

5 THE WITNESS: Oh, I think that's right. In the
6 sixth power plan, for example, the council proposes to
7 meet 85 percent of regional load growth through cost
8 effective efficiency and the rest with renewables. I do
9 think -- that integration is important to me. I think
10 it's the ultimate objective embedded in many parts of
11 Washington state energy policy.

12 But what is I think appealingly different about
13 the way we've always handled efficiency, we've never set
14 a quota. We've never said 85 percent of load growth, 50
15 percent of load growth, 20 percent of total system
16 acquisition. We said all cost effective energy
17 efficiency. I think that's the right objective from a
18 public policy perspective, but it underscores why I
19 think our proposal and your policy statement was so
20 important, Commissioner Oshie, because that's an
21 undefined term.

22 It depends in significant part on the
23 entrepreneurial vigor of the parties engaged in making
24 the efficiency happen. And Puget is an important part
25 of that. I'd like to get the incentives better in line

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1 for them to be successful.

2 COMMISSIONER OSHIE: Well, one of the issues
3 that we've had here at this commission, and perhaps
4 affected by the company's view of its own incentive,
5 because we had at one time as well a cash reward if they
6 exceeded certain goals, which they chose not to want to
7 renew, is we see the, you know, the high potential
8 target of just recently, I think a couple years ago,
9 their target potential was 72 average megawatts, what
10 with the target that they filed was in the low forties.

11 THE WITNESS: Right.

12 COMMISSIONER OSHIE: And I know that that was
13 what they believed to be achievable. In other words,
14 that was a safe target for them to meet, and I would
15 assume based on your testimony that if we employed your
16 mechanism, that we would get closer in that particular
17 situation to a result of 72 average megawatts, not at
18 the low -- I believe it was actually average of 42
19 average megawatts during that particular year.

20 THE WITNESS: And, Commissioner, I remember this
21 vividly. And I'm glad you raised it. The NW Energy
22 Coalition had a fight with Puget two years ago over
23 targets. And the target that Puget proposed -- Puget
24 didn't adopt the council's sixth power plan target.
25 Puget tried to go back to the fifth power plan. It made

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1 a difference of 50 percent in the target.

2 I would argue that that's at least in part a
3 function, I bet Puget would agree, of the incentives
4 being out of alignment, and the concern about the cost
5 to shareholders of going to a higher target if we didn't
6 address the very issues your policy statement puts front
7 and center.

8 I'm happy to see this time around Puget's
9 adopting a more aggressive target, but I'm willing to
10 bet at least in part that reflects confidence that
11 you're going to do something to respond to those
12 obstacles. And also, of course, it reflects the fact
13 that the council has now adopted its sixth power plan,
14 and that the targets were -- there's not a lot of
15 discretion to go any lower. But I would hope we treat
16 the council's targets as a floor, not a ceiling. Even
17 the council is only at 1.2 percent a year of regional
18 load in terms of the conservation objective. We can do
19 better than that.

20 COMMISSIONER OSHIE: Let me turn to one other
21 subject matter that you addressed, and that is effect on
22 low income customers.

23 THE WITNESS: Yes.

24 COMMISSIONER OSHIE: So I'll throw out a
25 proposition and you can react. Generally with

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1 conservation the more you save, in other words, the more
2 kilowatt hours a person saves in a particular class --
3 let's use a residential customer. So you put in then,
4 at least for a period of time, until those expected
5 sales are adjusted, the rest of the class has to pick up
6 arguably your cost. In other words, you avoid the fixed
7 costs that are built into rates. You may not understand
8 that as a customer, but that's exactly what's going on.
9 You also avoid, of course, the variable cost there
10 associated with the kilowatt hour sale. But what
11 happens at that point is a customer who saves, who
12 conserves, actually pushes its costs onto the rest of
13 the customer class and they have to bear the load. So
14 would you agree with that? Or bear the cost.

15 THE WITNESS: I would not for this reason. And
16 Commissioner Oshie, I'm smiling at you, this was the
17 very argument that in the initial -- in the initial
18 debate over whether utilities should invest as energy
19 efficiency -- invest in energy efficiency as a resource,
20 this was Exhibit 1, that the participants will push
21 costs off onto the nonparticipants. And Washington's
22 response and, Commissioner Oshie, your response I
23 submit, are there are no nonparticipants in the avoided
24 higher cost of generation transmission distribution that
25 cost effective efficiency displaces.

1 That's the wrong way to think about what we're
2 doing here. And we've known that for 30 years. But in
3 this sense, you're absolutely right: It is important
4 that programs be designed so that everyone has an equal
5 opportunity to participate. And that's been a principle
6 of Washington state efficiency policy as long as I can
7 remember, and that is front and center in our proposal.

8 COMMISSIONER OSHIE: Well, let's take that a
9 little bit further, because no, I understand what you're
10 saying, because there are benefits to, you know, all
11 customers and -- but there are real costs to customers.

12 THE WITNESS: Yes.

13 COMMISSIONER OSHIE: Let's say that you are --
14 this will be, you know, the hypothetical can perhaps be
15 not really extreme, but perhaps be on a higher end user
16 or higher customer -- a higher use customer. Let's put
17 it that way. So -- let's say that, you know, you are a
18 customer no matter what. Let's take the low income out
19 of it.

20 You are a customer, and you have a residence
21 that uses baseboard heat, all electric, you know, you're
22 churning out about 1500, 2,000 kilowatt hours a month
23 perhaps to heat your home. So you bear in any given
24 time -- let's say one's rates are set. You, the
25 customer, I would hope -- and I think we would certainly

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1 strive to ensure that its fixed costs and its variable
2 costs are somewhat in alignment with the rest of the
3 class that it sits in.

4 THE WITNESS: Yep.

5 COMMISSIONER OSHIE: Under this hypothetical,
6 let's say that the rest of the class, and this is the --
7 let's use this in an extreme form. The rest of the
8 class just drops off. And this may be true if many of
9 the industrial customers -- and that's why they don't
10 want to be part of a decoupling mechanism -- the class
11 drops off leaving whatever load -- leaving perhaps the
12 burden of the system that supplies electricity to that
13 customer falls upon a smaller group of customers, or in
14 effect a smaller group of kilowatt hours.

15 THE WITNESS: Yep.

16 COMMISSIONER OSHIE: That would then raise the
17 price, if you will, to that customer or that group of
18 customers for the kilowatt hour that sold.

19 THE WITNESS: Death spiral. For that reason,
20 Commissioner Oshie, we propose omitting from the
21 mechanism the class that looks like what you just
22 described, with a very small number of members
23 accounting for each a very large amount of consumption
24 but also very little contribution to fixed cost
25 recovery.

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1 The classes we propose to exclude, and we did it
2 for precisely the reason you're identifying, account for
3 about 14 percent of sales, but only about four percent
4 of fixed cost recovery. There are only about 140
5 members, and you can imagine the departure of a single
6 or a small group inflicting significant rate volatility
7 on the system. Although you cannot imagine that,
8 Commissioner Oshie, I submit, for the residential class,
9 and you really can't imagine it for a diversified
10 commercial sector either.

11 COMMISSIONER OSHIE: Let me take this another --
12 because I, you know, I agree, you know, there are -- it
13 doesn't happen overnight. But let's look at low income
14 customers now as a group.

15 THE WITNESS: Okay.

16 COMMISSIONER OSHIE: As a general rule, like
17 everyone else in the residential class, they're paying
18 Puget to offer energy efficiency measures and programs
19 within their conservation portfolio, yet -- and this is
20 what I do -- you know, I believe we need to get better
21 information on this. I'm convinced that they do not
22 take advantage of the programs that are offered to
23 customers because of the remaining investment that needs
24 to be made by an individual.

25 As an example, and this is, you know, this is

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1 completely hypothetical, but if a customer, if the
2 company is offering a new furnace, high efficiency
3 furnace, they may offer a \$300 rebate or a \$400 rebate,
4 but if it's \$3,000, the customer has to come up with the
5 remaining 26-, \$2700. And I would just assert that the
6 low income customer is not likely to be able to
7 participate in that. They do have other options.

8 So over time as kilowatt hour sales diminish for
9 the company, and assuming the system load remains the
10 same, those costs fall upon the remaining kilowatt
11 hours, and if the low income customer, as an example,
12 cannot save because of their financial condition, then
13 they begin to bear a larger and larger share of the cost
14 needed to support that class. Do you agree with that?

15 THE WITNESS: I share that concern. It's
16 squarely addressed in our testimony. It has, of course,
17 nothing to do with revenue decoupling. It's about the
18 design of energy efficiency programs, and about ensuring
19 that low income customers can participate.

20 And here, Commissioner Oshie, speaking as a
21 board member of the NW Energy Coalition, which was
22 created in 1981 as an alliance of low income service
23 providers and environmental groups, those were the
24 original constituent groups, I get this. And we have
25 been tireless in our advocacy for targeted low income

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1 conservation, and will continue to be, and encourage you
2 to do everything you can in this case.

3 Everything Chuck Eberdt asks you to do you
4 should do. And there is no better advocate for low
5 income customers and no one who knows more about how to
6 deliver the services and how to deal with those barriers
7 you just identified than Chuck does.

8 COMMISSIONER OSHIE: Do you have any ideas,
9 Mr. Cavanagh, how to accomplish that? I mean, is it --
10 obviously it's not satisfactory the way it's designed
11 now.

12 THE WITNESS: Commissioner Oshie, what I would
13 say about that, and I think here Chuck and I are going
14 to be in the same place, you clearly want
15 community-based organizations doing direct outreach.
16 That's crucial. You don't want to be giving people ten
17 percent rebates. You want to be recovering the full
18 cost of the measures. You want to build in provision
19 for structural repairs, because some of these houses are
20 going to need that before they can adopt the
21 improvements.

22 We know how to do this. The northwest invented
23 low income weatherization. It led the rest of the
24 country. It's a resource problem now, but we know how
25 to do it. And you're the people in a position to fix

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1 the resource problem working with the utilities.

2 So the objective of having low income customers
3 participate in proportion to their numbers is a
4 reasonable one, but, Commissioner Oshie, never forget
5 that the people who are also disproportionately going to
6 be paying the cost of those more expensive power plants
7 if we don't do the efficiency are those very people who
8 have trouble conserving and have low incomes. The one
9 thing I can tell you for sure is they'd be worse off if
10 we didn't do the efficiency. Now let's concentrate on
11 making them better off because we're doing the
12 efficiency right.

13 COMMISSIONER OSHIE: I don't think anyone here
14 is advocating that we would go to that extreme,
15 Mr. Cavanagh, but I believe that there's a concern
16 here --

17 THE WITNESS: Yeah.

18 COMMISSIONER OSHIE: -- on long-term efficiency
19 in long-term decoupling of particular class of customers
20 who have difficulty engaging with utility in the
21 delivery of conservation services to them. And some
22 form of decoupling may in fact contribute to that, and I
23 don't know if the CSA -- I haven't really thought it
24 through, but maybe the CSA does as well. I'm not so
25 concerned about the mechanism that you have described,

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1 but --

2 THE WITNESS: And all I can say on that,
3 Commissioner Oshie, in terms thinking about the
4 decoupling mechanism in particular, and potential
5 adverse effects on low income customers, I've done my
6 best in the testimony to respond directly to that, it's
7 not a cost increase. We're averaging across the entire
8 residential sector, we're not lumping residential and
9 commercial together as the commission did in 1991, which
10 was open to that charge. We really tried to -- and we
11 built in evaluation procedures that should let you at
12 every stage determine whether your fears are being
13 realized or whether our aspirations instead are being
14 realized. So I think -- I've heard this from you
15 before, and this proposal includes specific elements
16 that are designed to accommodate this.

17 COMMISSIONER OSHIE: Let me ask just a general
18 policy question as well, Mr. Cavanagh, because I'm
19 taking your testimony to be very much that instead of a
20 specific here's, you know, here's the precise definition
21 of the tool, but I understand it has some elements. But
22 if we do this for Puget -- if we accept your
23 recommendation for Puget, then would you also be an
24 advocate for requiring our other utilities under our
25 jurisdiction that are engaged in either the sales of

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1 electricity, or let's use this term, kilowatt hours or
2 therms, to also be required to use this mechanism?

3 THE WITNESS: We certainly think you should
4 institute full decoupling for Avista as well as Puget.
5 We have a proposal before you on exactly how to do it,
6 and I suspect in a couple of months I'll be back here up
7 in front of you again, because I don't think the
8 mechanism should be identical.

9 The utilities are different in important
10 respects. They have -- the power cost judgment for
11 Puget is quite different from the mechanism that Avista
12 has. But the principle, absolutely, the principle that
13 financial health should be decoupled from sales is one I
14 would hope -- I've also brought it to you three times
15 for PacifiCorp, Commissioner Oshie, so I do have a
16 record of consistency on this. You just haven't said
17 yes yet.

18 COMMISSIONER OSHIE: This one may be a bit
19 different. I do remember the first one.

20 Thank you, Mr. Cavanagh. I'd love to ask you
21 more questions, but I think I have to stop.

22 COMMISSIONER JONES: Picking up where
23 Commissioner Oshie left off. Well, it's good to see you
24 here again, and it's good to hear you touting the
25 leadership of the state of Washington in this area.

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1 When I hear you speak nationally sometimes you
2 do tend to speak about the leadership of that great
3 state to the south of us.

4 THE WITNESS: I speak at least as often about
5 the Pacific Northwest, Commissioner Jones, as you know
6 perfectly well.

7 COMMISSIONER JONES: Well, it's good to hear you
8 in this commission talking about the great state of
9 Washington.

10 I won't take a long time here, just two or three
11 questions on the specifics of the mechanism, ROE, the
12 weather adjustment, the term of the mechanism, and the
13 electrification issue that the chairman asked you.

