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10	Bench Request No. 13	853
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EXHIBITS

2 EXHIBIT

OFD

AD

3 JAP-1T through JAP-38.....

621

4 JAP-39 CX and JAP-40 CX.....

623

5 JAP-41 CX through JAP-51 CX.....

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6 JAP-52 CX through JAP-65 CX.....

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7 RWS-1T through RWS-13.....

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8 RWS-15 CX through RWS-19 CX.....

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9 DJR-1T through DJR-3T.....

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11 DJR-4 CX and DJR-5 CX.....

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12 ACC-1T through ACC-5T.....

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13 DWS-1CT through DWS-9.....

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15 SML-1T through SML-7T.....

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16 SML-8 CX and SML-9 CX.....

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17 BAE-1T through BAE-7.....

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18 CEO-1T through CEO-10T.....

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19 CEO-11 CX through CEO-18 CX.....

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20 DEG-1T through DEG-20.....

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21 DEG-21 CX through DEG-26 CX.....

820

22 KLE-1T through KLE-7.....

839

23 KLE-8 CX through KLE-12 CX.....

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1 OLYMPIA, WASHINGTON, FEBRUARY 16, 2012

2 9:03 A.M.

3 --oOo--

4

5 JUDGE MOSS: Mr. Piliaris, let's get you sworn
6 in, and then I need to go get my jacket. I just realized
7 I am not wearing my jacket.

8 Do you solemnly swear or affirm under penalty
9 of perjury that the testimony you give will be the truth,
10 the whole truth and nothing but the truth?

11 MR. PILIARIS: I do.

12 JUDGE MOSS: Thank you. Please be seated. I
13 will be right back.

14 (A brief pause.)

15 JUDGE MOSS: All right. We have gone on the
16 record, and we will remain on the record now. I have
17 sworn Mr. Piliaris.

18 So your witness. Please go ahead. Sorry.

19

20 JON A. PILIARIS, witness herein, having been
21 first duly sworn on oath,
22 was examined and testified
23 as follows:

24

25 /////

0619

1 DIRECT EXAMINATION

2 BY MS. CARSON:

3 Q. Good morning, Mr. Piliaris. Please state your
4 name and title and spell your name for the court
5 reporter.

6 A. Jon Piliaris. J-O-N P-I-L-I-A-R-I-S. I am a
7 manager of pricing and cost of service.

8 Q. Mr. Piliaris, do you have before you what has
9 been marked for identification as Exhibit Nos. JAP-1T
10 through JAP-38?

11 A. Yes.

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

15 A. Yes.

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

18 A. Yes.

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

21 A. Yes, I have one minor correction. If you turn
22 to page 39 of my prefiled, of my prefiled direct, JAP-1T,
23 there is a table at the bottom, Table 6.

24 You can see some rates listed there. The last
25 rate for the last rate group, Schedules 40 through 459,

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1 the rate that is listed is 0.0018. It should be 0.0019.

2 And the reason for the error is that there is a
3 small upstream calculation error in the CSA rate and that
4 had an effect of rippling through a number of the other
5 exhibits. So a number of the other exhibits would also
6 need to be modified to reflect that.

7 We didn't provide a whole set of new
8 spreadsheets just to avoid confusion at this point, given
9 how small the change was. We would be happy to provide
10 corrected versions in the compliance filing, or if you'd
11 like filed errata sheets prior to rendering an order, we
12 can do that as well.

13 JUDGE MOSS: I think with your correction on
14 the record we'll be just fine. Thank you very much.

15 BY MS. CARSON:

16 Q. Are your prefiled direct -- with that
17 correction, are your prefiled direct, supplemental and
18 rebuttal testimony and accompanying exhibits true and
19 correct to the best of your information and belief?

20 A. Yes.

21 Q. Thank you.

22 MS. CARSON: Your Honor, PSE offers Exhibits
23 JAP-1T through JAP-38 into evidence, and offers Mr. Jon
24 A. Piliaris for cross-examination.

25 JUDGE MOSS: There being no objection, those

0621

1 will be admitted as marked.

2 (Exhibit JAP-1T through JAP-38 was admitted.)

3 JUDGE MOSS: And let me see. We have
4 cross-examination indicated. I will just follow my list
5 here and start with Staff, if that's agreeable, Mr.
6 Cedarbaum.

7 MR. CEDARBAUM: Yes, Your Honor.

8 CROSS-EXAMINATION

9 BY MR. CEDARBAUM:

10 Q. Good morning.

11 A. Good morning.

12 Q. I've actually been able to cut back on my cross
13 estimate. So I won't take as long as I originally
14 thought I would, but I will be eventually asking you to
15 look at Ms. Reynolds' testimony. So if you have that
16 with you.

17 A. I do.

18 Q. First off, I just wanted to have you look at
19 Cross-Exhibit 39.

20 A. I'm there.

21 Q. And these were the responses to Staff to -- I'm
22 sorry, Staff's response to the Company's Data Requests 14
23 and 24; is that right?

24 A. That's correct.

25 Q. And these were referenced in your Exhibit 28,

0622

1 which is the Staff response to the Company's Bench
2 Request 19.

3 If you would look at the last sentence of your
4 Exhibit 28, there is a reference to Staff responses to
5 Company DR's 14 and 24. You didn't include them in your
6 exhibit, but they are now included in Cross-Exhibit 39;
7 is that right?

8 A. I see them, yes.

9 Q. And in various places in your rebuttal
10 testimony you refer to the Staff's response to the
11 Commission's bench request on decoupling; is that
12 correct?

13 A. Correct.

14 Q. And if you look at Exhibit, Cross-Exhibit 40,
15 that is the Staff's response to the Commission's bench
16 request on decoupling that you reference; is that
17 correct?

18 A. Correct.

19 MR. CEDARBAUM: Your Honor, I would offer
20 Exhibits 39 and 40, although I would note that Exhibit 40
21 would typically, I thought, have been a bench exhibit,
22 and if you would prefer to handle it that way, that's
23 fine, or we can keep it as a cross-exhibit for Mr.
24 Piliaris.

25 JUDGE MOSS: Since you have conveniently

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1 provided it and it is numbered, we will handle it in that
2 fashion.

3 Is there any objection to the admission of
4 these?

5 MS. CARSON: No.

6 JUDGE MOSS: All right. They will be admitted
7 as marked.

8 (Exhibit JAP-39 CX and JAP-40 CX was admitted.)

9 BY MR. CEDARBAUM:

10 Q. Mr. Piliaris, if you would please turn to
11 page 34 of your rebuttal testimony.

12 JUDGE MOSS: And that's 34?

13 MR. CEDARBAUM: It is, Your Honor. I'm sorry.
14 24.

15 JUDGE MOSS: 24 CT. I apologize, Mr.
16 Cedarbaum. What was the page again?

17 MR. CEDARBAUM: Page 34. Good thing you asked
18 about it.

19 BY MR. CEDARBAUM:

20 Q. At lines 3 through 8 you refer to Staff
21 testimony that the Company experienced a 20 percent loss
22 of customers and certain industrial customers, and
23 certain industrial schedules during 2010, and then you
24 stated it is unclear how Staff interpreted the data
25 provided in their referenced data response.

0624

1 Do you see that? That's on line 7.

2 A. Correct.

3 Q. And I guess my question is -- this may have
4 been just a typo in your testimony -- when you say "their
5 referenced data response," are you actually referring to
6 a Company data response?

7 A. I'm referencing the data response that the
8 Company provided to Staff, that they then used to come up
9 with the 20 percent figure.

10 Q. And the data request response you are talking
11 about is Data Request 96, Attachment A?

12 If you look at Ms. Reynolds' testimony, at
13 page 23, Footnote 22, she references the Company's
14 response to Staff DR 96, Attachment A, as the basis for
15 her 20 percent calculation.

16 A. Correct.

17 Q. And you are the Company's witness responsible
18 for that response to the data request?

19 A. I believe so.

20 Q. You didn't ask the Company to explain how Staff
21 interpreted the data from that data request; is that
22 right?

23 A. I didn't ask Staff how it interpreted the
24 Company's response.

25 Q. So you don't know which industrial schedule

0625

1 Staff included in this calculation of the 20 percent
2 reduction?

3 A. I don't.

4 Q. You could have asked them that question,
5 couldn't you?

6 A. I could have.

7 Q. Would you accept, subject to check, based on
8 your own response to Staff Data Request 96, that the
9 combined number of monthly bills for Schedules 46 and 49
10 decline 20 percent during 2010?