14 THE WITNESS: Yes.

15 COMMISSIONER JONES: Weather adjustment on
16 page 15. You talk about the weather adjustment
17 mechanism. In our policy statement on page 18, we
18 state: We generally would support including the effects
19 of weather in a full decoupling proposal.

20 THE WITNESS: Yes.

21 COMMISSIONER JONES: Correct.

22 THE WITNESS: Yes.

23 COMMISSIONER JONES: So I get a little confused
24 by that language sometimes. So your mechanism by,
25 quote, including the effects of weather in a full

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1 decoupling mechanism, what does your proposal do? You
2 are not weather normalizing the revenue requirement per
3 customer. Correct?

4 THE WITNESS: That's right. That's what we
5 thought you were telling us you wanted us to do.

6 COMMISSIONER JONES: So then you state that this
7 works well because providing rebates after a colder than
8 normal winter -- a rebate would occur in a milder than
9 normal winter -- or weather, a surcharge would apply.

10 THE WITNESS: Yes. So, in other words, when
11 bills are down, there's a modest surcharge, when bills
12 are up, you get a rebate. I think customers will like
13 that.

14 COMMISSIONER JONES: Now, did you hear the
15 exchange with Mr. Gorman this morning, both with the
16 chairman and myself?

17 THE WITNESS: Yes.

18 COMMISSIONER JONES: His proposition -- now I'm
19 moving to ROE adjustment, and I would not characterize
20 this as a poison pill. I would characterize this as a
21 risk/reward adjustment mechanism, and we just have to
22 objectively determine what are the risks and what are
23 the rewards here and how much risk has been shifted, if
24 at all, from shareholders to customers and back and
25 forth. So I think what Mr. Gorman stated was any

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1 mechanism that increases the stability or the
2 predictability of cash flows and earnings lowers the
3 risk for the company. Was that not his testimony?

4 THE WITNESS: It was.

5 COMMISSIONER JONES: So your mechanism, as I
6 read it, doesn't it increase the predictability of the
7 company recovering its margin both on electric fixed
8 investment, as you describe in your testimony, and gas?

9 THE WITNESS: My testimony is only about
10 electricity.

11 COMMISSIONER JONES: Yes, excuse me.

12 THE WITNESS: It removes a down side and an
13 upside, Commissioner Jones. And in that sense, yes,
14 there is less risk associated with recovering the
15 adjudicated revenue requirement, but -- and this is the
16 crucial "but" -- the withdrawn upside is significant.
17 Historically utilities have done very well by linking
18 their financial health to increases in electricity use.
19 You are taking that away.

20 You are eliminating -- this is -- the howls of
21 anguish about vehicle electrification are in part an
22 echo of this; an understanding that, my gosh, maybe
23 something will happen to boost electricity sales,
24 wouldn't it be best to have a piece of that action.
25 You're taking that away.

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1 So, yes, of course there is -- the fact that
2 there is less risk associated with getting the
3 adjudicated revenue requirement doesn't end the question
4 of the shareholder value proposition, because you've
5 also got to keep in mind the withdrawn prospective gain
6 from increased use.

7 COMMISSIONER JONES: Right. Mr. Cavanagh,
8 that's referred to as found margin. Correct?

9 THE WITNESS: Yes, that's your term, yes.

10 COMMISSIONER JONES: I totally understand that,
11 that we would be, in your mechanism, we would be taking
12 that up side, the found margin potential away.

13 THE WITNESS: Enormously lucrative, gone
14 forever. Kimberly Harris is weeping somewhere in the
15 back of the room.

16 COMMISSIONER JONES: I guess my follow-up to
17 that, you say Mr. Gorman, for his 20-basis point
18 adjustment, it was a gut feeling --

19 THE WITNESS: He said it.

20 COMMISSIONER JONES: That's what he said.

21 THE WITNESS: Yes.

22 COMMISSIONER JONES: You say there is not
23 evidence in this record to make any basis point
24 reduction to ROE and that we should wait following the
25 recommendations of the RAP report, R-A-P, on decoupling,

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1 that we should wait for a while, see how things play
2 out, and then if we make any adjustment, well, do it to
3 cap structure, not to ROE?

4 THE WITNESS: What you do is you capture actual
5 savings to customers. If RAP is right, there's a
6 possibility the decoupling, because of the reduced risk
7 of -- associated with achieving adjudicated revenue
8 requirement, RAP's argument is then you can have more
9 debt and less equity in the capital structure, because
10 the enterprise is less risky. Those are cost savings
11 that can be passed through to customers.

12 But, Commissioner Jones, if RAP turns out to be
13 wrong about this, this is -- now, it's me talking, not
14 RAP -- then of course those savings won't materialize.
15 And if you anticipated them upfront and took them away,
16 the company is understandably distressed. The company
17 is also understandably distressed if you link a
18 prospective reduction in return on equity to a policy
19 that's supposed to be removing financial barriers to
20 energy efficiency progress.

21 The final thing I say about this, the record I
22 think -- I think it's more than the record doesn't have
23 enough evidence, Commissioner Jones, I'm not aware of
24 any evidence that companies with decoupling -- and
25 they've been around now for 30 years -- have in the

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1 marketplace discernible reductions in cost of equity.

2 And it's not an impossible thing to look at.

3 Our testimony -- the one study I'm aware of, the
4 one rigorous effort to find this is the Brattle Group's
5 assessment of natural gas utilities, which is in my
6 testimony, where they actually couldn't find -- they
7 looked at decoupled gas utilities and couldn't find any.
8 It actually found a slight increase in the cost of
9 equity. Now, I don't put any particular weight on that
10 either.

11 I think the most important thing in my
12 testimony, Commissioner Jones, is the clear indication
13 that this isn't moving enough money; that is the impact
14 of the mechanism on year-to-year cash flows of the
15 company just isn't big enough to materially affect the
16 overall financial attractiveness of the enterprise from
17 an investor perspective. That's my argument.

18 COMMISSIONER JONES: So by that you mean the
19 seven cents per month per customer?

20 THE WITNESS: Per day, Commissioner Jones.

21 COMMISSIONER JONES: Per day.

22 THE WITNESS: Seven cents per day up or down
23 remember. So we are not talking here about any kind of
24 automatic rate increase, unlike the Puget proposal.

25 COMMISSIONER JONES: So you're essentially

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1 saying this is almost de minimus.

2 THE WITNESS: Yes. De minimus from the
3 standpoint of total company finance, not de minimus at
4 all from the standpoint of energy efficiency obstacles.
5 And they are -- the illustration I want to leave you
6 with is if Puget saves one percent of system load per
7 year, for five years, I gave you the dead weight loss in
8 terms of nonproduction fixed costs, it's a memorable
9 number. It's \$75 million at the end of five years.
10 That's going to get the attention of a Kimberly Harris
11 or any other CEO. That's the problem we're trying to
12 solve here.

13 COMMISSIONER JONES: So is it, in your judgment,
14 if this commission were to grant your proposal, the NWECC
15 proposal, and drop ROE down by, I don't know, ten,
16 twenty basis points, would that be, as you say, a poison
17 pill? And I don't want -- well, I am going to put you
18 on the spot, because you talk to these utilities, I know
19 you do, all the time.

20 THE WITNESS: Yeah.

21 COMMISSIONER JONES: So would that be a reason
22 for them to say no in your view?

23 THE WITNESS: I think a ten basis point
24 reduction, which is what the Oregon commission did with
25 Portland General Electric, would likely be something

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1 everyone would live with.

2 COMMISSIONER JONES: Okay.

3 THE WITNESS: I think if you go beyond that,
4 though, you're inflicting pain in the guys removing the
5 financial barrier. I stronger advise against it. Then
6 you've got your foot on the brake and the accelerator at
7 the same time.

8 COMMISSIONER JONES: Turning to the term of the
9 proposal. You propose five years? Is there any magic
10 to five years rather than two or three years in terms of
11 gathering data? You recommended independent an
12 evaluator for verification, because verification is very
13 important, but is there any magic to five years?

14 THE WITNESS: Actually, Commissioner Jones, I
15 think five years is the minimum, if you really want good
16 evaluation evidence, based on actual experience. As a
17 practical matter, say two years, you'd be -- you'd spend
18 half the time trying to write the report is my guess,
19 and interview the parties. And you're really interested
20 here in changes in corporate culture that are unlikely
21 to emerge if it looks to the company like the mechanism
22 is only a brief excursion by a commission that's not
23 committed to it.

24 I think my strong advice, this is -- I cited for
25 this purpose in my testimony what the Arizona commission

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1 found in its policy statement, and yours and its policy
2 statement are the ones that I think have been most
3 influential around the country. That kind of a minimum
4 period to give this a chance to really shift cultures,
5 and the efficiency results, which themselves take some
6 time to emerge and get evaluated, much less -- four
7 years, would I fall on my sword on that final year? No.
8 But I don't think you could do it for any less, and I
9 don't see a reason, given the fact that you'll be
10 monitoring all the time, why you wouldn't want to give
11 this a robust opportunity to work.

12 COMMISSIONER JONES: Were you involved in the
13 Northwest Natural Gas, both the weather normalization
14 mechanism and the loss margin recovery mechanism in
15 Oregon?

16 THE WITNESS: And the development of decoupling
17 as a natural gas strategy in Oregon, yes.

18 COMMISSIONER JONES: You supported that?

19 THE WITNESS: Yes.

20 COMMISSIONER JONES: Didn't they have a rate
21 stay out provision eight years or something like that?

22 THE WITNESS: I certainly don't remember that
23 for Northwest Natural, Commissioner Jones, and it
24 wouldn't be something I'd advise or support. The -- my
25 effort is not to reduce the frequency of rate cases. I

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1 think, as I say in my testimony, the frequency of rate
2 cases is irrelevant to the problems that decoupling is
3 intended to solve, and I don't expect decoupling to
4 reduce the need for or importance of rate cases.

5 COMMISSIONER JONES: I wish you would have said
6 otherwise.

7 THE WITNESS: Since I know there are different
8 views in the room, Commissioner Jones, I'm trying to be
9 careful on this one to be the middle.

10 COMMISSIONER JONES: Thank you.

11 JUDGE MOSS: I believe that completes our
12 questions. I'm assuming there won't be any need for
13 follow up.

14 MS. BOYLES: No, sir.

15 JUDGE MOSS: Mr. Cavanagh covered the subjects
16 pretty thoroughly with us here today. We thank you very
17 much for your presence here today, and your testimony.

18 THE WITNESS: Thank you, Judge Moss.

19 JUDGE MOSS: You may step down.

20 In an effort to move things along a little bit,
21 I think I'm going to return to our original schedule,
22 which will accommodate the various requests I've had
23 concerning witnesses and their availability by asking
24 here at the bench, because there's no other
25 cross-examination for Ms. Decker, who is NWECC's other

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1 witness, if there's -- are there any questions?

2 COMMISSIONER JONES: No.

3 CHAIRMAN GOLTZ: Just wait a second.

4 I do have one question.

5 JUDGE MOSS: Let's get Ms. Decker up here.

6 If you'll just remain standing for a moment.

7 MEGAN DECKER

8 Witness herein, having been first duly sworn on

9 oath, was examined and testified as follow:

10 THE WITNESS: I do.

11 JUDGE MOSS: Thank you. Please be seated.

12 MS. BOYLES: Should I wait for the --

13 JUDGE MOSS: I think we should just continue

14 ahead.

15 CHAIRMAN GOLTZ: Just with the questions or --

16 you don't need to admit her stuff?

17 JUDGE MOSS: Can we just admit this by

18 stipulation?

19 MS. BOYLES: I'm certainly --

20 JUDGE MOSS: No objection. We'll admit these by

21 stipulation.

22 MS. BOYLES: MWD-1T through MWD-4?

23 JUDGE MOSS: Correct.

24 (Exhibits MWD-1T through MWD-4 were admitted.)

25 MS. BOYLES: Actually, Your Honor, let's just

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1 get her name for the court reporter.

2 Ms. Decker, could you state your name and title
3 and spell your last name for the record.

4 THE WITNESS: Sure. My name is Megan Decker,
5 I'm senior staff counsel with Renewable Northwest
6 Project. My last name is D-E-C-K-E-R. M-E-G-A-N.

7 CHAIRMAN GOLTZ: So, hey, Ms. Decker. You came
8 all the way up here, I thought I should at least ask you
9 a question.

10 THE WITNESS: I can hardly remember what I came
11 up here to talk about.

12 CHAIRMAN GOLTZ: I won't ask you about
13 decoupling. My only question is about the very end of
14 your testimony, about your concurrence with
15 Dr. Hausman's recommendations on behalf of the Sierra
16 Club on the need for PSC to conduct a study about
17 continued operation of coal strip.

18 You say you note the consistency between
19 Dr. Hausman's recommendations and the commission's
20 letter acknowledging PSE's 2011 IRP. So my question is
21 given what we said in that acknowledgment letter, does
22 that kind of moot this issue?

23 THE WITNESS: I don't think so, Chairman Goltz.
24 I don't know exactly what kind of procedural posturing
25 the commission should look at this whole study that

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1 we're asking for in, but the analysis that goes forward
2 within the IRP process may not have sort of the
3 transparency and rigor that we're seeing commissions
4 require of utilities in other contexts.

5 I would leave it to Dr. Hausman to talk about
6 exactly what sort of modeling that study would contain,
7 but I don't think that the IRP letter necessarily moots
8 the issue.

9 CHAIRMAN GOLTZ: What you're saying is we should
10 do whatever Dr. Hausman recommends, and we can defer
11 this to him, but are you suggesting a study that would
12 be on the same timeline as the IRP? Would the results
13 of the study show up in the next IRP with all of the
14 public involvement processes we have in the IRP process,
15 or is this something that's independent of that?

16 THE WITNESS: I think what we're seeing is that
17 the results of these studies need to be included into
18 the IRP, so I can give you an example. Yesterday I was
19 at the Oregon commission talking about Idaho Power's --
20 the direction from the Oregon commission that Idaho
21 Power conduct one of these studies with respect to its
22 coal fleet. And the hope is that the study is done sort
23 of in advance of the IRP cycle, so that it's finishing
24 up and its results can be sort of tested by stakeholders
25 and reviewed by the commission in time for it to be

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1 included in the broader IRP analysis. So it is related
2 to the IRP, but maybe it goes ahead of that process a
3 little bit.

4 CHAIRMAN GOLTZ: So in what context of the
5 Oregon PUCs requirement of Idaho Power? Is that a
6 letter, or was it -- was it the IRP order or what?

7 THE WITNESS: It is indeed the IRP order, the
8 IRP order acknowledging -- I mean, it hadn't come out
9 yet, but the discussion was around making this a
10 condition of acknowledgment of the IRP, and requiring
11 that study to be done before what's called IRP update,
12 which is due to be filed a year after acknowledgment of
13 the IRP.

14 CHAIRMAN GOLTZ: Okay. So that's the
15 question -- the actual language of their requirement is
16 forthcoming?

17 THE WITNESS: Forthcoming. I think I cited to
18 another docket in my testimony in which PacifiCorp
19 agreed to some language with stakeholders around what
20 their analysis of their coal fleet would look like. So
21 if that is helpful to the commission, I cited it in my
22 testimony.

23 CHAIRMAN GOLTZ: Those are good models as far as
24 you're concerned?

25 THE WITNESS: I think we're on the right track

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1 there, yes.

2 CHAIRMAN GOLTZ: Thank you.

3 I have nothing further.

4 COMMISSIONER JONES: No questions.

5 COMMISSIONER OSHIE: Briefly, Judge. Thank you
6 for your indulgence.

7 Ms. Decker, let me maybe characterize your
8 position, and I know it's probably much more detailed
9 than this, but I think what you're asking the commission
10 to do in general terms, and as well as the Sierra Club,
11 is to, you know, let's just -- if it's between coal
12 strip and other generators, let's just have a fair
13 fight. I think that's how I would describe it. In
14 other words, let's look at all the facts, and so -- and
15 then make some judgment as to what the future will
16 bring.

17 THE WITNESS: I would agree with that
18 characterization.

19 COMMISSIONER OSHIE: So let me throw a
20 hypothetical out, and that is what if the fight is a
21 draw in that circumstance? And I'm just saying, I mean,
22 like all analysis, there's a point in time you're
23 looking forward, that point of time changes, whether
24 every one year, every two years, every five years. So
25 let's say in the two-year, let's say in the next

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1 two-year window the fight is a draw, what should we do?

2 We could take a break and come back.

3 THE WITNESS: You know, I'm not sure how to
4 answer that question. I know that there is -- you know,
5 I know that there are a lot of different things you can
6 do in looking at the long-term costs and risk of running
7 a coal plant versus replacing that with other generation
8 sources.

9 I think our experience in Oregon has been that
10 when you establish the playing field for a fair fight,
11 and you really looked at all the costs, there were some
12 benefits to customers in moving away from coal, and I
13 would just submit that it's becoming kind of industry
14 standard for utilities that have significant coal fleets
15 to really dig down and show people what the likely
16 future costs related to environmental regulations and
17 other forms of capital investment in existing coal
18 generation are, and just really have the discussion.

19 COMMISSIONER OSHIE: Okay. Thank you.

20 JUDGE MOSS: All right. Thank you, Ms. Decker.
21 We appreciate you appearing today, and, Ms. Boyles, your
22 indulgence in stipulating things in. I appreciate that
23 as well.

24 You may step down.

25 THE WITNESS: Thank you.

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1 JUDGE MOSS: Our next witness is Dr. Hausman, in
2 related subject matter I gather. And we ask if --
3 again, the cross-examination has been waived. So are
4 there any questions?

5 CHAIRMAN GOLTZ: I just have the same questions.

6 JUDGE MOSS: All right. Perhaps we should have
7 had a panel. Dr. Hausman, come up, please.

8 EZRA HAUSMAN

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

11 THE WITNESS: Yes, I do.

12 JUDGE MOSS: Please be seated.

13 All right, Dr. Hausman, question three. Go
14 ahead. Just kidding.

15 DIRECT EXAMINATION

16 BY MS. SMITH:

17 Q. Could you please state your full name for the
18 record and also provide us with your address.

19 A. My name is Ezra D. Hausman, H-A-U-S-M-A-N, and I
20 am employed by Synapse Energy Economics, at 485
21 Massachusetts Avenue, in Cambridge, Massachusetts.

22 Q. Do you have before you your prefiled direct and
23 cross testimony along with your exhibits?

24 A. Yes, I do.

25 Q. Do you need to make any corrections to that

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1 testimony today?

2 A. No, I don't.

3 Q. To the best of your knowledge, is it true and
4 correct?

5 A. Yes.

6 MS. SMITH: Sierra Club offers for the record
7 EDH-1 through EDH-8.

8 JUDGE MOSS: No objection. Those will be
9 admitted as marked.

10 (Exhibits EDH-1 through EDH-8 were admitted.)

11 MS. SMITH: No one has reserved time for cross
12 of Dr. Hausman. Would it be helpful to have him give a
13 brief summary of his testimony?

14 JUDGE MOSS: In the interest of time, I'm going
15 to go directly to questions from the bench. We really
16 need to move things along. We have a lot of witnesses
17 to go in a short period of time. So we'll have the same
18 questions apparently.

19 CHAIRMAN GOLTZ: Okay, Dr. Hausman, thank you.
20 I'll ask the same question as I did of Ms. Decker, which
21 was actually a question I prepared for you, but since
22 she was before you I thought I should just make sure she
23 got a chance at that. I think she deferred some of it
24 to you anyway.

25 So your recommendation, order PSC to conduct a

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1 though forward looking cost and risk strip of the coal
2 strip plant, compared to a full range of supply and
3 demand side alternatives, and you go on. What do you
4 want us to do differently than what we asked them to do
5 in their next IRP, both substantively and procedurally?

6 THE WITNESS: So the suggestion is consistent
7 with what the commission has asked them to do
8 procedurally. I think it makes sense to -- the reason
9 that I had suggested it as part of this proceeding is
10 that the issues are -- the policy issues and the number
11 of different kinds of risks and future regulations that
12 have to be taken into account is a subject of a
13 considerable complicated national debate, and I think
14 it's worth getting that debate started sooner rather
15 than later, so that when you get to the IRP stage, the
16 commission has had an opportunity to review what its
17 approach should be toward reviewing all of the likely
18 environmental costs that are associated with coal, so
19 that when the company comes forward with that analysis,
20 that it -- that the analysis is consistent with what the
21 commission needs in order to make that kind of a -- to
22 evaluate the IRP. And that includes the full range of
23 costs, but also full alternatives analysis and some
24 assessment of risks associated with that in addition to
25 the standard NPVRR analysis, value of revenue

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1 requirements.

2 CHAIRMAN GOLTZ: But this should be -- do you
3 agree that the IRP process, which includes a fair number
4 of, amount of stakeholder involvement as -- leading up
5 to the final IRP, and then also stakeholder process
6 after the IRP is filed, that that's the sort of the
7 forum for this debate?

8 THE WITNESS: I agree that that's the venue in
9 which the analysis should be brought forward and
10 evaluated as part of the overall portfolio planning, but
11 I just feel that since it is a new area, and it's an
12 area where there's a lot misunderstanding in terms of --
13 or policy differences in terms of what sorts of
14 regulations should be considered, it would be to the
15 commission's benefit to clarify that in advance. But as
16 I said at the outset, I don't think this is in
17 disagreement with what you're asking for.

18 I think if the company were truly to follow the
19 letter and spirit of the letter from the commission that
20 they would be doing a full analysis of the suite of
21 environmental regulations that they might be facing
22 looking at remediation costs associated with combustion
23 residuals under different regulatory schemes. In other
24 words, looking at the full foregoing costs associated
25 with the plan compared to other alternatives.

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1 So in a sense, yes, I agree that you've asked
2 for that, I think it's important to be clear that what
3 you mean is the full suite of alternatives, the full
4 suite of costs, and some thorough analysis of risks.

5 CHAIRMAN GOLTZ: So I'm looking at Mr. Story's
6 prefiled rebuttal testimony. Did you get a chance to
7 look at his response to your testimony?

8 THE WITNESS: Yes.

9 CHAIRMAN GOLTZ: And he says, he cites the -- or
10 maybe even quotes the coal strip provisions in the IRP
11 letter that's on page 52 and 53 of his testimony, and
12 then he says on page 53, starting at line three:
13 Because this analysis will be done in PSE'S IRP process,
14 there is no need for the commission to order further
15 analysis as part of this proceeding.

16 So do you agree with that, disagree with that,
17 or do you kind of basically agree but think we ought to
18 flesh out the requirement a little bit more?

19 THE WITNESS: Well, it's hard to know if I agree
20 with it, because the details that he provided, there are
21 no details in that sentence. If what he truly means is
22 that the commission has asked for and what the company
23 intends to provide is consistent with what I've
24 described in my testimony, then I think we're going in
25 the right direction.

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1 CHAIRMAN GOLTZ: Maybe I'll ask Mr. Story that
2 feature of your testimony.

3 THE WITNESS: Okay.

4 CHAIRMAN GOLTZ: I have no further questions.
5 Thank you.

6 COMMISSIONER OSHIE: I have no questions.

7 JUDGE MOSS: Mr. Jones, did you have any?

8 COMMISSIONER JONES: Yes, just a couple.

9 Mr. Hausman, on page 10 and 11 of your
10 testimony, you talk about the MATS rule, and potential
11 costs for environmental controls of coal strip. The
12 MATS rule has been finalized by the EPA, has it not?

13 THE WITNESS: I'm actually not sure.

14 COMMISSIONER JONES: I think it was announced by
15 the EPA on December 16th. But I don't know if it's been
16 published in the Federal Register or not.

17 MS. SMITH: It's not been published in the
18 Federal Register, but it is considered final by the EPA.

19 COMMISSIONER JONES: So my question to you,
20 would that final rule have any impact on your
21 description in your testimony on possible combinations
22 of upgrades of coal strip? You mention a few on
23 page 11, lines one through eight. Or is it just too
24 early to know yet?

25 THE WITNESS: I haven't performed that analysis.

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1 COMMISSIONER JONES: Okay. I'm trying to get a
2 better sense which possible coal regulations for the EPA
3 you would want the commission to look at, because EPA
4 has suggested, I think, five areas where they could look
5 at, including coal residuals, GHG emissions, but the
6 only two that are currently in play, it's my
7 understanding, is the MATS rule, which is final, and
8 then the C-SPAR, the Cross-State Air Pollution
9 Regulation, which is stayed in court now. Correct?

10 THE WITNESS: I think that perhaps the most
11 uncertain one now is the regional haze rule, because the
12 EPA has yet to issue a federal implementation plan for
13 Montana. So exactly what the impact of that would be on
14 the required upgrades is still uncertain.

15 COMMISSIONER JONES: That is what is called a
16 state implementation plan or a SEP?

17 THE WITNESS: Well, because Montana has not
18 produced a state implementation plan, it will be instead
19 a FIP, a federal implementation plan, that will be
20 applied to Montana.

21 COMMISSIONER JONES: So you would like the
22 commission to look at that issue, even though I would
23 think -- do we have direct regulatory control over the
24 state of Montana, the Department of Environmental
25 Protection? I don't think we do.

0494

1 THE WITNESS: No. But the question of the costs
2 on coal strip are a very important risk factor that
3 would impact the company and rate payers.

4 COMMISSIONER JONES: So you want us to look at
5 that, the regional haze rule, the utility MATS, and the
6 possible cost increases beyond which -- beyond what you
7 state in your testimony. C-SPAR, my understanding is
8 C-SPAR does not -- not apply to any western states.
9 Correct?

10 THE WITNESS: The west, no.

11 COMMISSIONER JONES: So it's basically in those
12 two areas that you would like the commission --

13 THE WITNESS: The residuals is also, that is
14 coal ash disposal.

15 COMMISSIONER JONES: Is that a final EPA rule?

16 THE WITNESS: I don't believe so.

17 COMMISSIONER JONES: Okay. I guess I agree with
18 the chairman with the thrust of how he asked some
19 questions to you. And this is more of a statement or a
20 comment than a question. But what we do is economic
21 regulation, and so it is -- I just put this out -- it is
22 in the IRP process, I think -- and the purpose of a rate
23 case is setting rates.

24 THE WITNESS: Yes.

25 COMMISSIONER JONES: Usually, I mean, this

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1 company is in every year for rate increases. So we're
2 setting rates. We're economic regulators. So I don't
3 know if this rate case would be the best forum to
4 address issues like this, or an IRP would.

5 The IRP -- this is more of a statement -- it's a
6 planning document, so you're looking ahead into the
7 future: Costs, transmission, environmental impacts,
8 things like that. So that's the only comment I would
9 make.

10 It's unclear to me how much expertise this
11 commission has, Staff -- I'm speaking for myself now,
12 I'm not an environmental regulator, so it's difficult
13 for me to think through how we would incorporate these
14 sorts of judgment issues at the end of the day into an
15 economic regulation type of adjudication like this
16 rather than an IRP. So I just ask you to comment on
17 that.

18 THE WITNESS: Okay. I'm not recommending that
19 the commission become an environmental regulator. I
20 merely see your role as economic regulators to include
21 an understanding of the risks that costs to consumers
22 could be considerably higher than anticipated.

23 And one of the reasons one might choose one
24 portfolio over another, if -- if the anticipated costs
25 are similar -- you asked an earlier witness about what

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1 you do in the case of a tie. I think one of the answers
2 is that you look at what are the risks facing the
3 portfolio. I think the risks associated with continued
4 reliance on coal, both in terms of environmental costs,
5 which isn't directly necessarily your purview, but also
6 in terms of -- that is to say cost on the environment --
7 but costs of complying with environmental regulations is
8 very much in your purview.