11 My understanding is that is a lengthy document,
12 which is why I ask you subject to check, and you can take
13 time off the record to check it, if you prefer.

14 A. Can you repeat the question?

15 Q. I ask you to accept, subject to check, that the
16 combined number of monthly bills for Schedules 46 and 49
17 decline 20 percent in 2010, based on the data in your
18 response to Staff Data Request 96, as shown in
19 Attachment A to the response?

20 A. I don't believe the data provided in 96 provide
21 would provide data in a suitable form for that
22 conclusion. It was the data provided in 96 -- hold on a
23 second. I think I have it.

24 So the request in the -- at 96 was for bill
25 frequency data, not bills -- we have separate

0626

1 information. The information I relied upon to derive the
2 customer count information in my rebuttal testimony,
3 JAP-24, Table 1, drew from a data source that was
4 probably more suitable for that conclusion.

5 Q. My response, or my question, though, directs
6 you to your response to Data Request 96.

7 Is the data Staff used in its testimony that
8 you criticized, and I just ask you subject to check to
9 accept the -- well, the statement that I made before.

10 MS. CARSON: And I'm going to object. This
11 doesn't sound like the type of calculation that is
12 appropriate for a subject-to-check request.

13 JUDGE MOSS: Let's just handle it this way,
14 then: The Company will report for the benefit of the
15 record what the customer change was for Schedules 46 and
16 49 between 2009 and 2010 and report the source of its
17 data and why that is the best source. That's a bench
18 request.

19 Will that satisfy your need, Mr. Cedarbaum?

20 MR. CEDARBAUM: Yes, it does, Your Honor.

21 Thank you.

22 JUDGE MOSS: All right. That will be Bench
23 Request 11.

24 BY MR. CEDARBAUM:

25 Q. Mr. Piliaris, if you could flip the page to

0627

1 page 35 of your rebuttal.

2 A. I'm there.

3 Q. At line 10, you are discussing the Staff
4 recommendation for further analysis of the differences
5 between existing and new customers, and you question
6 whether the information on those differences is even
7 feasible to obtain; is that right?

8 A. That's correct.

9 Q. If you could turn to page 25 of Ms. Reynolds'
10 testimony. Just for the record, that's Exhibit DJR-1T.

11 This is her discussion of that recommendation,
12 correct? At line 6 she refers to the further analysis of
13 differences between existing and new customers that you
14 dispute.

15 COMMISSIONER OSHIE: Counsel, can you repeat
16 the page?

17 MR. CEDARBAUM: Page 25 of Ms. Reynolds'
18 testimony.

19 COMMISSIONER OSHIE: Thank you.

20 THE WITNESS: It's the same subject matter.

21 BY MR. CEDARBAUM:

22 Q. And Footnote 26 of her testimony refers to a
23 Company response to Staff data request 95, Attachments A
24 through C.

25 Do you see that?

0628

1 A. Yes.

2 Q. And you are the witness responsible for that
3 response; is that correct?

4 A. I was one of them, yes.

5 Q. Is it correct that the Attachments A through C
6 in data requests -- in the Company's response to Staff
7 Data Request 95 provides information about differences in
8 usage between new and existing customers?

9 A. Yes, but it does not identify whether -- the
10 cause of those differences.

11 MR. CEDARBAUM: Thank you. Those are all my
12 questions.

13 JUDGE MOSS: Thank you, Mr. Cedarbaum.

14 Northwest Industrial Gas Users.

15 CROSS-EXAMINATION

16 BY MR. BROOKS:

17 Q. Good morning, Mr. Piliaris.

18 A. Good morning.

19 Q. Could I get you to turn to Cross-Exhibit JAP-45
20 CX?

21 A. That would be Public Counsel Data Request 242?

22 Q. Correct. That's what I have.

23 A. I'm there.

24 Q. Are you identified in the footer of this
25 document as the witness knowledgeable about this

0629

1 response?

2 A. I am one of the listed witnesses, yes.

3 Q. Pointing to the last sentence of that response,
4 it says, "Therefore, although PSE's energy efficiency
5 programs are not the sole cause of expense, these
6 programs have been a contributing factor."

7 Besides conservation, what other factors might
8 result in Puget's revenue, or the decline in revenue from
9 sales?

10 A. Weather, economy. It could be any number of
11 sources.

12 Q. Based on that answer, would you agree that a
13 down economy or even a downward shift in one sector of
14 the economy can significantly affect an industrial
15 customer's actual usage of energy?

16 A. Yes.

17 Q. Also, I should preference that all my questions
18 are going to relate to the gas customers and the gas
19 component of the CSA.

20 A. Thank you.

21 Q. Would you agree that a down economy or even a
22 downward shift in one sector of the economy could impact
23 an industrial customer's actual energy use more than the
24 implementation of efficiency measures?

25 A. That's possible, but it's not necessarily

0630

1 always true.

2 Q. Can it sometimes be true?

3 A. Sure.

4 Q. Could I get you to turn to Cross-Exhibit JAP-41
5 CX?

6 A. This would be Public Counsel Data Request 235?

7 Q. Correct.

8 A. I'm there.

9 Q. And you are identified as the witness
10 knowledgeable about this response?

11 A. I am, but I expect that I will probably be
12 deferring this question to a different witness, but you
13 may ask the question.

14 JUDGE MOSS: But go ahead with your question
15 anyway, Mr. Brooks.

16 BY MR. BROOKS:

17 Q. In the first paragraph of that response, which
18 is in response to the question of which conservation
19 programs would be included, you indicate that the program
20 will include all conservation programs whose reported
21 savings are eligible to satisfy its statutory
22 requirements under RCW 19.285.

23 Are gas conservation programs typically -- do
24 they typically satisfy RCW 19.285?

25 A. To my knowledge, RCW 19.285 doesn't apply to

0631

1 gas.

2 Q. So can you give me examples of the gas
3 conservation programs that will be included in the CSA?

4 A. I would defer that question to Mr. Stolarski.

5 Q. I will still try to ask a few more questions
6 about this exhibit.

7 Could you turn to the Attachment A to that
8 exhibit, which is about the third page.

9 A. This is the table with "Draft EES Conservation
10 Rider Tracker Savings" at the top?

11 Q. Correct.

12 A. I'm there.

13 Q. Am I correct that this document is a draft
14 budget of the kinds of conservation savings Puget plans
15 or hopes to achieve in 2012 and 2013?

16 A. I should probably defer this question to Mr.
17 Stolarski as well.

18 Q. If you will accept for a second that this does
19 demonstrate or lists a savings that the Company hopes to
20 achieve in this time period, my question is, will the CSA
21 mechanism capture declines in gas usage that result from
22 a customer's decrease in operations, for example, from
23 economic factors that you described earlier, as compared
24 to a decline in usage that results solely from the
25 conservation efforts?

0632

1 A. The CSA only captures the effects of
2 Company-sponsored conservation. It does not capture the
3 effects of any weather-related or economic-related losses
4 of load.

5 Q. Can you turn to your prefiled direct testimony,
6 JAP-1T, and page 33?

7 A. I'm there.

8 Q. On line 16, you indicate that the recovery of
9 costs will be contingent upon third-party verification of
10 the savings.

11 Is that an accurate reflection of your
12 testimony?

13 A. Yes.

14 Q. Is it this third-party verification process
15 that will ensure that only the conservation savings are
16 included and that it doesn't include other factors like
17 economic factors or weatherization or weather
18 normalization?

19 A. I don't think that this third-party
20 verification was intended necessarily to verify the
21 calculations of the CSA per say. This was more to verify
22 the reported savings that were used to derive the CSA,
23 that those were accurate.

24 I think it would be fairly clear that if it's
25 only from the math supporting the CSA rate development,

0633

1 it would be -- it should be fairly clear that only
2 Company-sponsored conservation is included in the
3 recovery, cost recovery.