9 And the risks of coal, whether it's regulations
10 that are currently pending, criteria for pollutants, or
11 coal ash residuals or risks that prices of coal may be
12 higher or risks that eventually the greenhouse gas
13 emissions associated with coal plants will be burdensome
14 to rate payers, those are things that should very much
15 be of concern to the commission.

16 COMMISSIONER JONES: Right. I think that's a
17 good answer. But in response to that, just one final
18 thought. We have something, what is called a known and
19 measurable standard. Are you familiar with that?

20 THE WITNESS: I'm familiar with that as a
21 general rate making principle.

22 COMMISSIONER JONES: Right. So that could apply
23 in instances -- I agree with your statement on the
24 environmental compliance, and I think that's a
25 legitimate thing to look at, but when you're applying a

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1 known and measurable standard to an unknown regulation
2 in the future, it does create some -- I would submit it
3 may create some difficulties in a rate making process
4 that would not be present in an IRP process, which is
5 more of a planning process, when we're looking at risks,
6 costs, and alternatives in the future.

7 THE WITNESS: I look forward to seeing you in
8 the IRP process.

9 COMMISSIONER JONES: Thank you.

10 JUDGE MOSS: All right. I believe that
11 completes our questioning for you, Dr. Hausman. We
12 appreciate you being here today and giving your
13 testimony. You can step down.

14 My plan is to go on now to Mr. Howat.

15 Mr. Howat, I understand the bench has just a
16 question or two.

17 Mr. Ffitch, I'll get back to you in a minute.

18 Then we're going to take our break for the
19 afternoon, and we're going to get back with Mr. DeBoer.
20 That's the plan now.

21 Mr. Ffitch?

22 MR. FFITCH: Your Honor, I wanted to offer
23 Public Counsel cross exhibits for Dr. Hausman, hopefully
24 by stipulation with the Sierra Club. Those are exhibits
25 8 through 17, EDH-8 through 17.

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1 MS. SMITH: We stipulate.

2 JUDGE MOSS: All right, fine. They'll be
3 admitted as marked.

4 (Exhibits EDH-8 through EDH-17 were admitted.)

5 MR. FFITCH: Your Honor, I neglected to make the
6 same request for Ms. Decker, and I haven't had a chance
7 to talk to Ms. Boyles about that.

8 JUDGE MOSS: Ms. Boyles, any objections?

9 MS. BOYLES: No objections.

10 JUDGE MOSS: They will be admitted as marked.

11 (Exhibits MWD-5 CX through MWD-16 CX were
12 admitted.)

13 MR. FFITCH: Thank you.

14 JUDGE MOSS: Good day sir.

15 JOHN HOWAT

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

18 THE WITNESS: I do.

19 JUDGE MOSS: Thank you very much.

20 DIRECT EXAMINATION

21 BY MR. ROSEMAN:

22 Q. Good afternoon, Mr. Howat.

23 A. Good afternoon, Mr. Roseman.

24 Q. Would you please state your name and where you
25 are employed and the address.

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1 A. Yes. My name is John Howat. Last name is
2 spelled H-O-W-A-T. I'm senior policy analyst at
3 National Consumer Law Center in Boston. The address is
4 7 Winthrop square.

5 Q. Thank you.

6 Did you prepare testimony or supervise and
7 direct preparation of testimony that is in this docket
8 and it is marked as Exhibit JGH-1T through JGH-5?

9 A. Yes.

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

11 A. Yes, I have one minor correction, and an update.
12 On page 15 of the testimony, footnote 25, cites to PSE
13 annual report on program outcome page 13. That footnote
14 should read page 10 of 13.

15 In addition, there is discussion in the
16 testimony also beginning on page 15 regarding funding of
17 the Low Income Home Energy Assistance Program. Since
18 the time this testimony was -- that I drafted this
19 testimony, there have been updates to appropriations,
20 and I've provided those here today in a new exhibit, and
21 some new text.

22 MR. ROSEMAN: Your Honor, so this is the federal
23 update amount of money. The testimony has been changed,
24 I think the exhibit has been changed. I guess my
25 inquiry is we have copies, should I distribute it now to

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1 the bench and to the reporter, or we do this later?

2 Your pleasure.

3 JUDGE MOSS: Well, it should have been done in
4 advance, Mr. Roseman, but since it wasn't, I'm just
5 going to ask, I imagine we're going to stipulate these
6 exhibits in. If there's updated information, there's
7 probably going to be no objection to that. Is that
8 correct?

9 MS. CARSON: That's correct.

10 JUDGE MOSS: Why don't you distribute that now.
11 We'll treat it as a separate exhibit in case there are
12 any questions from the bench concerning it.

13 MR. ROSEMAN: I apologize. This was as an
14 update, this was an update within the last two or three
15 days, Your Honor, so it was difficult to comply with
16 your request.

17 JUDGE MOSS: We'll mark this as JGH-6, I'll
18 treat it as an errata to the testimony.

19 Having already established that there will be no
20 objection, I'm going to admit JGH-1T to JGH-6 as
21 previously identified.

22 (Exhibits JGH-1T through JGH-6 were admitted.)

23 JUDGE MOSS: Is your witness available for
24 examination, Mr. Roseman?

25 MR. ROSEMAN: Yes, he is, Your Honor.

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1 JUDGE MOSS: Thank you. Let's go ahead.

2 CHAIRMAN GOLTZ: Thank you.

3 I understand you're a graduate of the Evergreen
4 State College, so welcome back in your home territory.

5 THE WITNESS: Yes, it's great to be here. And I
6 hope Mr. Cavanagh doesn't run back to California and
7 tell the people there that the sun is streaming in the
8 window on February 15th.

9 CHAIRMAN GOLTZ: Yes.

10 So I don't have very many questions, but I'm
11 sensing you're making a recommendation that we increase
12 the level of low income assistance through Puget Sound
13 Energy's program.

14 THE WITNESS: Yes.

15 CHAIRMAN GOLTZ: Before I get into that, let me
16 just ask you a question. Looking at what your counsel
17 just passed out, does this represent now a final
18 appropriation for the LIHEAP program?

19 THE WITNESS: Yes. For fiscal year 2012, the
20 appropriation has been finalized, and just two days ago
21 the president and the administration issued a budget
22 statement for fiscal year 2013, which is also referenced
23 in that addendum, where a further cut to LIHEAP has been
24 proposed.

25 JUDGE MOSS: So what I don't understand is in

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1 the lower right-hand column of what you just passed out,
2 which I gather now is part of Exhibit 6, the number is
3 \$3,471,672 -- so that's in thousands. That's
4 3.47 billion.

5 THE WITNESS: That's correct. That's the
6 national -- that's the appropriation to all states.

7 CHAIRMAN GOLTZ: But as I look in -- oh, I see
8 -- as I look in the total that was in your Exhibit 4,
9 this represents an increase over house draft four.

10 THE WITNESS: That's correct.

11 CHAIRMAN GOLTZ: And also it represents an
12 increase for the state of Washington from a little --
13 slightly over 40 million to slightly over 60 million.

14 THE WITNESS: That's correct. The comparisons
15 that you're making, Mr. Chairman, have to do with the
16 proposals, the budget proposals for fiscal year 2012
17 that were made by the house appropriations committee,
18 the senate appropriations committee, and the
19 administration, all of which are far less than the
20 fiscal year 2011 actual appropriation.

21 CHAIRMAN GOLTZ: Let me get to my main
22 questions. Aside from Mr. Cavanagh's statement that we
23 should do whatever Mr. Eberdt says, we will try to find
24 some principled way here to do this.

25 And so you make a point that the Puget program,

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1 it costs less on a percentage basis of Puget's revenues
2 than other utilities. But is that a reasonable way on
3 which we base a judgment is to what's appropriate? The
4 reason I ask that is is to really figure that out, don't
5 we need to know the income level within the various
6 utilities? The fact that the percentage level for Puget
7 service territory is less than the percentage level for
8 Seattle City Light territory, that is only useful, I
9 think, if we know sort of the relative need in the two
10 territories.

11 THE WITNESS: I think it's a measure of the
12 level of effort, if you will. And it's a means of
13 controlling, if you will, for differences in the
14 population size, the population base served by a
15 particular utility. It takes into account variations in
16 payment assistance program design that different
17 utilities may wish to adopt. It merely is one means
18 looking at what the effort is.

19 Yes, one could make a policy judgment that if
20 the poverty rate, for example, in one service territory
21 is much, much higher than in another, then that level of
22 effort should be adjusted, or might be adjusted.

23 I did try to include information from utilities
24 that have overlap with Puget's -- PSE service territory
25 with City Light in particular.

0504

1 CHAIRMAN GOLTZ: Right. But it also gave you
2 information on what other utilities in other areas of
3 the country do, but again, you know, our rates are
4 substantially lower than other rates -- our electric
5 rates are substantially lower than other electric rates
6 in other parts of the country, which could imply that
7 the need isn't as great here as it is in other areas.

8 THE WITNESS: But certainly in the case of
9 Snohomish and City Light, there is some comparability to
10 the rates. I believe there is reasonable comparability
11 with respect to the poverty rates in those service
12 territories. And in looking at California, and those
13 comparisons, yes, the rates are considerably higher in
14 California than Puget's, but for much of the service
15 territories served by the California utilities listed,
16 the climate is more moderate and consumption is lower.

17 CHAIRMAN GOLTZ: Do you have an idea of sort of
18 a ballpark percentage of what number of states have
19 requirements of programs for their investor-owned
20 utilities similar to what Puget has?

21 THE WITNESS: I believe about 30 states right
22 now have programs that operate throughout most of the
23 state that are similar to Puget's.

24 CHAIRMAN GOLTZ: The reason I ask that, I've
25 heard, from people I respect I might add, that the

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1 utilities commission should not be in this business of
2 sort of the welfare business, and, I mean, there's
3 debates that have gone on about that. I gather that you
4 fall on the side of we should be.

5 THE WITNESS: Absolutely.

6 CHAIRMAN GOLTZ: So I gather your testimony in
7 LIHEAP is that Congress is dropping the ball.

8 THE WITNESS: That's correct.

9 CHAIRMAN GOLTZ: And that states in general,
10 state welfare agencies are dropping the ball, and so
11 therefore because there's a ball dropped and we have
12 statutory authority to pick it up we should?

13 THE WITNESS: Yes. And I would add that in the
14 case of Puget's payment assistance program, there is a
15 direct link between LIHEAP appropriations and the
16 Washington allocation and funding -- or allocation of
17 funds through Puget's HELP program.

18 My understanding is that through HELP, funds are
19 not distributed until all state LIHEAP funds have been
20 exhausted. And so the HELP program is -- it's not
21 absolutely unique, there are some other programs in the
22 country that operate this way, but it's not a
23 stand-alone grant, if you will, or benefit that goes
24 to -- that goes to Puget's customers. There really is a
25 direct link between LIHEAP funding and HELP here.

0506

1 CHAIRMAN GOLTZ: You state on page 9 that Puget
2 has 19.6 percent of its residential customers live below
3 150 percent of the federal poverty level.

4 THE WITNESS: Yes.

5 CHAIRMAN GOLTZ: You got that information from
6 Puget?

7 THE WITNESS: Yes.

8 CHAIRMAN GOLTZ: Do you know where I can get
9 that information, sort of general -- what's this
10 nationwide or what's the Washington percentage in the
11 aggregate? Do you know?

12 THE WITNESS: I believe it's somewhat higher
13 than that for 150 percent of poverty right now. The
14 data are available through the Census Bureau, the --
15 there are at least two or three branches of the Census
16 Bureau that will provide a picture of that for you. I
17 certainly would be happy to provide the commission with
18 updated figures on poverty throughout Washington state.

19 It gets a little bit complicated to do it on a
20 service territory by service territory basis, but I
21 certainly would be happy to provide you with statewide
22 figures.

23 CHAIRMAN GOLTZ: So how did you get this number
24 from Puget? Do you just ask for it or --

25 THE WITNESS: I believe that it was provided in

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1 response to a record request.

2 CHAIRMAN GOLTZ: Thank you. I have no further
3 questions. Thanks again for coming out.

4 THE WITNESS: Thank you.

5 COMMISSIONER OSHIE: I have no questions.

6 COMMISSIONER JONES: No questions.

7 JUDGE MOSS: Thank you very much for being here
8 today, giving your testimony.

9 We will take our afternoon break now until 3:30,
10 and then we'll have Mr. DeBoer, if he could be available
11 at the stand when we return.

12 (A break was taken from 3:18 p.m. to 3:30 p.m.)

13 TOM DeBOER

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

16 THE WITNESS: I do.

17 JUDGE MOSS: Thank you. Please be seated.

18 Your witness, Ms. Carson.

19 DIRECT EXAMINATION

20 BY MS. CARSON:

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

23 A. Tom DeBoer, it's D-E, cap B, as in boy, E-R.
24 I'm direct of federal and state regulatory affairs.

25 Q. Mr. DeBoer, do you have before you what has been

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1 marked for identification as Exhibit Nos. TAD1-T through
2 TAD-5?

3 A. Yes.

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

7 A. Yes.

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

10 A. Yes.

11 Q. Do you have any corrections to any of your
12 exhibits at this time?

13 A. No.

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

17 A. Yes.

18 MS. CARSON: Thank you.

19 Your Honor, PSE offers Exhibits TAD-1T through
20 TAD-5 into evidence, and offers Tom DeBoer for
21 cross-examination.

22 JUDGE MOSS: All right. Hearing no objection,
23 this will be admitted as marked.

24 (Exhibits TAD-1T through TAD-5 were admitted.)

25 JUDGE MOSS: Unless there's some interest in

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1 proceeding in a contrary manner, I would propose to
2 follow the order of examination as indicated by the
3 cross-examination exhibits, so that we can just follow
4 it from one to the next, which would mean the Energy
5 Project would go first, Mr. Roseman.