4 Q. So can you describe that verification process
5 and what it does in a little more detail? And
6 specifically I guess I'm interested in whether that
7 process captures potential conservation savings at the
8 outset or if it actually gets down to the level of a bill
9 audit for each customer and what they actually saved as a
10 result of those conservation measures.

11 A. I would defer that question to Mr. Stolarski.

12 Q. Are you familiar with any of the particular
13 elements of the third-party verification process or is
14 that also for Mr. Stolarski?

15 A. That would be for Mr. Stolarski as well.

16 Q. All right.

17 MR. BROOKS: Your Honor, that's all the
18 questions I have. I had not indicated any
19 cross-examination for Mr. Stolarski, but in light of
20 this, of the answers to these questions, I would like to
21 be able to ask those questions to him when the time is
22 appropriate.

23 JUDGE MOSS: We will allow that. I will put
24 you down for how many minutes?

25 MR. BROOKS: Let's do five.

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1 JUDGE MOSS: Fair enough. Did you wish to move
2 your exhibits?

3 MR. BROOKS: Please, Your Honor.

4 JUDGE MOSS: That would be JAP-41 CX through
5 JAP-51 CX. Any objection? Hearing none, those will be
6 admitted as marked.

7 (Exhibit JAP-41 CX through JAP-51 CX admitted.)

8 JUDGE MOSS: Now, Mr. ffitch, I'm going to beg
9 your indulgence and skip over you for a moment, since you
10 have indicated an hour for this witness and Ms. Boyles
11 has indicated only ten minutes. I will let her finish up
12 and then return to you. Ms. Boyles, go ahead.

13 MS. BOYLES: Thank you, Your Honor

14 CROSS-EXAMINATION

15 BY MS. BOYLES:

16 Q. Good morning, Mr. Piliaris.

17 A. Good morning.

18 Q. I'm Kristen Boyles, representing Northwestern
19 Energy Coalition.

20 I just want to clarify something. Yesterday I
21 asked Mr. DeBoer if the CSA was meant to address
22 financial harm caused by factors beyond just conservation
23 efforts, and he first answered yes, and then on redirect
24 from Ms. Carson answered no. So I just want to be clear
25 I have the answer to that question straight.

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1 Is the CSA designed to address financial harm
2 to Puget Sound Energy caused by factors beyond its
3 conservation efforts?

4 A. No.

5 Q. Thank you. Then is it correct that under the
6 CSA there are growing expenses per customer that then
7 remain unaddressed?

8 A. I'm not sure that you can necessarily draw that
9 conclusion in absolute terms. It only addresses -- the
10 CSA only addresses the reductions in revenue associated
11 with Company-sponsored conservation. It does not in any
12 way take into consideration the growth and expenses for
13 the Company outside of the earnings test.

14 Q. Okay. There is a cross-examination exhibit,
15 45 CX, that you were just referred to by counsel where
16 your answer was that Puget Sound's energy efficiency
17 programs are not the sole cause of expense per customer
18 growing faster than its revenue per customer.

19 Do you see that? It's 45 CX.

20 A. Which data response is that?

21 Q. I'm sorry. That's Public Counsel Data Request
22 No. 242.

23 A. Correct.

24 Q. So then that is a correct statement?

25 A. Yes.

0636

1 Q. Thank you. Would these expenses that are not
2 covered by the CSA be the same expenses that would also
3 be unaddressed by a full decoupling proposal?

4 A. I'm not sure that you could necessarily again
5 draw that conclusion. The decoupling proposal advocated
6 by Northwest Energy Coalition is very different in its
7 structure than the CSA.

8 The CSA is very simple. Savings times a rate
9 equals a cost. The decoupling mechanism is an allowed
10 revenue per customer calculation.

11 I'm not sure how you necessarily correlate how
12 much expense is recovered outside of the mechanism or not
13 for decoupling versus CSA. I'm not sure how quite to
14 best answer your question.

15 Q. I appreciate that.

16 MS. BOYLES: Nothing further, Your Honor.

17 JUDGE MOSS: Thank you, Ms. Boyles. Mr.
18 ffitch?

19 MR. FFITCH: Thank you, Your Honor. I'm going
20 to have far less than I originally estimated.

21 JUDGE MOSS: Music to my ears, Mr. ffitch.

22 CROSS-EXAMINATION

23 BY MR. FFITCH:

24 Q. Good morning, Mr. Piliaris.

25 A. Good morning, Mr. ffitch.

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1 Q. Could you please turn to page 2 of your --
2 excuse me, page 3 of your rebuttal testimony that is
3 JAP-24.

4 A. Page 3?

5 Q. Yes, page 3, and it's the question and answer
6 starting at line 9. I just want to confirm your
7 testimony.

8 In that answer you state that the policy
9 statement explicitly allows the Company to file a, quote,
10 unquote, other mechanism, and that's in fact the sort of
11 avenue of the policy statement that the Commission is --
12 excuse me, that the Company is choosing to use here,
13 filing another, an other mechanism, correct?

14 A. Correct.

15 Q. And the CSA is not a full decoupling mechanism,
16 as defined in the policy statement, correct?

17 A. Correct.

18 Q. And you would also agree that the CSA does not
19 meet the definition of, quote, unquote, limited
20 decoupling as defined in the Commission's policy
21 statement?

22 A. I would accept the way that Commission Staff
23 has characterized the definition of limited decoupling
24 within the policy statement. So the answer would be yes.

25 Q. All right. And then if you turn to page 5 of

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1 your rebuttal, if you would, at lines 11 through 15.

2 There you state that the only similarity
3 between the CSA mechanism and the Commission's limited
4 decoupling mechanism is that both attempt to capture
5 changes in use caused by one factor.

6 That's -- that would be the only similarity,
7 correct?

8 A. Correct.

9 Q. I just have one more question. If you -- one
10 or two more questions.

11 If you go to page 37 of your rebuttal, please,
12 line 16. Do you have that?

13 A. Yes.

14 Q. There you are discussing Ms. Crane's statement
15 that the CSA proposal would result in double-counting of
16 certain conservation savings, correct? It's a general
17 discussion that you start there.

18 A. I'm addressing Ms. Crane's assertion, correct.

19 Q. Right. Could you please turn to the response
20 to Public Counsel Data Request 440, which is your JAP-64,
21 Public Counsel cross-exhibit?

22 A. I'm there.

23 Q. Am I correct that in response that you
24 acknowledge that a portion of conservation-related
25 savings that occurred in calendar year 2010 are already

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1 reflected in the Company's normalized sales claim in this
2 general rate case?

3 A. Only a portion, correct.

4 Q. But a portion is definitely reflected in the
5 sales claim in this case?

6 A. For rates effective beginning 2012, correct.

7 Q. All right. And you -- your response also
8 refers to Public Counsel Data Request 439, which has been
9 marked as the immediately preceding cross-exhibit. We've
10 also provided that. That's Exhibit 64, correct?

11 JUDGE MOSS: 63, Mr. ffitch.

12 THE WITNESS: 63. I have 63.

13 BY MR. FFITCH:

14 Q. I stand corrected.

15 A. I have it.

16 Q. Well, I'm just indicating that we have provided
17 that so that your complete answer is available. Just one
18 other area.

19 Mr. Piliaris, would you agree that Puget's
20 conservation reports typically report NEEA savings
21 separately from Puget's residential and business
22 programs?

23 A. That's my recollection.

24 Q. And there's usually a separate line item for
25 NEEA regional efforts? That's the Northwest Energy

0640

1 Efficiency Alliance, NEEA, correct?

2 A. I'm having a hard time discerning this question
3 from the previous one. I believe the answer is yes.

4 Q. This was asking about a separate line item for
5 regional efforts, though.

6 A. We separate out the line item for regional
7 efforts apart from NEEA in total?

8 Q. Yes, for NEEA's regional efforts.

9 A. I'm not exactly clear on the nuance with the
10 regional effort versus just NEEA. I am familiar that
11 NEEA is broken out separately for residential and
12 nonresidential. Beyond that, I guess I would have to
13 defer you to Mr. Stolarski.

14 Q. Okay. And on the electric side, in developing
15 the CSA rate, you proposed three different rate groups;
16 is that correct?

17 A. Correct.

18 Q. The residential, primarily a commercial group,
19 and then industrial, correct?

20 A. Effectively, yes.

21 Q. So if the NEEA savings are reported as a single
22 amount, can you explain how you allocated those savings
23 as between the three CSA rate groups?

24 A. Yes. The -- they're working with energy
25 efficiency staff. They also work with NEEA staff to

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1 determine what they -- what NEEA believes to be the
2 sources of the savings that they achieve.

3 And in my work papers, I believe in the CSA
4 work papers, there is actually one sheet that shows where
5 a lot of that NEEA analysis -- admittedly, it's a
6 back-of-the-envelope analysis, but it's their best
7 estimate as to how to break up the savings between
8 residential and commercial. So I have relied upon those
9 in the formulation of the CSA.

10 Q. So could you just clarify what your work papers
11 reflect? Is it your calculation or you're reporting the
12 calculation of this group that works with NEEA?

13 A. I'm effectively relying on the information
14 provided by NEEA, their estimates.

15 Q. Is that work paper available in the record of
16 the case?

17 A. Yes. It should be the very last sheet in my
18 CSA work papers.

19 MR. FFITCH: Can I have a moment, Your Honor?

20 JUDGE MOSS: Sure.

21 BY MR. FFITCH:

22 Q. It's not an exhibit in the case, though, is my
23 understanding. So if we wanted to cite to that, we would
24 have to get that into the record, I believe.

25 Would that be correct?

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1 A. I think you would need to refer to a lawyer.

2 Q. All right.

3 MR. FFITCH: I guess I'm coming around to
4 asking as a record requisition on behalf Public Counsel
5 if that NEEA savings analysis could be provided so that
6 we could have it as an exhibit in the case.

7 JUDGE MOSS: Can that one page be provided,
8 Ms. Carson?

9 MS. CARSON: Yes.

10 JUDGE MOSS: All right. Let's do that, then.

11 Mr. ffitch, why don't you, once you have it,
12 make copies available to us, and we will mark it as
13 JAP-66 CX.

14 MR. FFITCH: Thank you, Your Honor. And those
15 are all my questions. Public Counsel would offer the
16 cross-examination exhibits for Mr. Piliaris, which have
17 been marked as JAP-52 through JAP-77.

18 MS. CARSON: The Company has no objection.

19 JUDGE MOSS: There seems to be some deficiency
20 in my exhibit list. What are the numbers again?

21 MR. FFITCH: Your Honor, I believe they are 52
22 through 77. I can double-check that.

23 JUDGE MOSS: My exhibits only go through
24 JAP-65.

25 MR. FFITCH: Could we check off line, Your

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1 Honor?

2 JUDGE MOSS: Yes, check that and get back to me
3 sometime during the day, but yeah, if there's some error
4 in the exhibit list, I of course consistently ask people
5 to bring that to my attention. So we will take care of
6 that later.

7 We will go ahead for present purposes -- one
8 problem here is I need to renumber the one I just
9 identified as 66, if you have more exhibits than that.
10 So we will straighten this out later.

11 In any event, I take it there's going to be no
12 objection to at least through 65?

13 MS. CARSON: That's correct.

14 JUDGE MOSS: And we will admit those as marked,
15 but the others, at least for my purposes at least, are
16 not considered marked at this juncture.

17 (Exhibit JAP-52 CX through JAP-65 CX admitted.)

18 JUDGE MOSS: Is that it, Mr. ffitch?

19 MR. FFITCH: Thank you, Mr. Piliaris. That's
20 it.

21 JUDGE MOSS: Do we have questions from the
22 bench?

23 CHAIRMAN GOLTZ: Mr. Piliaris, yesterday I
24 believe Mr. DeBoer deferred a couple of questions to you,
25 and frankly I can't recall if this is in your testimony

0644

1 or maybe somewhere else, but I was wondering about -- I
2 gather PSE gathers information of its average fixed costs
3 per customer?

4 THE WITNESS: We can make estimates of that.

5 CHAIRMAN GOLTZ: And my question then is,
6 whatever that average is, the next customer added to the
7 system, are the fixed costs attributable -- the extra
8 costs attributable to that customer more or less than the
9 same as the average fixed costs for the entire, and let's
10 use the residential class?

11 THE WITNESS: All other things being equal,
12 they should be higher. And I believe I addressed this
13 issue, I think, in my rebuttal testimony.

14 CHAIRMAN GOLTZ: Right, but I guess I'm
15 questioning, so basically someone moves -- there's a new
16 subdivision and these new customers come on and the
17 average cost for those customers are higher than the
18 average costs of the group in general, putting aside
19 power costs?

20 THE WITNESS: Correct.

21 CHAIRMAN GOLTZ: And why is that?

22 THE WITNESS: Well, because the average for
23 existing customers is the average embedded cost for rate
24 base that, say, on average is half-depreciated.

25 CHAIRMAN GOLTZ: So is that the reason for

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1 that, is the fact that the existing customers have
2 depreciated rate base?

3 THE WITNESS: The existing customers have
4 depreciated rate base, correct.

5 CHAIRMAN GOLTZ: And the new distribution
6 systems, the new transformers, whatever, are all at that
7 point at least undepreciated?

8 THE WITNESS: Correct.

9 CHAIRMAN GOLTZ: I gather your answer would be
10 the same for electric and gas, or are you only testifying
11 for electric?

12 THE WITNESS: On which issue?

13 CHAIRMAN GOLTZ: On the average, the
14 incremental cost for a new gas customer would also be
15 greater than the average cost of existing customers.

16 THE WITNESS: I'd say the same would apply.

17 CHAIRMAN GOLTZ: So on page -- I'm going to be
18 jumping around a little bit, but on page 21 of your
19 testimony you propose a basic charge of \$7.86 for
20 electric.

21 THE WITNESS: So we're on the direct testimony?

22 CHAIRMAN GOLTZ: The direct, yes.

23 THE WITNESS: Which page again?

24 CHAIRMAN GOLTZ: 21.

25 THE WITNESS: Okay, I'm there.

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1 CHAIRMAN GOLTZ: And this is actually a
2 question that I'm going to channel from somebody at, I
3 believe it was in our public hearing in Bellevue who is
4 both a gas and an electric customer, and there's some
5 parts of your service territory where you have only
6 electric and some -- like Bellingham, and some parts like
7 Seattle where you have only gas?

8 THE WITNESS: Correct.

9 CHAIRMAN GOLTZ: And some places like Olympia,
10 where you do both, why shouldn't the basic charge, if you
11 are both a gas and an electric customer, why shouldn't
12 you get some benefit from that combined basic charge,
13 because aren't the costs to the Company less for billing,
14 collection, that sort of thing when you have a customer
15 taking both services?

16 THE WITNESS: You still have to track the
17 costs. You still have to calculate the rate. There are
18 a lot of factors that -- admittedly, there might be some
19 economy savings there.

20 CHAIRMAN GOLTZ: I get one bill in the mail?

21 THE WITNESS: You get one bill in the mail.

22 CHAIRMAN GOLTZ: I have one customer service
23 person I call for either gas or electric?

24 THE WITNESS: That's not an unreasonable
25 question.

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1 CHAIRMAN GOLTZ: But you've never addressed
2 that?

3 THE WITNESS: No.

4 CHAIRMAN GOLTZ: So let's talk about the CSA.
5 Now, we have now, I think, fairly well established it
6 only applies to your programmatic conservation efforts,
7 so educational efforts are not included?

8 THE WITNESS: Correct.

9 CHAIRMAN GOLTZ: And so at the start of the
10 year or the period involved you would make an estimate of
11 the lost revenues attributable to your conservation
12 efforts and then collect in the rate 75 percent of those;
13 is that right?

14 THE WITNESS: That's a fair characterization.

15 CHAIRMAN GOLTZ: And then in the next year, you
16 would -- after a third-party verification, you would
17 collect 25 percent of that earlier year's or the trued-up
18 amount, whatever that might be, and assuming your
19 estimates were spot on, it would be 25 percent?

20 THE WITNESS: Correct.

21 CHAIRMAN GOLTZ: Plus you would collect
22 75 percent of the following year's lost revenues?

23 THE WITNESS: You might find it helpful to look
24 at JAP-21 with this line of questioning, because it gets
25 to exactly what you are asking. It illustrates those.

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1 CHAIRMAN GOLTZ: That clears it right up. I'm
2 done. But basically what I'm saying is correct?