6 MR. ROSEMAN: Okay. Thank you, Your Honor.

7 CROSS-EXAMINATION

8 BY MR. ROSEMAN:

9 Q. Good afternoon, Mr. DeBoer.

10 A. Good afternoon.

11 Q. I would like to ask you a question regarding
12 your testimony at TAD-1T, where you say that 13 percent
13 of the budget for direct residential customers in 2011,
14 and I would like to -- so that's what I'm focusing on.
15 But I want you to look at your cross exhibit, let me
16 find it, which is TAD-16 CX. It's Public Counsel data
17 request 489.

18 A. Yes, I have it.

19 Q. I want to ask you on the attachment A to that
20 data request, there is a chart. You're there?

21 A. Yes.

22 Q. What you have listed here is the total
23 expenditure in low income programs on line four, which
24 is with \$4,676,463. Do you see that?

25 A. Yes. For electric.

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1 Q. For electric. Thank you.

2 And I think you were saying that that is where
3 your 13 percent for electric customers comes from that
4 you reference in your testimony. Is that correct?

5 A. Yes. Thirteen percent of the total expenditures
6 for all customers.

7 Q. What I would like to focus on is the second line
8 which has the REC low income weatherization funding. I
9 guess my question is, that is this REC funding, is this
10 an annual budget item or is this a one-time item as a
11 result of another proceeding to fund low income
12 weatherization.

13 A. It's a one-time item that ended in 2011.

14 Q. Thank you.

15 So if we were to look, go forward, the 13
16 percent for 2012 would not be the accurate number?

17 A. Correct. Line two, the REC low income
18 weatherization funding would be zero in 2012.

19 Q. Thank you, Mr. DeBoer.

20 This is on the subject of comparability,
21 according to the commission's policy statement, where
22 they said that I think low income programs should be,
23 I'm paraphrasing, should be comparable to other
24 programs. And it seems to me that -- are you, by your
25 testimony on page 25, 26 of your testimony, are you

0511

1 trying to say that the amount of dollars spent on low
2 income is a factor to be considered in addressing the
3 commission's statement on comparing low income customers
4 with nonlow income customers to show that they're
5 comparable?

6 A. Yes, in response to the commission's policy
7 statement.

8 Q. Thank you.

9 Would another way of looking at the, measuring
10 this comparability, could it be to also look at the
11 number of customers, of low income customers who
12 participated in the energy efficient program and compare
13 it to the number of customers in a nonlow income energy
14 efficiency program?

15 A. Yes, I'm shortcutting. This is one way of
16 looking at it. There's probably many other ways of
17 looking at it.

18 Q. Thank you.

19 MR. ROSEMAN: I believe that is all for
20 Mr. DeBoer.

21 JUDGE MOSS: Do you wish to offer the three
22 cross-examination exhibits you identified?

23 MR. ROSEMAN: Thank you, Your Honor, I do.

24 JUDGE MOSS: No objection? Hearing none, they
25 will be admitted as marked.

0512

1 (Exhibits TAD-6 CX through TAD-8 CX were
2 admitted.)

3 Let's move on to the Northwest Industrial Gas
4 Users. Do you still have cross-examination? Is
5 Mr. Brooks here?

6 MR. BROOKS: I still have questions for him.

7 JUDGE MOSS: Go ahead.

8 CROSS-EXAMINATION

9 BY MR. BROOKS:

10 Q. Good afternoon, Mr. DeBoer. If I could get to
11 you to turn to your prefiled direct physical, TB-1T.
12 Page 5 of that testimony.

13 A. I'm there.

14 Q. The top few lines of that testimony, is it a
15 fair description of that testimony that -- and this is
16 describing the need for the CSA, the conservation
17 savings adjustment mechanism -- that as a result, or as
18 a nature of the historic year test making that a gap
19 forms between revenue and costs as a result of energy
20 efficiency?

21 A. Yes.

22 Q. Based on that description, is it fair to say
23 that the gap between those revenues and costs grows
24 larger with time? And by that I mean the more time that
25 passes after rates are set in a general rate case that

0513

1 the larger you expect that gap to become?

2 A. Yes.

3 Q. When was PSE's last general rate case?

4 A. 2009.

5 Q. Do you know when the last general rate case was
6 before that?

7 A. No.

8 Q. Do you know approximately how many years before
9 it?

10 A. It was probably the year before, but I can't
11 remember if we had one in 2007 or 2008.

12 Q. When do you expect Puget's next general rate
13 case to be?

14 A. I don't know yet.

15 Q. Is there one planned in the next year?

16 A. There is a plan for bringing resources, we don't
17 know whether it will be a general rate case or some
18 other filing.

19 Q. After the company receives a final order in a
20 general rate case, doesn't that order and the resulting
21 rates rely on matching costs and revenues that serve to
22 remove the gap that you described earlier?

23 A. On the first day, yes. First day of new rates,
24 the gap here would be zero.

25 Q. So it starts over in a sense?

0514

1 A. Yes.

2 Q. Has Puget been able to meet its conservation
3 obligations and goals in the past?

4 A. In the recent past, yes.

5 Q. If the commission does not approve this CSA
6 that's being proposed, is it the company's position that
7 Puget will be denied a reasonable opportunity to earn
8 its authorized rate of return?

9 A. Sorry. Could you repeat that?

10 Q. If the commission does not allow the CSA as it
11 has proposed in this rate case, is it your testimony or
12 position that Puget will be denied a reasonable
13 opportunity to earn its authorized rate of return?

14 MS. CARSON: Objection. Calls for a legal
15 conclusion.

16 JUDGE MOSS: Oh, I think we can let Mr. DeBoer
17 answer that.

18 THE WITNESS: It creates a lag, revenue lag that
19 affects our ability to earn our return.

20 BY MR. BROOKS:

21 Q. Have prior general rate cases included this
22 mechanism?

23 A. No. This is the first time.

24 Q. Do rate cases generally have an element of
25 regulatory lag in them?

0515

1 A. Historical rate making generally has an element
2 of lag in it, not the rate cases.

3 Q. Is there something you can point to that
4 demonstrates why the lag that you described that's
5 associated with the CSA is different than the inherent
6 regulatory lag that you just agreed occurs as part of
7 the general rate case?

8 A. It's similar, but it's a result of a
9 different -- it's caused by something different, it's
10 caused by conservation, not by investments in
11 infrastructure, but it's a similar effect.

12 Q. Could I get you to turn to cross exhibits TAD-12
13 CX.

14 Is this PSE's response to Public Counsel data
15 request No. 255?

16 A. Yes.

17 Q. Are you identified as the person most
18 knowledgeable about this response?

19 A. Yes.

20 Q. Since the time that the response to this data
21 request was prepared, has Puget undergone any analysis
22 estimating the impact on the company's cost of capital
23 if the CSA is approved?

24 A. Not that I'm aware of, but Mr. Gains may have
25 prepared something that showed what that might be, but I

0516

1 don't recall. He might be a better one to ask.

2 MR. BROOKS: That's all the questions I have,
3 Your Honor.

4 JUDGE MOSS: Thank you very much.

5 MR. ROSEMAN: Your Honor, I overlooked one cross
6 exhibit to move into evidence, if that would be okay,
7 when you asked me if the ones that I questioned him
8 about should be admitted. We did that. But there was
9 one that I had listed for Mr. DeBoer that I didn't ask
10 questions about.

11 JUDGE MOSS: No, I admitted all of your
12 exhibits.

13 MR. ROSEMAN: Thank you. Sorry.

14 JUDGE MOSS: Next is Mr. Sanger. Do you have
15 questions?

16 MR. SANGER: No, Your Honor. We do not have any
17 cross-examination for Mr. DeBoer. We have two cross
18 exhibits which the company stipulated --

19 JUDGE MOSS: Those have been identified in the
20 exhibit list, those will be admitted as marked by
21 agreement of the parties.

22 (Exhibits TAD-13 CX and TAD-14 CX were admitted.)

23 MR. BROOKS: Before we move on, we move that our
24 cross exhibits get admitted as well.

25 JUDGE MOSS: All right. I'm beginning to think

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1 I hear no objection, so those will be admitted as well.

2 (Exhibits TAD-9 CX through TAD-12 CX were
3 admitted.)

4 JUDGE MOSS: I'll let the intervenors precede
5 the Public Counsel and the staff. I think there is some
6 indication that NWECC -- Ms. Boyles, do you have anything
7 for this witness?

8 MS. BOYLES: Yes, just a few questions.

9 JUDGE MOSS: Go ahead then.

10 CROSS-EXAMINATION

11 BY MS. BOYLES:

12 Q. Good afternoon. My name is Kristen Boyles and
13 I'm representing the NW Energy Coalition. I just have a
14 few questions for you about the CSA.

15 Is it correct that Puget Sound Energy's growing
16 expense per customer is due to more factors than simply
17 its energy efficiency efforts?

18 A. Yes.

19 Q. Is it correct that the CSA is meant to address
20 financial harm to Puget Sound Energy caused by more than
21 just its energy efficiency conservation efforts?

22 A. Yes.

23 Q. Does the CSA break the link between the retail
24 electricity use and Puget Sound Energy's recovery of
25 costs that's commonly referred to as the through-put

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1 link?

2 A. Not in the sense that -- of a full decoupling
3 proposal, no.

4 Q. Are you familiar with Puget Sound Energy's I-937
5 filings --

6 A. Yes.

7 Q. -- in general?

8 A. (Witness nods head.)

9 Q. In 2010, did Puget Sound Energy change its I-937
10 proposed ten-year conservation assessment and two-year
11 biennial target in the time between an e-mail at the end
12 of December and its formal commission filing at the end
13 of January?

14 A. We filed a different number in that time period,
15 yes.

16 Q. Do you recall if one of the reasons for that
17 change was Puget Sound Energy's concerns about lost
18 revenues due to conservation?

19 A. That was one of the considerations, but there
20 were others as well.

21 Q. One final question, sir. Would it be correct to
22 characterize your CSA as a loss revenue adjustment
23 mechanism?

24 A. Yes.

25 MS. BOYLES: Thank you. I have nothing further.

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1 JUDGE MOSS: Thank you, Ms. Boyles.

2 All right. That's the last intervenor who has
3 indicated a desire to cross this witness, which brings
4 us to Public Counsel next, please.

5 MR. FFITCH: Thank you, Your Honor.

6 CROSS-EXAMINATION

7 BY MR. FFITCH:

8 Q. Good afternoon, Mr. DeBoer.

9 A. Good afternoon.

10 Q. Would you please turn to the cross exhibit
11 that's been marked as TAD-15. Do you have that?

12 A. Rick has it.

13 I have it, thanks.

14 Q. All right. And this is a data request by Public
15 Counsel asking you specifically to explain how the CSA
16 will increase the incentive to maximize the value of
17 customers' conservation related measures. Correct?

18 A. Yes.

19 Q. Your response says about four lines down that
20 energy efficiency reduces the ability to recover fixed
21 costs so the CSA would mean these rates -- and I'm
22 quoting now -- these rates will now reflect the full
23 cost of energy efficiency.

24 By "these rates," that means the rates that
25 would be in effect if the CSA were adopted. Correct?

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1 A. Yes.

2 Q. My question is, does this mean that if CSA is
3 approved, Puget believes that the CSA revenues should be
4 added as a cost in the company's cost effectiveness
5 analysis for its conservation programs, including the
6 total resource cost?

7 A. I don't believe so, but Mr. Stolarski might be a
8 better person to direct that question to.

9 Q. So if I wanted to follow up why you didn't
10 believe so, you would refer me to Mr. Stolarski?

11 A. Yes.

12 Q. The response also says that it's reasonable to
13 assume that customers facing the full cost of energy
14 efficiency will increase their scrutiny of these
15 expenditures to ensure that the associated revenues are
16 being directed towards programs that provide them the
17 most value. Do you see that?

18 A. Yes.

19 Q. Now, there is no requirement or commitment under
20 the CSA for PSE to direct CSA revenues to energy
21 efficiency programs, is there?

22 A. No.

23 Q. When you say that customers will increase their
24 scrutiny of these expenditures, who do you mean by
25 "customers"? Are you thinking of a particular customer

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1 class, residential, commercial, industrial?

2 A. Any customer that's subject to the CSA rate.

3 Q. Are you referring to an individual customer who
4 would be scrutinizing the programs or to stakeholder
5 groups? I'm not quite sure what the statement means in
6 the DR response.

7 A. It's essentially saying if the full cost
8 conservation is reflected in your rate, it's the price
9 elasticity argument. You're going to see the full cost,
10 and you're going to make your decisions based on that.

11 Q. Do you believe that some kind of incentive is
12 appropriate here because there's a need for increased
13 scrutiny of, by customers, of Puget's energy efficiency
14 programs?

15 A. That's not what I'm saying in this response.

16 Q. So you don't believe there's a need for
17 customers to take a closer look at Puget's programs?

18 A. Customers will see that the full effect of --
19 the full cost of the programs and make decisions on
20 conservation based on those costs.

21 Q. Well, this refers to increased scrutiny. Do you
22 think there are some programs currently offered that are
23 of questionable value to customers?

24 A. I'm not talking about any specific program. I'm
25 talking about conservation programs in general.

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1 MR. FFITCH: Those are all the questions that we
2 have, Your Honor. And I'd like to offer Public Counsel
3 cross exhibits 15 and 16, TAD-15 and TAD-16.

4 JUDGE MOSS: All right. Again hearing no
5 objection, this will be admitted as marked.

6 (Exhibits TAD-15 and TAD-16 were admitted.)