3 THE WITNESS: Yes.

4 CHAIRMAN GOLTZ: So then in the first -- and
5 all you're collecting is not -- you aren't collecting the
6 total lost revenues; you're collecting the total lost
7 revenues that are, that would be applied to fixed costs,
8 that are attributable to fixed costs?

9 THE WITNESS: Lost revenues attributable to
10 fixed costs, yes, understanding that we have basic charge
11 revenues that we understand cover fixed costs.

12 CHAIRMAN GOLTZ: Some.

13 THE WITNESS: Yes. So we take those out. So
14 total revenues, effectively less energy supply costs,
15 less basic charge, fixed revenue, the remainder is what
16 we base the calculation on.

17 CHAIRMAN GOLTZ: Okay. Now then in year 2 of
18 this program, am I correct -- I believe Mr. DeBoer said
19 this yesterday -- it only applies to first-year savings?

20 THE WITNESS: I should perhaps clarify the
21 operation of the CSA mechanism. It might be useful again
22 to look at an exhibit.

23 CHAIRMAN GOLTZ: Okay.

24 THE WITNESS: If you turn to JAP-11. So,
25 again, I said at a very high level the CSA is a very

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1 simple calculation. It's savings times rate equals the
2 cost. So the first step is calculating what those
3 savings are.

4 The savings that flow into the conservation
5 savings adjustment calculation are the aggregation of all
6 of the savings that are not reflected in the rates in the
7 months that we're calculating these costs.

8 So, for example, right now, February 2012, the
9 rates that are in place right now were based on the -- I
10 will focus on electric -- were based on the 2009 GRC.
11 The 2009 GRC was based on a 2008 calendar year test year.

12 So we have to go back, we should be going back,
13 all the way back to calendar year 2008 and aggregating
14 all the conservation that is reducing loads after the
15 test year in this month. That is what -- that is the
16 amount of conservation that is reducing our revenues
17 today.

18 CHAIRMAN GOLTZ: So let's assume
19 hypothetically, and this is really a hypothetical, that
20 you stay out from rate cases for five years.

21 THE WITNESS: Uh-huh.

22 CHAIRMAN GOLTZ: Then the -- what you're saying
23 is that the lost revenue attributable to conservation in
24 year 1 would also -- in other words, the conservation
25 adjustment would increase year after year after year for

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1 those five years?

2 THE WITNESS: Correct. And I think that's
3 appropriate, because if we did not have a conservation
4 program and we had the rates in place that we currently
5 do, those revenues would be collected year after year
6 after year. The loads would continue to grow and our
7 revenues would continue to grow, which would probably
8 help us stay out of a rate case.

9 CHAIRMAN GOLTZ: I understand that argument,
10 but so do you envision this to be a line item on the
11 bill?

12 THE WITNESS: I would envision it, yes.

13 CHAIRMAN GOLTZ: I mean you must have talked
14 about this?

15 THE WITNESS: Yes. I believe it would be a
16 line item on the bill.

17 CHAIRMAN GOLTZ: And your testimony then
18 earlier on was, I believe, and I forget, I had the page,
19 I don't have it now, but where you were talking about
20 what that amount would be in the first year, and I think
21 it was -- I mean what was it? \$0.13 a month or something
22 like that?

23 THE WITNESS: \$0.31 a month for electric and
24 about \$0.11 a month for gas.

25 CHAIRMAN GOLTZ: So let's take \$0.31 a month

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1 for electric, and that's -- in year 1, that basically
2 reflects 75 percent of the conservation savings?

3 THE WITNESS: Yes.

4 CHAIRMAN GOLTZ: So in year 2 it would be
5 probably -- assuming same straight line, or same
6 conservation savings each year, and of course we would
7 expect that to increase, it would be more than two times
8 0.31? It would be probably more like 70-some cents total
9 in year 2, because you have the 0.31 from the first time,
10 plus making that a hundred percent, so that would put
11 that up to almost 0.40 and then you would have \$0.31 for
12 the first three-quarters of the next time?

13 THE WITNESS: Are with in a hypothetical
14 where --

15 CHAIRMAN GOLTZ: We're in a hypothetical where
16 you are not coming into a rate case, because you don't
17 need to as much now because you have this conservation
18 savings adjustment.

19 THE WITNESS: So in reality, in 2012, new rates
20 will go into effect which will wipe out a whole bunch of
21 conservation. It will basically roll in a bunch of --

22 CHAIRMAN GOLTZ: I'm saying new rates go into
23 effect in 2012, and then we start this conservation
24 savings adjustment and we're going forward in the new
25 world.

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1 THE WITNESS: Yes.

2 CHAIRMAN GOLTZ: So the second year, on the
3 line item on the bill, the ratepayer at the end of the
4 first year would see a \$0.31 line item, and then the next
5 year all of a sudden it would be something like 70-some
6 cents?

7 THE WITNESS: It would continue to grow.

8 CHAIRMAN GOLTZ: And the next year after that
9 it will be a buck something on a monthly bill, and it
10 would keep on going up until you come in for a rate case
11 and then it goes back to 0.31 or so?

12 THE WITNESS: Something like that. And it's
13 consistent with the way Mr. Cavanagh in his testimony
14 kind of did his analysis of the 5 million and then it's
15 10 million and then it's 15 million.

16 CHAIRMAN GOLTZ: So we had a little bit of a
17 discussion, I think in the first day, about how crowded
18 the bill is, that you'd make room for something, and what
19 would you call it? Do you know what you would call it?

20 THE WITNESS: A conservation savings
21 adjustment.

22 CHAIRMAN GOLTZ: So now let's assume that you
23 are a customer service representative for Puget Sound
24 Energy or a consumer affairs person for the UTC and
25 someone calls up and asks you a question and says, What

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1 is this conservation savings adjustment and why did it
2 just go from \$0.31 to \$0.75? What do you say? How do
3 you explain it? Because we have to do that, you know.

4 THE WITNESS: I understand that. May I go back
5 to your earlier question about whether we plan to have
6 this on a line item on the bill before I answer that?
7 The reason --

8 CHAIRMAN GOLTZ: Sure.

9 THE WITNESS: The reason I ask is because we
10 actually set the timing of the CSA to be consistent with
11 our Schedule 120 rates.

12 So everything would be at a consistent time and
13 it's possible that you could roll this into the Schedule
14 120 line item essentially as another conservation-related
15 cost, in which case it will just flow through -- it will
16 probably get overtaken by all the rest of the
17 conservation program expenditures.

18 CHAIRMAN GOLTZ: So Schedule 120, that's the
19 amount that appears in everybody's bill that goes to fund
20 your conservation programs?

21 THE WITNESS: Correct. So it can be treated
22 just like any other conservation-related expenditure,
23 understanding it's really just a recovery of other fixed
24 costs.

25 CHAIRMAN GOLTZ: Last night at the public

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1 hearing -- I guess it wasn't last night. We have heard
2 some public hearings' or some utilities' concern about
3 that line item on the bill for conservation.

4 So this would just make that number bigger, so
5 we'd still get the calls, you'd still get the calls?

6 THE WITNESS: Correct.

7 CHAIRMAN GOLTZ: And now you've got to explain
8 two things at one time, and Commissioner Oshie was asking
9 this yesterday, I believe it was, about how do you
10 explain to the customer that there is a conservation
11 savings adjustment that is forcing him to pay more.

12 So I'm just asking you, how does the Company
13 explain that?

14 THE WITNESS: It's tough, because the genesis
15 of this problem is our rate design. Our rate design
16 gives away so much. We recover our fixed costs through
17 these variable charges and then we undercut that. So as
18 a practical matter, we shouldn't be giving \$0.10 to the
19 customer. We should be giving \$0.07 to the customer.

20 So if we had, for example, straight fixed
21 variable, where the energy rate was actually reflective
22 of the costs that we avoid, we wouldn't have to go back
23 to the customer and say, Well, we gave you too much,
24 sorry, we need to go back and recover our costs now. If
25 it was done right the first time, then that explanation

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1 would never need to be made.

2 CHAIRMAN GOLTZ: Or if you have an attrition
3 adjustment, as suggested by Mr. Elgin, then it would just
4 go into basic rates and you wouldn't have that
5 explanation problem?

6 THE WITNESS: I'd defer the specifics of the
7 attrition adjustment to Mr. Story, but my understanding
8 of it is it really wouldn't completely absolve this
9 problem, because there would continue to be some sort of
10 a lag even under Mr. Elgin's proposal.

11 CHAIRMAN GOLTZ: So shifting topics some, this
12 doesn't include savings from educational programs, and I
13 guess I can get from Mr. Stolarski the percentage of your
14 expenditures on programmatic versus educational programs,
15 but I know there is a substantial sum for educational
16 programs, and I believe the Company believes those are
17 effective.

18 THE WITNESS: I would hope so, yes.

19 CHAIRMAN GOLTZ: So you have some mix of
20 programmatic and educational conservation programs. If
21 we did the CSA, wouldn't the incentive be to move stuff
22 out of educational programs and into more quantifiable
23 measures?

24 THE WITNESS: Incentives matter. The way you
25 set rates will influence the way the utility behaves. So

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1 I can't state that the utility would make a conscious
2 decision to start shifting expenditures from one program
3 to another, but we need to be mindful of that.

4 CHAIRMAN GOLTZ: So even if we were to believe
5 that educational programs, you know that a million
6 dollars in educational programs leads to more
7 conservation than a million dollars in programmatic
8 costs, at least there are some educational programs that
9 lead to more conservation than another million dollars in
10 programmatic measures, it seems to me the Company might
11 have the incentive to say, Well, we will take the most,
12 what is most economic for the Company as opposed to what
13 is best for conservation.

14 THE WITNESS: The easy solution to that is to
15 include it as -- in the CSA. I mean if you believe that
16 they're providing value and they're actually producing
17 savings, then it seems logical that they would be
18 included.

19 I think right now there still seems to be some,
20 perhaps, skepticism as to the verifiability of these
21 savings. So that's why we're trying in the CSA to make
22 this as clean a mechanism as possible, notwithstanding
23 the reaction to our proposal as uncontroversial as
24 possible, but if the Commission truly believed that these
25 were producing savings and more value, then I would think

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1 that they would allow them to be included in the
2 calculus.

3 CHAIRMAN GOLTZ: So going back to the calculus
4 of this, so what -- you propose this to start on the rate
5 effective date for this coming rate year, correct?

6 THE WITNESS: Yes.

7 CHAIRMAN GOLTZ: And the first year would be an
8 abbreviated year because -- you know, it would be a full
9 year?

10 THE WITNESS: It would be a full year. It
11 would go May to May.

12 CHAIRMAN GOLTZ: And that's the way it would be
13 ongoing?

14 THE WITNESS: Timed, again timed consistently
15 with our Schedule 120 filings.

16 CHAIRMAN GOLTZ: So what conservation savings
17 would the first year, May 2012 to May 2013, pick up?

18 THE WITNESS: Which --

19 CHAIRMAN GOLTZ: I say conservation savings.
20 What loss of revenues due to conservation would be
21 included in the first year of this CSA starting May 2012?
22 What would the \$0.31 on my bill represent?

23 THE WITNESS: So we have for the rates going
24 into effect May 2012, they're picking up 2011 calendar
25 costs. So is your question when the rates go into effect

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1 May 2013?

2 CHAIRMAN GOLTZ: No, May 2012, I assume that on
3 the rate effective date my next bill will show something
4 like \$0.31 conservation savings adjustment?

5 THE WITNESS: Yes.

6 CHAIRMAN GOLTZ: And is that picking up
7 revenues that you anticipate not receiving because of
8 conservation programs from May 2012 to May 2013 or does
9 it attempt to pick up revenues that you did not receive
10 due to conservation efforts prior to May 2012?

11 THE WITNESS: Again, if you look at the
12 exhibits, it's fairly clear that the basis of the
13 calculation is the unrecovered costs in 2011.

14 CHAIRMAN GOLTZ: For what period in 2011?

15 THE WITNESS: Calendar year. Again, if you go
16 back to JAP-21, it shows how we use calendar year as the
17 basis for determining the costs, but then the recovery of
18 those costs is staggered a bit beginning four months
19 later, beginning May going through May, similar to the
20 way our Schedule 120 works where the budgets are annual,
21 are calendar-year-based, but the recovery of the costs is
22 slightly offset from that starting in May going into the
23 next May.

24 CHAIRMAN GOLTZ: Does the Schedule 120
25 revenues, are they designed to offset the costs that you

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1 currently are incurring or are they meant to offset costs
2 that you incurred over a year ago?

3 THE WITNESS: For gas, over a year ago. For
4 electric, they're kind of lagged. The costs that they
5 begin -- for electric, the costs that the electric
6 Schedule 120 recovers are ones that started back in
7 January 1 effectively of the same year. So they're four
8 months lagged. The gas is probably a 16 months lag.

9 CHAIRMAN GOLTZ: So to get back to the
10 hypothetical of the customer service agent, either at PSE
11 or here, someone says, What is the CSA, the answer is
12 going to be something like, This is designed to
13 compensate the Company for lost revenues for revenues
14 they didn't receive a year and a half ago?

15 THE WITNESS: Designed to compensate for the
16 underrecovery of costs associated with implementing our
17 conservation program.

18 CHAIRMAN GOLTZ: A year and a half ago as
19 opposed to now?

20 THE WITNESS: Correct. And I would offer that
21 this is no different than the limited decoupling
22 mechanism that the Commission has expanded on in its
23 policy statement. It works no differently than the CSA.

24 The only difference between the CSA and the
25 limited decoupling is that the CSA is tied to actual

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1 reported savings numbers and the limited decoupling is
2 tied to some metric about use per customer deviations.

3 But it still goes back to the same period. It
4 goes back to that same calendar year and it calculates
5 the effect on revenues. They're different calculations,
6 but they're calculating it in the same time period and
7 then recovering, theoretically, over the same time period
8 as well. So there's really no difference there.

9 CHAIRMAN GOLTZ: Okay. I've got nothing
10 further. Thank you.

11 COMMISSIONER OSHIE: I just have a couple
12 questions, really, a couple areas.

13 So you talked about revenue recovery in your
14 dialogue with the Chairman and I think you have explained
15 it well that, you know, there are -- the Company incurs
16 fixed costs and variable costs, they're rolled up in one
17 rate, and in which then there is a -- if you will, you
18 deduct from your revenue requirement what is billed to
19 the customer as a customer charge monthly, and then
20 whatever remains of that revenue requirement per customer
21 is then collected through the variable charge?

22 THE WITNESS: For residential, that's accurate,
23 yes.

24 COMMISSIONER OSHIE: I'm trying to make it
25 simple. And if you -- and so if the -- you know,

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1 theoretically, if the customer charge increases, then the
2 variable charge would decrease, assuming the revenue
3 requirement stays the same?

4 THE WITNESS: Generally speaking, the nuance
5 there is what you do about these tiered rates, the block
6 rate structures.

7 COMMISSIONER OSHIE: Understood. So let's talk
8 about just the basic theory.

9 THE WITNESS: Okay.

10 COMMISSIONER OSHIE: So if we apply that to the
11 CSA, if -- and as I understand the testimony, is that the
12 purpose of the CSA, it's essentially an adder to the
13 customer's bill for unrecovered fixed costs?

14 THE WITNESS: You might think of it as a
15 bifurcated rate. It would be the rate that would have
16 been collected had we reflected that conservation in the
17 first place. We would have had a slightly higher rate.
18 It just happens that we're breaking it into two pieces
19 now.

20 COMMISSIONER OSHIE: But the purpose of the CSA
21 is not to recover variable costs, is it?

22 THE WITNESS: No, it's not.

23 COMMISSIONER OSHIE: It's to cover fixed costs?

24 THE WITNESS: Correct.

25 COMMISSIONER OSHIE: And that's the purpose at

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1 least in part of the customer charge, isn't it?