7 Mr. Cedarbaum, you have indicated a few minutes
8 here.

9 MR. CEDARBAUM: We've reassessed, Your Honor,
10 and have no questions for Mr. DeBoer.

11 JUDGE MOSS: Thank you, Mr. Cedarbaum.

12 Are there questions from the bench?

13 CHAIRMAN GOLTZ: Sure.

14 Mr. DeBoer, so you have a concern with lost
15 revenue due to implementation of Puget's conservation
16 programs.

17 THE WITNESS: Yes.

18 CHAIRMAN GOLTZ: Is it fair to characterize that
19 as attrition?

20 THE WITNESS: No.

21 CHAIRMAN GOLTZ: Why not?

22 THE WITNESS: Mr. Story could give you hours of
23 discussion about what attrition is, but this is --

24 CHAIRMAN GOLTZ: That's why I asked you.

25 THE WITNESS: This is a function of the way

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1 rates are set with the bulk of our costs being collected
2 on the volumetric part of the rate, and when the load
3 doesn't show up, it's not about classic attrition, which
4 has never really been defined in this state, which is
5 part of the problem.

6 CHAIRMAN GOLTZ: So you're saying that the CSA
7 is not an attrition, an attempt at an attrition
8 adjustment.

9 THE WITNESS: No.

10 CHAIRMAN GOLTZ: It has some of the elements of
11 that too. It's designed -- what you're saying is the
12 match between test year revenues and expenses is -- gets
13 out of adjustment in the rate year because of
14 conservation?

15 THE WITNESS: Yes, because we're not factoring
16 in the loss of load that we know will be there in the
17 rate year.

18 CHAIRMAN GOLTZ: So you were here for
19 Mr. Cavanagh's testimony.

20 THE WITNESS: Yes.

21 CHAIRMAN GOLTZ: And you read his testimony?

22 THE WITNESS: Yes.

23 CHAIRMAN GOLTZ: Do you agree with his
24 characterization that under the CSA you'll be going
25 along with one foot on the brake and one foot on the

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1 gas?

2 THE WITNESS: With Mr. Cavanagh's
3 characterization?

4 CHAIRMAN GOLTZ: Yes.

5 THE WITNESS: No.

6 CHAIRMAN GOLTZ: Why not?

7 THE WITNESS: Well, I think, you know, the --
8 Mr. Cavanagh's argument that by having -- the CSA
9 doesn't eliminate our incentive to try to build load. I
10 think as maybe, you know, in the '40s we stopped pushing
11 toasters and newfangled electric washing machines.
12 That's not our business anymore. If you look, we don't
13 have a marketing department that goes to try to build
14 new electric load or gas load. Our marketing department
15 now is geared towards selling conservation.

16 So there really isn't a -- shouldn't really be a
17 concern that we're going to go out and try to build
18 load, new load, by not having a decoupling.

19 CHAIRMAN GOLTZ: So what about your point with
20 electric vehicles? Wouldn't you like to be pushing
21 sales of electricity for electric vehicles?

22 THE WITNESS: Again, that's not our business. I
23 mean, we're not in the business of marketing electric
24 vehicles. If a customer comes to us and says I have an
25 electric vehicle and I want the equipment to hook it up,

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1 we will do that, but that's not our business. We just
2 want to be in a position where we're not disincentivized
3 to go do that.

4 CHAIRMAN GOLTZ: Well, as I understand
5 Mr. Cavanagh's point, his full decoupling mechanism
6 would eliminate the incentives, and the disincentives,
7 so you'd be agnostic to that. So I guess I'm leading to
8 the question, I'll ask it now, why are you opposing
9 Mr. Cavanagh's proposal and that of the NWECC?

10 THE WITNESS: I agree that that -- his proposal
11 would have that effect for making us agnostic on either
12 way, but what it doesn't do by his own admission is it
13 doesn't address the issue that we're trying to address
14 with the CSA, and that is the unrecovered fixed costs
15 that we have as a result of conservation. He admits in
16 his testimony at best his proposal preserves the status
17 quo, and that's not what our proposal does.

18 CHAIRMAN GOLTZ: Well, if you had full
19 decoupling, all other things being equal, if you had
20 reduced per customer load, due to conservation or any
21 other cause, you would be made whole for that, wouldn't
22 you?

23 THE WITNESS: Yes. All things being equal.

24 CHAIRMAN GOLTZ: Right. Now, there may be other
25 causes of loss revenue that that doesn't address. Is

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1 that your concern?

2 THE WITNESS: Well, the concern is when you look
3 on the electric side -- on the gas side, it's clear, our
4 gas loads per customer is decreasing. On the electric
5 side, it's not. So based on what we project in the
6 future, it's always going to be a credit back to
7 customers. It's only going to flow one way based on our
8 projection.

9 Now, that can change if we have a really cold
10 year, but if you take weather out of it, which I
11 understand weather is part of it, but just based on
12 whether we see use for customer on the electric side,
13 it's always going to go back to the customer. And it
14 doesn't address our unrecovered fixed costs on the
15 electric side, which is why we didn't propose a
16 decoupling proposal in this case.

17 CHAIRMAN GOLTZ: This may be oversimplifying,
18 but is it basically because you don't get the upside in
19 increased cost per customer? Is that basically the
20 opposition to Mr. Cavanagh's proposal?

21 THE WITNESS: No. We weren't -- no. We weren't
22 trying to address the effects of weather. We're willing
23 to take the weather risk. We all understand we can't
24 control weather. We were just looking at the
25 nonweather, that -- the effects of conservation. If you

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1 look just at the effects of our own conservation, it
2 only goes one way. It only harms us on the electric
3 side, because we have unrecovered fixed costs based on
4 the way rates are set.

5 CHAIRMAN GOLTZ: But you already said that all
6 other things being equal, the full decoupling mechanism
7 would take care of that.

8 THE WITNESS: If you factor in everything.

9 CHAIRMAN GOLTZ: Right. The problem is that
10 when people go out and buy a big screen TV, or multiple
11 appliances, and their use per customer increases, the
12 problem is that under Mr. Cavanagh's proposal that would
13 end up with a lowering of the rates to customers. In
14 other words, you wouldn't get what's sometimes called
15 found margin.

16 THE WITNESS: Correct.

17 CHAIRMAN GOLTZ: Is that the nub of the concern
18 of Mr. Cavanagh, the decoupling mechanism?

19 THE WITNESS: Yes. Because it breaks sort of
20 the historical pact between why rate making -- as I
21 covered in my testimony, in order for historical rate
22 making to work, you had to have that increasing use and
23 use per customer in order to match the revenues that you
24 have in the historical test year to allow you the
25 opportunity to earn your rate of return in the rate

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1 year.

2 CHAIRMAN GOLTZ: One thing I noticed, this is a
3 little bit of an aside, I noticed on page 7 of your
4 testimony, you said the basic idea of decoupling is to
5 weaken the link between the revenue of utility and the
6 amount of energy each customer purchases, and I swear
7 that in past testimony Puget used the term "break the
8 link," and here you use the word "weaken the link."
9 Isn't break the link the purpose of decoupling as
10 Mr. Cavanagh describes it?

11 THE WITNESS: Yes. There was nothing magic
12 behind that choice of words.

13 CHAIRMAN GOLTZ: I thought you were being very
14 subtle or something.

15 THE WITNESS: You know me. I'm not subtle.

16 CHAIRMAN GOLTZ: So I'm still puzzled, though,
17 on full decoupling, because if you read the rating
18 agency evaluations of companies operating in states --
19 they talk about the state -- whether by statute or by
20 commission decision, they speak favorably of
21 jurisdictions where there is full decoupling, as if
22 that's a good thing for the utility, a good thing for
23 ratings, both the ratings of the commissions and ratings
24 of the utilities. But you're disagreeing with that. I
25 guess my question is does that put you out of sort of

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1 mainstream utility thinking on that subject.

2 THE WITNESS: It really depends on what's going
3 on in your particular jurisdiction. If with I, as on
4 the gas side, knew that our use per customer was
5 decreasing on the electric side or had the prospect of
6 that happening in the near future, decoupling would look
7 better, but that's not what our projections are. In
8 other jurisdictions other utilities may have that issue.
9 We don't.

10 CHAIRMAN GOLTZ: So one of the reasons for
11 decoupling is to actually reduce the so-called
12 through-put incentive. And I don't know if Puget has
13 been involved in this, but I can see where it could
14 happen, perhaps in other jurisdictions, where if there
15 is a proposal for more energy savings in building codes,
16 for example, with a full decoupling mechanism, there's
17 no incentive for the utility to get involved in that
18 political discussion because it wouldn't make any
19 difference to that utility's bottom line. But if we
20 don't have full -- but under this CSA as you propose it,
21 that you would still have the, theoretical at least,
22 incentive to get involved in those sorts of discussions.

23 THE WITNESS: Theoretically, yes.

24 CHAIRMAN GOLTZ: And you're just saying we
25 wouldn't do that.

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1 THE WITNESS: I can't -- I don't know. I mean,
2 I'm not the right person to ask that question.

3 CHAIRMAN GOLTZ: We'll have cross of her, I
4 gather.

5 THE WITNESS: You'll see her again, though.

6 CHAIRMAN GOLTZ: So the CSA rate, I think you
7 said on page 23 -- I want to understand a little bit of
8 the details here. Maybe Mr. Piliaris is the one to ask
9 this. But you said the CSA rate would apply to all
10 customers who are eligible to participate in PSE's
11 energy efficiency programs.

12 THE WITNESS: Yes.

13 CHAIRMAN GOLTZ: So who does that leave out?
14 Who would not be subject to this rate?

15 THE WITNESS: Gas transportation customers would
16 not be. That may be the only one, but Mr. Piliaris
17 could fill in any gaps.

18 CHAIRMAN GOLTZ: But commercial and industrial
19 customers it would still apply to?

20 THE WITNESS: Yes.

21 CHAIRMAN GOLTZ: Apartment tenants?

22 THE WITNESS: Yes, sir. Residential.

23 CHAIRMAN GOLTZ: Mr. Elgin in his testimony
24 makes a proposal of -- and I can't remember, I don't
25 think he gave it a name, but I've been referring to it I

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1 guess in our -- around here as sort of a fast true-up
2 mechanism or an accelerated true-up mechanism. All the
3 other things being equal, what's the company's view of
4 that?

5 THE WITNESS: I mean, it's an interesting
6 proposal. There just aren't enough details in this case
7 to say yea or nay, but it would be something to explore
8 after the case on a going forward basis.

9 CHAIRMAN GOLTZ: If we did nothing else, didn't
10 do the CSA, didn't do decoupling, didn't do anything
11 else, but we did that, wouldn't you say the company is
12 better off with that than not? I'm just looking for
13 some sort of a, yeah, that would be a good thing.

14 THE WITNESS: Again, the details matter. It
15 should be, but --

16 CHAIRMAN GOLTZ: You're saying it could be a
17 good thing.

18 THE WITNESS: It could be a good thing, we just
19 don't know enough.

20 CHAIRMAN GOLTZ: What details do you need for
21 you to make a value judgment on that proposal?

22 THE WITNESS: Mr. Story could probably again wax
23 eloquently on that one.

24 COMMISSIONER OSHIE: Bringing in the mechanic.

25 CHAIRMAN GOLTZ: One last question I think. Why

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1 would it be that expenses per customer are growing?
2 Putting aside cost of new infrastructure, rate base
3 issues, but why would just operational expenses be
4 growing per customer?

5 THE WITNESS: Well, that includes all -- that
6 does include capital. So capital additions are included
7 in that expense per customer.

8 CHAIRMAN GOLTZ: So when you said expenses per
9 customer continue to grow, you were -- and including
10 things like LSR costs or additional infrastructure
11 replacement costs?

12 THE WITNESS: Yes. It's both O&M and capital
13 costs.

14 CHAIRMAN GOLTZ: What about O&M? Is that
15 increasing per customer, or do you know that?

16 THE WITNESS: Yes. Not all categories, but O&M
17 is going up. I mean, pension costs, wages, all those
18 costs are going up as well.

19 CHAIRMAN GOLTZ: That's going up per customer?

20 THE WITNESS: Well, when we say expense per
21 customer, it's expenses are going up generally. We
22 don't break it down, except for analysis. That if you
23 were going to do a revenue per customer decoupling, our
24 cost per customer -- revenue per customer is not keeping
25 up with the cost per customer, if you compare apples to

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1 apples.

2 CHAIRMAN GOLTZ: Is the incremental cost of
3 adding a new customer higher or lower than the average
4 cost for existing customers?

5 THE WITNESS: Mr. Piliaris could answer that
6 question for you.

7 CHAIRMAN GOLTZ: I have nothing further.

8 JUDGE MOSS: Thank you.

9 COMMISSIONER OSHIE: I have a few questions,
10 Judge.

11 JUDGE MOSS: Please.

12 COMMISSIONER OSHIE: Mr. DeBoer, there is, or
13 there was, a short report that was written by the
14 company and provided to the commission on company
15 earnings, and I don't know when the last, you know, the
16 period that it covered specifically, but it was -- it
17 could have overlapped with your test year. I didn't go
18 back to look. In that report, my recall -- well, first
19 of all, did you have a chance to read that report?

20 THE WITNESS: I'm somewhat familiar with the
21 report, yes.

22 COMMISSIONER OSHIE: Did you participate in
23 writing that report?

24 THE WITNESS: Yes.

25 COMMISSIONER OSHIE: Did you write the section

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1 that identified the causes of the earnings attrition for
2 the report that -- that covered for the time period that
3 the report covered.

4 THE WITNESS: It was for -- was for 2010. It
5 was a group effort. I was involved, there were a lot of
6 other people involved as well.

7 COMMISSIONER OSHIE: Now, if I remember
8 correctly, there were at least three identified causes
9 of the company's reduced earnings for the period.
10 Identified first, and I believe most significant, was
11 the effect of the downturn in the economy. Is that
12 true?

13 THE WITNESS: Yes.

14 COMMISSIONER OSHIE: And the second most, second
15 greatest impact on the company's earnings for that
16 period was the effect of I believe weather. Is that
17 true?

18 THE WITNESS: Yes. Warmer than average year.

19 COMMISSIONER OSHIE: And I believe the company
20 then identified the impacts of conservation as less than
21 weather or the effects of the economy.