2 THE WITNESS: It is, and we subtract that from
3 our CSA calculation.

4 COMMISSIONER OSHIE: So if we thought about the
5 purpose of both of those charges to a customer, then --
6 so if we had \$7.25. Let's take this proposal: You have
7 7.25 and you have a \$0.31 adder, and let's say even using
8 your 7.86, but, you know, it's harder for me to add 7.86
9 and \$0.31, it might be 8.17, but --

10 THE WITNESS: You can round.

11 COMMISSIONER OSHIE: So let's just say it's
12 8.25, my kind of rounding. And so assuming you had a --
13 the revenue requirement would be set, and so if your
14 customer charge were 8.25, or you included both of those
15 charges, the CSA and customer charge together, then what
16 is to be recovered in the variable charge? Is it the
17 remainder of what the Company needs to make its revenue
18 requirement per customer or does that variable charge, is
19 that going to not change?

20 In other words, you've got 7.86, you set a
21 variable charge to recover the cost per customer and by
22 class, and in your mechanism, as the Chairman was
23 explaining, if this went on for a period of years, under
24 that, under your mechanism, the variable charge, as I
25 understand it, would really never change.

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1 What is only different is that there are more
2 and more costs being loaded into the recovery of fixed
3 costs. More and more of the dollars recovered from the
4 customer is used for the Company to recover its fixed
5 costs.

6 THE WITNESS: I think you are missing that the
7 CSA only picks up a portion of the fixed costs. There
8 will continue to be plenty of fixed costs being picked up
9 in the remaining energy charge.

10 COMMISSIONER OSHIE: Oh, I understand that. I
11 do understand that. So what I'm asking you is, if we
12 look at -- let's say that you look at both of those, the
13 effects of both the customer charge and the CSA.

14 They're both fixed costs recovery mechanisms,
15 and if we add them together, my question is, then what is
16 the customer going to be charged in the variable side of
17 their bill? Is it the addition of the customer charge
18 and the CSA adder, or does the CSA adder stand alone and
19 doesn't affect the variable charge?

20 THE WITNESS: The CSA is a backward-looking
21 calculation. The base rates that are approved by the
22 Commission are forward-looking. So you are looking
23 forward, setting rates for a rate year.

24 What the CSA does is look back -- you're beyond
25 the rate year now and you're looking back into the rate

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1 year, and you're saying how much does the conservation
2 undercut our ability to recover those fixed costs and
3 then you add those in. You file another rate case. The
4 CSA revenues get reduced.

5 So I think you're trying to put them sort of on
6 contemporaneous paths and they're really not. One is
7 forward-looking, one is backward-looking.

8 COMMISSIONER OSHIE: Is the customer going to
9 think any differently, Mr. Piliaris?

10 THE WITNESS: Is the customer going to think
11 what any differently?

12 COMMISSIONER OSHIE: Are they going to treat
13 them as, This recovers my historic costs and this is
14 going to recover my future costs?

15 I understand the distinction you're trying to
16 make, but I mean I think there's lots and lots of
17 testimony in the Company's case about all of the
18 infirmities of historic, use of a historic test year. I
19 mean you're just describing one of them.

20 THE WITNESS: I would never suggest that the
21 average ratepayer would comprehend half of what we're
22 talking about today. There's no question.

23 And honestly, the price signals, I mean when I
24 talk to my friends, it doesn't go beyond the bill. They
25 don't even know what the rates are. They don't know any

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1 of the rates. They just know what their bill is and
2 that's what they focus on.

3 COMMISSIONER OSHIE: It's been a long time
4 since ratemaking or energy has been cocktail talk. I
5 agree.

6 THE WITNESS: Understandably so. So, again, I
7 go back to my earlier statement. Whether a CSA mechanism
8 is approved, a limited decoupling, a full decoupling,
9 these are all really just Band-Aids for prices that don't
10 reflect costs, and we can avoid a lot of these confusions
11 to customers by just simplifying the rate structure.

12 COMMISSIONER OSHIE: Yes, we could, but there's
13 plenty of testimony in this case and prior as to perhaps
14 why that is -- might not make good policy sense. Let's
15 not go there.

16 So let's talk about what is the -- how you
17 derive your fixed, the fixed costs that you want to plug
18 into the CSA. Why don't you give me a general overview?

19 THE WITNESS: It's always easier with an
20 example. So let's turn to JAP-13.

21 COMMISSIONER OSHIE: Okay. So let's break it
22 down to a finer point. So let's take your calculation of
23 fixed, of the fixed costs.

24 Is your salary in your calculation of fixed
25 costs? Is your --

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1 THE WITNESS: I believe it would be.

2 COMMISSIONER OSHIE: Are all employees'
3 salaries included in that calculation?

4 THE WITNESS: To the extent that they're not
5 reflected in our power costs, the answer would probably
6 be -- well, can you clarify your question? Was the
7 question, is it in the CSA of the costs that we're
8 recovering?

9 COMMISSIONER OSHIE: No. My question is, this
10 is a very -- I'm trying to stay at a high level about how
11 you calculate your fixed costs.

12 THE WITNESS: Okay. Yes.

13 COMMISSIONER OSHIE: So are all employees'
14 costs included in the fixed costs?

15 THE WITNESS: I don't believe so.

16 COMMISSIONER OSHIE: So what employees are
17 excluded?

18 THE WITNESS: I couldn't tell you. Whichever
19 that are -- whichever salaries are included in
20 effectively PCA-related costs, or recovered through
21 PCA-related costs.

22 COMMISSIONER OSHIE: Well, if you calculated
23 the fixed costs but you don't know what costs have been
24 excluded, how did you come to a number?

25 THE WITNESS: JAP-13.

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1 COMMISSIONER OSHIE: Well, that's -- you know,
2 we seem to go in a circle again.

3 So some employees' costs are not recovered in
4 the fixed cost charge, or in fixed costs, some are
5 included in, well, in other mechanisms used by the
6 Company to recover costs? Is that your testimony then,
7 through power costs, as an example, the PCA mechanism?

8 THE WITNESS: Bear in mind we need to make sure
9 we're clear about what we're talking about when I say
10 fixed cost.

11 The CSA only addresses what I'm considering
12 T&D-related costs. It doesn't include power costs. We
13 exclude power costs. Power costs have their own fixed
14 costs. There are plenty of fixed costs in those as well.

15 COMMISSIONER OSHIE: Does it include -- well,
16 if it includes T&D, does it include all T&D costs?

17 THE WITNESS: I would say yes.

18 COMMISSIONER OSHIE: Even those under contract?

19 THE WITNESS: Yes, as long as they're being
20 recovered in rates.

21 COMMISSIONER OSHIE: Okay. Does it include
22 Jackson, the cost of Jackson Prairie?

23 THE WITNESS: To the extent --

24 COMMISSIONER OSHIE: This is on the electric
25 side.

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1 THE WITNESS: On the electric side, Jackson
2 Prairie? I don't believe -- I'm not exactly clear to
3 what extent Jackson Prairie costs are being recovered
4 through power costs, through the power book. If it's
5 going through the PCA, then it's excluded from the CSA
6 mechanism, but I'm not exactly clear on where the -- the
7 JP costs.

8 COMMISSIONER OSHIE: What about the cost of the
9 building that you are in?

10 THE WITNESS: Those would be the lease costs.
11 Yes, they would be in there.

12 COMMISSIONER OSHIE: And your computer systems?

13 THE WITNESS: Correct. At least an allocation
14 of them. General costs would be split between -- I will
15 retract that. I'm not exactly clear if there is an
16 allocation between the PCA and the T&D on those, but some
17 portion of that for sure.

18 COMMISSIONER OSHIE: The same would be true for
19 your fleets, your vehicle fleets?

20 THE WITNESS: Again, to the extent they're
21 being recovered in those rates, yes.

22 COMMISSIONER OSHIE: What about your line
23 crews? I'm assuming the same would be true?

24 THE WITNESS: Correct.

25 COMMISSIONER OSHIE: But you can't point to a

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1 number here as to what of all those costs -- let's say
2 the line crew, the cost to manage and to employ your line
3 workers to do the work of utility; it's not on contract,
4 but this is just your actual employees -- are going to be
5 included here as opposed to recovered through some other
6 mechanism? In other words, are they included in the
7 power costs to some degree?

8 THE WITNESS: I'm confused by your questioning.
9 I don't -- I don't understand.

10 COMMISSIONER OSHIE: I've always been a bit
11 confused over how the Company allocates its costs between
12 fixed and variable on the electric side.