22 THE WITNESS: I don't recall the relative -- the
23 three relative dollar wise, but those were the three
24 categories, yes.

25 COMMISSIONER OSHIE: Has anything changed over

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1 the last period that would, you know, just more
2 recently, that would change the company's view of those,
3 the factors that affect earnings? They were ranked the
4 economy; two, the weather; and three, conservation.

5 THE WITNESS: Well, 2011, the weather was colder
6 than normal, so that was a positive factor.
7 Conservation is still where it is. We're still not
8 recovering those fixed costs. And relative 2011, 2010,
9 on the economy, I'm not sure, but it's still a factor.
10 Sales are still down, and growth is still anemic.

11 COMMISSIONER OSHIE: So your earnings for 2011
12 then, arguably -- it could have been better if, in other
13 words, if the effects of conservation were the same and
14 you made more sales, then you made more money or
15 recovered more in fixed costs for that period?

16 THE WITNESS: Yes, because of the colder
17 weather.

18 COMMISSIONER OSHIE: Yeah. Because one may
19 balance out the other.

20 THE WITNESS: Yes.

21 COMMISSIONER OSHIE: It may.

22 THE WITNESS: Yes.

23 COMMISSIONER OSHIE: Or may not.

24 THE WITNESS: Yes.

25 COMMISSIONER OSHIE: So you made a very general

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1 statement in your testimony, and you repeated it here,
2 that your experience in increased use per customer on
3 the electric side. So what's the revenue impact of the
4 increased use per customer as estimated by the company?

5 THE WITNESS: I'm sorry. I don't understand --
6 can you repeat your question?

7 COMMISSIONER OSHIE: Sure.

8 You testified that the company is
9 experiencing -- or perhaps the words, it was projecting
10 increased used per customer on the electric side.

11 THE WITNESS: Yes.

12 COMMISSIONER OSHIE: My question is what's the
13 projected revenue impact from that increased use per
14 customer.

15 THE WITNESS: I don't know the answer to that
16 one. Mr. Piliaris may be able to answer that --

17 COMMISSIONER OSHIE: So you're not sure what
18 that amount may be, but you also testified that it's
19 those projected increases that makes decoupling
20 unattractive to the company.

21 THE WITNESS: Yes.

22 COMMISSIONER OSHIE: Okay. Let me walk down a
23 different path here. This may be all my questions. Can
24 you describe exactly how the CSA mechanism is going to
25 work? Let's take it over a period of five years. So

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1 let's start in, you know, year one, what's going to
2 happen in the company's mind?

3 THE WITNESS: So we will take the -- in the
4 first year, we'll take the conservation that is in the
5 two-year plan. So in 2012, let's call it 36 average
6 megawatts. Let's stick with electric. We will -- that
7 will be the target. So it's focused only on the
8 company's conservation programs. So in the following
9 year we will set a rate that we will collect 75 -- so
10 we'll calculate how much of our rate is collecting only
11 the fixed cost component, not taking out the power
12 component, and so of our ten cent kilowatt hour rate,
13 stick with residential, a piece of that collects the
14 fixed cost, T&D fixed cost, not the power cost.

15 We take that component of the rate, let's call
16 it three cents out of the ten, multiply it by the number
17 of kilowatt hours saved under the company's conservation
18 programs, and you set a rate to collect 75 percent of
19 that.

20 COMMISSIONER OSHIE: Now, that's going to
21 begin -- let say in your example that new rates began on
22 January 1st. Let's assume that you had prepared a bill
23 containing year one's projections. So would the
24 customers be billed for conservation that is to occur
25 for the projected -- for the next 12 months, beginning

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1 in January of year one?

2 THE WITNESS: The filing, it's a calendar year,
3 but it's -- the filing is tied to the conservation
4 filing, so that the true-up can happen at the same time.
5 So that happens on May 1. But it's for the --

6 COMMISSIONER OSHIE: I'm -- not to interrupt,
7 but I will. This is hypothetically how the mechanism
8 works, not necessarily how it -- let's get the
9 parameters of its basic design, and then we can -- it
10 can be modified then based on the actual facts which you
11 will apply. So let's start with -- so I'll go back to
12 the question.

13 Assuming that we have everything in place on
14 January 1, we have your projection of expected
15 conservation savings. And so on January -- the bill
16 goes out January 1 to a customer that reflects the
17 conservation savings, there will be an amount of money
18 in it that is based -- to be expected to be paid by the
19 customer that is based on the annual conservation
20 savings from Puget's program.

21 THE WITNESS: Seventy-five percent of it, yes.

22 COMMISSIONER OSHIE: And the 25 percent is to be
23 collected after what kind of review?

24 THE WITNESS: That would be collected the
25 following year after the savings for that past year and

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1 been verified as part of the conservation evaluation
2 process.

3 COMMISSIONER OSHIE: And I didn't go back right
4 before you took the stand to see what kind of tool would
5 be used to verify savings. I know there's a lot of
6 money spent on EM&V specifically, but are you
7 envisioning anything out of what we already do to
8 determine the success of the company's programs?

9 THE WITNESS: No. We propose that it would be
10 the same verification that's currently included in the
11 conservation program but we also indicated we'd be open
12 to other evaluation verification as well.

13 COMMISSIONER OSHIE: So it would be basically on
14 the deemed savings that are assigned, if you will, to
15 the different measures and programs that the company is
16 in charge of implementing?

17 THE WITNESS: I would just quibble with your
18 choice of the word "deemed." They are verified
19 currently. They would be that same process.

20 COMMISSIONER OSHIE: I guess we'll talk to
21 Mr. Piliaris about that, or maybe --

22 THE WITNESS: Or Mr. Stolarski.

23 COMMISSIONER OSHIE: Yes. Thank you. Took the
24 words right out of my mouth.

25 CHAIRMAN GOLTZ: Or Mr. Story.

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1 COMMISSIONER OSHIE: Or Mr. Story. If things
2 start to ball up, we'll call Mr. Story.

3 THE WITNESS: That's when you call the Marines.

4 COMMISSIONER OSHIE: We call him the master
5 mechanic.

6 So let's move on to year two. What's in year
7 two? Are any of the savings from year one in the
8 projections going forward for year two?

9 THE WITNESS: Only the true-up of the 25 percent
10 from the first year, and then the 75 percent for year
11 two.

12 COMMISSIONER OSHIE: So none of year one's
13 savings then are included in the year two calculation?
14 They drop off?

15 THE WITNESS: Again, with the expectation of the
16 25 percent as trued up, so -- but yes.

17 COMMISSIONER OSHIE: Okay. So there's no
18 efficiency savings that are attributable to programs and
19 measures implemented in year one that carry over to year
20 two? It's all new programs, new measures, new efforts
21 by the company?

22 THE WITNESS: Mr. Piliaris could probably
23 correct me if I say this incorrectly, but yes, it is the
24 savings we -- the programs and the savings that we have
25 in that year will be collected in that year, and then

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1 the next year's will be the next year's programs and
2 savings. So yes -- or no, depending on how you asked
3 the question.

4 JUDGE MOSS: I don't even know how to clarify
5 the record now.

6 COMMISSIONER OSHIE: So when we calculate
7 conservation savings target, it is only for new programs
8 that the company is implementing for the target year, or
9 does it include the effects of prior conservation that
10 has been executed by the company?

11 THE WITNESS: It is just for the programs in
12 that year -- or the savings in that year due to the
13 programs in that year. So in 2012, we have a target of
14 36 average megawatts to achieve. In 2012 it would be --
15 if we achieved that, it would be based on 36 average
16 megawatts of savings in 2012, 75 percent of that.

17 COMMISSIONER OSHIE: So you would agree then
18 that -- well, let me ask one foundation question for
19 that. Are the conservation savings from any one year,
20 depending now upon the program or measure, are they just
21 one year only, or do they accumulate, at least arguably
22 accumulate more over time?

23 THE WITNESS: Mr. Stolarski could tell you how
24 the programs operate and how the savings accrue to those
25 programs, but they are multi-year programs. I mean,

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1 they vary, but I think for savings accrual,
2 Mr. Stolarski could tell you how that works.

3 COMMISSIONER OSHIE: So does the growth that you
4 foresee in the future in use per customer, does that
5 exceed the conservation that you are also projecting
6 going forward?

7 THE WITNESS: No. I think if you look in my
8 direct testimony, on page 19, it shows a chart that
9 shows the effect of use per customer with and without
10 conservation.

11 COMMISSIONER OSHIE: So conservation
12 outweighs -- the impact of conservation, just to use a
13 term in the negative, outweighs by what percentage your
14 projected growth per customer?

15 THE WITNESS: Well, I don't know that I
16 understand your question.

17 COMMISSIONER OSHIE: Well, let's say a customer
18 puts in a new -- replaces an electric hot water heater
19 with a more efficient one, if that's possible. Let's
20 maybe use another example. Let's say someone relies on
21 Puget to implement and execute on new windows and new
22 attic insulation, new wall insulation, and as a result
23 can save, let's say they have all electric heat, let
24 just throw something out there, they save 500 kilowatt
25 hours a month and their -- from their execution, if you

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1 will. You're going to support it in some way, but it's
2 still going to be their dollars that actually do it. So
3 over a ten-year period, are you forecasting that the
4 growth -- that will be 500 year in, year out under this
5 example -- does your projected growth exceed that?

6 THE WITNESS: Well, what you can see from the
7 chart, I don't know that I can answer your specific
8 question, but what it does based on the chart on page 19
9 is it shows that use per customer goes from -- with
10 conservation on the electric side is essentially flat.
11 If you eliminate conservation, the growth becomes almost
12 one percent. So -- and on the gas side, it just lessens
13 the reduction from minus 1.5 to minus 1.2.

14 So it doesn't completely -- I guess I would say
15 it doesn't completely replace it, but it does lessen the
16 effects of, both ways, both on the electric side
17 reducing the use per customer growth and lessening the
18 reduction in use per customer on the gas side.

19 COMMISSIONER OSHIE: I'm assuming that in your
20 chart that you relied on the accumulated impact of any
21 conservation measure, not just the one-year impact.

22 THE WITNESS: Mr. Piliaris put this chart
23 together, so he could give you the exact answer to that
24 question.

25 COMMISSIONER OSHIE: Okay. I don't think I have

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1 any questions other than that. Thank you, Mr. DeBoer.

2 COMMISSIONER JONES: I just have a couple of
3 questions, Mr. DeBoer. If you'd turn to your rebuttal
4 testimony, TAD-14, page 9, this regards the through-put
5 incentive that we talked about with Mr. Cavanagh. But
6 before we get to that, Mr. DeBoer, could you describe in
7 summary terms again the proposals on lost revenue, lost
8 margin decoupling before the commission? In your view,
9 how many proposals do we have before us in this case?

10 THE WITNESS: I believe you have two.

11 COMMISSIONER JONES: What are they?

12 THE WITNESS: NWECC's decoupling proposal that
13 Mr. Cavanagh told you about and Puget's CSA proposal.

14 COMMISSIONER JONES: You respond I think in
15 response to NWECC counsel, you describe your proposal as
16 a lost revenue adjustment mechanism, LARM.

17 THE WITNESS: Yes.

18 COMMISSIONER JONES: Not a lost margin
19 adjustment mechanism but lost revenue?

20 THE WITNESS: Yes. I think you could probably
21 characterize it as either, but --

22 COMMISSIONER JONES: So you don't regard in
23 response to Chairman Goltz's question that the proposal
24 by Mr. Elgin, the accelerated true-up, is a real
25 proposal or a fully vetted with sufficient details

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1 proposal before us right now?

2 THE WITNESS: No, I don't believe there are
3 enough details in Mr. Elgin's proposal for us to -- for
4 us to accept it. We certainly -- if we thought it had
5 enough details, we would have addressed it, but there
6 are -- there just weren't enough details in the proposal
7 for us to flesh out at that point.

8 COMMISSIONER JONES: So if you thought there
9 were sufficient details to flesh out, you would have
10 done so in Mr. Gains' rebuttal and Mr. Story's, and
11 perhaps your rebuttal, and you chose not to do that?

12 THE WITNESS: Yes, we just didn't have time.

13 COMMISSIONER JONES: So let's talk about this
14 through-put incentive on line 16 through 20, and then it
15 proceeds onto page 10. We talked about electrification
16 of the fleet, the transportation fleet, earlier today
17 with Mr. Cavanagh. But here what you are saying is that
18 you believe that NVEC is adverse to increasing
19 electricity consumption as a general matter.

20 THE WITNESS: Yes.

21 COMMISSIONER JONES: And did you hear
22 Mr. Cavanagh say that today in response to only of our
23 questions?

24 THE WITNESS: No.

25 COMMISSIONER JONES: So you're saying that the

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1 CSA proposal does not discourage the use of electricity
2 as a general consumption in response to the chairman's
3 and other questions about found margin that you the
4 company, if there is to be increasing consumption per
5 customer, you want to not discourage it and you will
6 take advantage of that financially?

7 THE WITNESS: That would be the effect.

8 COMMISSIONER JONES: And then you go on to
9 say -- I find this interesting that you think that
10 NWEC's proposal may not be as consistent with the
11 Washington State energy strategy and specifically its
12 state dependence on fossil fuels, as your proposal would
13 be. Is that correct?

14 THE WITNESS: Correct.

15 COMMISSIONER JONES: And then you go on to say
16 that this is a risky course to take, given the infancy
17 of electric vehicles. Right?

18 THE WITNESS: Right.

19 COMMISSIONER JONES: What are your projections?
20 I heard some discussions today about projections. I
21 think Mr. Cavanagh characterized them in his response to
22 some of our questions. Can you share with me any of
23 your projections for electric vehicles in your service
24 territory, either by vehicle numbers or percent of load
25 for the next five, ten years?

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1 THE WITNESS: No, I don't have those numbers,
2 but -- in a quantitative sense. In qualitative, we
3 don't expect it to be a huge load builder, as far as
4 electric load in the near future. It's more of a
5 infrastructure question at this point.

6 COMMISSIONER JONES: Transformer upgrades,
7 things like that?

8 THE WITNESS: Circuits, transformers, yes.

9 COMMISSIONER JONES: Besides EVs, electric
10 vehicles, are there any other sources of gadgets,
11 devices, plug loads out there, that you see as being
12 increasing in the future?

13 THE WITNESS: Heat pumps.

14 COMMISSIONER JONES: All right.

15 Judge Moss, that's all I have. Thank you.

16 JUDGE MOSS: Thank you.

17 Mr. ffitch, you appear to want to say something.

18 MR. CEDARBAUM: Your Honor, also I would like to
19 ask some questions as well. Mr. ffitch can go first.

20 JUDGE MOSS: You assume Mr. ffitch has
21 questions. He just may want to make a comment.

22 MR. FFITCH: I do have questions when the time
23 is right, Your Honor.

24 JUDGE MOSS: I guess we can maintain the same
25 order we did before. I think you preceded Mr. Cedarbaum

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1 before, didn't you?

2 MR. FFITCH: I did. I don't know if
3 intervenors, other intervenors have questions.

4 JUDGE MOSS: No. Okay. Go ahead then.

5 MR. FFITCH: Thank you, Your Honor.

6 FURTHER CROSS-EXAMINATION

7 BY MR. FFITCH:

8 Q. Mr. DeBoer, in the conversation with the
9 chairman, you mentioned that Puget's marketing
10 department is now geared towards selling conservation.
11 Would you agree that in an environment of frequent rate
12 cases, rate cases almost every year, the company derives
13 a benefit from its conservation programs? A goodwill
14 benefit? In other words, Puget is offering its
15 conservation programs now part as a away for customers
16 to deal with frequent rate increases?

17 A. I would agree with that.

18 Q. In an exchange with Commissioner Oshie you
19 indicated that the CSA only includes savings from new
20 programs in the current year. Correct?

21 A. Correct.

22 Q. Would you agree that the CSA does include
23 savings from Northwest Energy Efficiency Alliance?

24 A. To the extent those are included in the
25 company's programs, yes.

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1 Q. Do you know if the Northwest Energy Efficiency
2 Alliance savings includes savings from programs that are
3 not currently funded but were funded in prior years?

4 A. I don't know, but Mr. Stolarski could answer
5 that question.

6 Q. All right. Thank you. We'll ask him.

7 MR. FFITCH: Those are all my questions. Thank
8 you, Mr. DeBoer.

9 JUDGE MOSS: Mr. Cedarbaum?

10 MR. CEDARBAUM: Thank you, Your Honor.

11 CROSS-EXAMINATION

12 BY MR. CEDARBAUM:

13 Q. Hello, Mr. DeBoer. I was actually going to ask
14 these questions of someone else, but it sounds like you
15 might be the person.

16 A. I'm sure I'm not.

17 Q. In response to a question from the chairman, you
18 indicated that the company's CSA proposal was not a
19 reaction to attrition. Do you recall that?

20 A. Yes.

21 Q. In Mr. Elgin's testimony, at page 63 -- and I
22 don't think you need to look at this, you certainly can
23 if you like -- and I understand that there's a
24 difference of opinion between the company and staff as
25 to whether the company's claims in this case is one for

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1 attrition or earnings shortfall. But he cites the data
2 request from the company in which the company responded
3 that there were three remedies it was proposing to
4 address the earnings shortfall Mr. Gains and Dr. Olson
5 referred to. One of them is the CSA, the other one is
6 the increase in equity ratio from 46 to 48 percent, and
7 the third one is the increase in return on equity from
8 10.1 to 10.8.

9 So it would appear -- is it correct that the CSA
10 proposal is one of the remedies that the company has
11 proposed to address what it characterizes as an earnings
12 shortfall?

13 A. Yes. I think it just is as a matter of
14 nomenclature, what is the definition of attrition, but I
15 would agree with your statement.

16 Q. Okay. That's that on that point.

17 My next questions just have to go with your
18 discussion with Commissioner Oshie about just how the
19 CSA works. Just generally speaking, looking at rate
20 making, you're familiar with the concepts of revenue
21 requirement and billing determinates?

22 A. Yes.

23 Q. Revenue requirement would be the total amount of
24 money the commission authorizes the company to recover
25 in rates. Is that right?

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1 A. Yes.

2 Q. And a billing determinate would be a unit of,
3 let say a unit of energy divided into the revenue
4 requirement to develop a rate. Is that correct?

5 A. Yes.

6 Q. Now, the CSA is different from that in the sense
7 that it takes the conservation savings estimates that
8 the company has proposed and then multiplies that times
9 a unit of energy to develop a revenue requirement to be
10 collected in rates in the CSA rate. Is that right?

11 A. Yes. Mr. Piliaris would probably be a better
12 one to address that too.

13 Q. I'm just looking at it generally speaking.
14 That's what I thought you told Commissioner Oshie.

15 A. Yes, I think so.

16 MR. CEDARBAUM: Thank you. That was all.

17 JUDGE MOSS: Thank you, Mr. Cedarbaum.

18 All right. Any redirect for Mr. DeBoer?

19 MS. CARSON: Yes, a few questions.

20 REDIRECT EXAMINATION

21 BY MS. CARSON:

22 Q. Mr. DeBoer, you were asked by Mr. Brooks about
23 when a new final order comes out in a general rate case
24 on the first day, will there no longer be a gap between
25 cost of revenues. Do you remember that question?

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1 A. Yes.

2 Q. So does the gap between the cost in revenues,
3 does that get reset for the test year in each case? Is
4 there still a gap in terms of the rate year? Where is
5 the gap? Is it the test year or the rate year?

6 A. That's a good question.

7 CHAIRMAN GOLTZ: Mr. Story can answer it.

8 THE WITNESS: Mr. Story can answer that.

9 CHAIRMAN GOLTZ: If someone asks him that on
10 cross.

11 THE WITNESS: Sorry, Sheree.

12 BY MS. CARSON:

13 Q. Would that be better asked for Mr. Piliaris
14 then?

15 A. Yes.

16 Q. I think you also said the CSA does address other
17 things other than the effects of conservation. Now, is
18 that right or does it just address the effects of
19 conservation?

20 A. I misspoke if I said that. It just addresses
21 the effects of the company's conservation programs.

22 Q. You were asked about the NW Energy Coalition's
23 decoupling proposal. Would that proposal address the
24 effects of conservation when the underlying use per
25 customer is increasing?

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1 A. No.

2 MS. CARSON: Okay. I have no further questions.

3 JUDGE MOSS: All right. Well, for a variety of
4 reasons, including particularly the subject matter and
5 the length of cross-examination indicated for the next
6 two witnesses, Mr. Piliaris and Mr. Stolarski, and
7 considering that we have a public comment hearing this
8 evening that the commissioners will be attending, and
9 they would probably like to eat beforehand, I think I'll
10 go ahead and let the commissioners go at this point in
11 time. I have a few housekeeping matters with the
12 parties that I would like to take care of.

13 CHAIRMAN GOLTZ: I just want to say one thing,
14 Judge Moss. Mr. DeBoer sort of suggested that a number
15 of questions go to Mr. Piliaris, and so I'm planning on
16 doing that, but in the off chance that Mr. Piliaris
17 can't answer them and punts them back, we may wish to
18 call Mr. DeBoer.

19 JUDGE MOSS: Mr. DeBoer, you're released subject
20 to recall under the conditions the chairman has
21 described.

22 THE WITNESS: I accept those conditions.

23 JUDGE MOSS: Thank you very much.

24 Now, with that said, my notes are getting to be
25 sort of disjointed here. First of all I want to ask if

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1 we have covered all the bases today with respect to
2 cross exhibits and what you have that people wanted to
3 basically stipulate in. I think we did, but there may
4 be -- I think, Mr. Sanger, you may have had one or
5 something.

6 MR. SANGER: Yes, Your Honor. There was one
7 cross-examination exhibit we had for Mr. Cavanagh, who
8 we waived cross-examination on, but I believe the NW
9 Energy Coalition has agreed to stipulate to the
10 admission of that exhibit.

11 JUDGE MOSS: Was that identified? Was that on
12 our exhibit list now?

13 MR. SANGER: Yes, it was now.

14 JUDGE MOSS: Do you know the number offhand?

15 MR. SANGER: I can get that for you.

16 JUDGE MOSS: The exhibit list is 42 pages long,
17 so it's kind of hard for me to flip right to it.

18 MR. SANGER: That was marked as Exhibit RCC-8
19 CX, Your Honor.

20 JUDGE MOSS: Say it again.

21 MR. SANGER: RCC-8 CX.

22 JUDGE MOSS: All right. Well, that exhibit will
23 be as identified, will be admitted as marked. Thank you
24 very much.

25 (Exhibit RCC-8 CX was admitted.)

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1 JUDGE MOSS: There's some suggestion that we
2 might start tomorrow at 9. Does that work for
3 everybody? Is that a problem? I think if we do that we
4 have a very good chance of getting through this.

5 I've been looking at the times. It might be a
6 little pressed. There's currently about ten hours of
7 cross-examination indicated, but I'm hoping to shorten
8 that by being mean and nasty all day tomorrow and seeing
9 if we can shorten things up a little bit. But in any
10 event, I think we can finish, certainly by Friday, but
11 it might be wise to start at 9 tomorrow, unless that's
12 seriously inconvenient. Okay, let's do that then.

13 (The commissioners left the proceedings.)

14 MR. CEDARBAUM: Your Honor, on that point,
15 Mr. Smith, the staff outside consultant, I thought this
16 was indicated on the witness list, but right now we had
17 him as a date certain for Friday. If you think he might
18 be moved up to Thursday, I can contact him and see if
19 that's possible. He was only going to be here by phone,
20 and the company has told me that they no longer have
21 cross for him, so it would just be questions from the
22 commissioners.

23 JUDGE MOSS: I believe he's testifying on tax
24 issues. Is that right?

25 MR. CEDARBAUM: Yes.

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1 JUDGE MOSS: If he's going to appear by phone
2 anyway, you might alert him that we might be able to
3 call him or have him call us on Thursday.

4 MR. CEDARBAUM: So the commissioners you believe
5 have questions?

6 JUDGE MOSS: I don't know. Unfortunately, I
7 don't know. It's less likely than on some other topics.

8 MR. CEDARBAUM: I will find out. Obviously he's
9 going to be near a phone. I'll find out if he's not in
10 a hearing doing something else.

11 JUDGE MOSS: And I'll let you know as soon as I
12 can.

13 Mr. ffitch, you had something?

14 MR. FFITCH: Thank you, Your Honor. I wanted to
15 make sure if we didn't do so before that we offered the
16 David Nightingale cross exhibits and the Aliza Seelig
17 cross exhibits for Mr. Nightingale. Those are DN-4
18 through DN-18. For Ms. Seelig, flip to those --

19 JUDGE MOSS: I don't have an affirmative
20 indication in my notes, but I believe we did admit all
21 the Seelig exhibits.

22 MS. CARSON: Yes, we did.

23 JUDGE MOSS: Yes, we did. Those are all in.

24 As far as Mr. Nightingale is concerned, I'm
25 assuming --

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1 MR. CEDARBAUM: No objection.

2 JUDGE MOSS: No objection. So they'll be
3 admitted as marked if I haven't previously done those.

4 (Exhibits DN-4 through DN-18 were admitted.)

5 MR. FFITCH: Thank you.

6 One other matter, Your Honor. Ms. Crane has
7 been permitted to appear by phone, and I believe she'll
8 be available tomorrow. We'll check with her. She's
9 going to be coming up a few witnesses from now, but we
10 will endeavor to make her available by phone tomorrow if
11 there are questions from the bench.

12 JUDGE MOSS: Yeah, I would expect those to focus
13 on her tax testimony, but we'll see. Yes, I don't have
14 advance information from the commissioners, although I
15 have noticed a certain pattern evolving in this hearing
16 whereby there seem to be at least some questions for a
17 lot of the witnesses. So those who are to be available
18 by phone should be on standby for that, and of course
19 the others will be here anyway.

20 MS. CARSON: One more matter. Ms. Sue McLain
21 was here today to testify. She had to leave. I
22 understand there's very short cross for her, and
23 Mr. ffitich said it would be fine for her to be available
24 by phone. I don't know if the commissioners have
25 questions for her.

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1 MR. ROSEMAN: I have some. I think I indicated
2 I have some cross for her, Ms. McLain.

3 JUDGE MOSS: Yes, there is some indicated for
4 the Energy Project as well as the Public Counsel for
5 Ms. McLain, but I don't see any reason why we can't do
6 it by phone, do you, Mr. Roseman?

7 MR. ROSEMAN: No, I don't.

8 MS. CARSON: I guess I was under the impression
9 that you were asking Mr. DeBoer about that.

10 MR. ROSEMAN: And then we changed paths a little
11 bit.

12 MS. CARSON: Okay. So she can be available by
13 phone tomorrow.

14 JUDGE MOSS: Okay. I think we can handle it
15 that way. Maybe that will even speed things up. You
16 never know.

17 Anything else we need to discuss on the record
18 so that we have some memorial of it?

19 MS. CARSON: We do have a few revised exhibits
20 that we've handed out to the other parties that they
21 know about that I have for the bench.

22 JUDGE MOSS: Will we be talking about those over
23 the next day or so?

24 MS. CARSON: Yes.

25 JUDGE MOSS: Okay. We'll distribute them after

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1 we go off the record. How about that?

2 Anything else?

3 All right. We'll be in recess until tomorrow
4 morning at 9 o'clock. Thank you.

5 (The proceedings were adjourned at 4:40 p.m., to
6 resume on Thursday, February 16, 2010 at 9:00 a.m.)

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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 15, 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