13 THE WITNESS: We do not allocate costs between
14 fixed and variable. We don't -- we respond to data
15 requests for estimates of what a fixed cost is, what a
16 variable cost is.

17 COMMISSIONER OSHIE: If you don't allocate
18 costs between fixed and variable, then how do you come up
19 with a rate for your CSA to recover the fixed costs?

20 THE WITNESS: The only truly variable cost in
21 our cost structure are our energy supply costs.

22 And we need to clarify the time period we're
23 talking about. When you talk about fixed versus
24 variable, everything is variable over a long enough
25 period of time. We're talking about the difference

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1 between the test year and the rate year. So it's a
2 fairly short amount of time.

3 So you're not going to cut a substantial amount
4 of FTE's from one year to the next, generally speaking.
5 It's not -- it wouldn't be good business practice,
6 obviously. So one would consider, you would think, those
7 to be fixed costs, the crews, the support staff, all of
8 those.

9 COMMISSIONER OSHIE: I don't have any other
10 questions. Thank you.

11 COMMISSIONER JONES: Mr. Piliaris, could you
12 turn to page 24 of your rebuttal testimony, JAP-24 CT?

13 THE WITNESS: I'm sorry, which page again?

14 COMMISSIONER JONES: 24.

15 THE WITNESS: 24 on JAP-24?

16 COMMISSIONER JONES: Correct.

17 THE WITNESS: I'm there.

18 COMMISSIONER JONES: I'm going to refer to
19 lines 9 through 18 there, where you are addressing
20 Ms. Crane's argument on an incentive to conserve more,
21 incremental conservation. Correct?

22 THE WITNESS: Correct.

23 COMMISSIONER JONES: Just help me understand
24 this a little bit better. It seems to me you are making
25 two points here. One is, that on the incentive to

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1 conserve more criticism of the CSA you're saying it's
2 basically a price elasticity argument. I think Mr.
3 DeBoer mentioned that yesterday.

4 Is this basically what you are saying here?

5 THE WITNESS: Yes.

6 COMMISSIONER JONES: That the customers need to
7 see the full cost, fixed variable and other, in order to
8 conserve more, correct?

9 THE WITNESS: The Company's general position is
10 that the prices should reflect the costs. So while you
11 could increase the marginal cost, essentially the
12 marginal rate, it should produce more conservation
13 savings. I think there was a question of whether or not
14 those are proper price signals.

15 COMMISSIONER JONES: Okay. On line 18, though,
16 you sum up this testimony by saying the CSA mechanism
17 should provide, quote, a modest increase in customers'
18 incentive. That's your testimony, right?

19 THE WITNESS: It is, correct.

20 COMMISSIONER JONES: So why are we spending all
21 this time arguing about a CSA, if it's only going to be a
22 modest type of incentive?

23 THE WITNESS: I would agree with that. We
24 tried to make that point with the \$0.31 and the \$0.11,
25 but.

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1 COMMISSIONER JONES: Is there any evidence in
2 the record -- I know you -- I think in Mr. DeBoer's
3 testimony there was a summary of other decoupling or lost
4 revenue, recovery mechanisms around the country that are
5 in place today, but what is the evidence in the record on
6 incremental conservation? Do you have any evidence in
7 the record, price-elasticity-type arguments, price goes
8 up, full cost, customers respond by X?

9 THE WITNESS: This is a qualitative argument.

10 COMMISSIONER JONES: Okay. You mentioned,
11 besides a CSA, we could go with an SFV, a straight fixed
12 variable, SFV, straight fixed variable charge, correct?

13 THE WITNESS: That would be another approach to
14 addressing the issue.

15 COMMISSIONER JONES: You referred to JAP, what
16 was it, 13 in your testimony for the calculations.

17 So my question is, if you refer to JAP-13 for
18 your calculation of the cumulative, say, loss margin
19 going back to the test year, what would be the level of
20 the basic charge that it would have to be to recover not
21 75 percent but 100 percent of all that lost revenue?

22 THE WITNESS: I haven't performed the specific
23 calculations, but if your question is what would an SFV
24 rate look like, what would the basic charge look like, I
25 would say roughly speaking, both for electric and gas,

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1 that the residential charges would be in the vicinity of
2 \$30, perhaps more.

3 And, again, that is not -- let's talk about
4 electric -- true SFV where you actually have the power
5 cost fixed in there as well. That would make it a whole,
6 much larger rate, but.

7 COMMISSIONER JONES: No.

8 THE WITNESS: But ignoring that side of it, if
9 it was just T&D, it would be somewhere in the vicinity of
10 \$30, give or take.

11 COMMISSIONER JONES: I'm not suggesting that
12 you do that, because in your calculation you go back to
13 the test year revenue, and you took out the basic charge
14 and you took out the power charge allocated, associated
15 with that.

16 So I'm just saying, separate from power cost,
17 you would estimate the basic charge to be about \$30?

18 THE WITNESS: Roughly speaking, yes.

19 COMMISSIONER JONES: I think in JAP-7 you
20 provided an illustrative list of basic charges around the
21 country, did you not, if you want to refer to basic
22 charges?

23 THE WITNESS: Yes, I did. Yes.

24 COMMISSIONER JONES: Are you there?

25 THE WITNESS: I am.

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1 COMMISSIONER JONES: So Grays Harbor PUD is
2 \$34.78 a month?

3 THE WITNESS: Yes.

4 COMMISSIONER JONES: Orcas Power is 25.50.
5 Just talking about utilities in our state. City of
6 Centralia, 24.10.

7 So given that the PUDs and the cities tend to
8 recover their fixed costs in this manner, why didn't you
9 propose something like this?

10 THE WITNESS: You know, it's somewhat ironic
11 that you are mentioning this, because I don't know if you
12 know my background, but prior to coming to PSE I was a
13 consultant for many of the publics doing rate studies.

14 COMMISSIONER JONES: No, I didn't know that.

15 THE WITNESS: Grays Harbor was one of my
16 clients. I have done cost of service and pricing
17 studies, rate studies for Grays Harbor PUD, among
18 probably half the others on the list.

19 That's a good question. It boggles my mind
20 coming here why the basic -- I understand the policy
21 arguments, I understand the low-income issues surrounding
22 that, but that doesn't seem to be a barrier to the
23 publics, particularly the PUDs and the cooperatives. Not
24 as much with the municipalities, because they're a little
25 bit more -- under more of a broader political influence.

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1 But back to your question as to why we have
2 haven't, it seems like it's been tough sledding. My
3 understanding, it's been tough sledding for the Company
4 for many years trying to get this basic charge increased,
5 and it just didn't seem strategically that we would get
6 nearly where we needed to get to.

7 It seemed like the CSA was a path of lesser
8 resistance to at least achieve the desired effect as far
9 as making us whole from the effects of conservation,
10 programmatic conservation. We try not to solve
11 everything. Just trying to solve one problem.

12 COMMISSIONER JONES: Right, and I'm not talking
13 about -- I'm trying to get into a discussion of what
14 makes sense from a mechanistic point of view, because you
15 are -- kind of like Mr. Story is a mechanic on a lot of
16 rate stuff, you're kind of a mechanic on this lost margin
17 recovery, I think.

18 So I'm not interested in what the intervenors
19 or the political-type opposition is to such a recovery
20 mechanism. I'm just trying to get a sense of how an SFV
21 would address the concerns that you are presenting to us
22 today, which is basically it's a lost revenue from the
23 test year and it's affecting -- it's attriting your
24 earnings and you're not getting recovery, so an SFV would
25 solve that problem.

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1 THE WITNESS: It would solve the problem we're
2 trying to address with CSA and quite a bit more, and
3 probably some of the Commission's own headaches as well
4 dealing with public questions.

5 COMMISSIONER JONES: And then you have read
6 our -- I'm sure you've read our policy statements several
7 times, have you not?

8 THE WITNESS: I'm familiar with it, yes.

9 COMMISSIONER JONES: So how would it address
10 some of the other issues addressed in our limited
11 decoupling section of the policy statement?
12 Administrative complexity, would that be easier under an
13 SFV?

14 THE WITNESS: Far easier.

15 COMMISSIONER JONES: Duration, duration would
16 be open-ended, I would think?

17 THE WITNESS: Until the next rate case.

18 COMMISSIONER JONES: Application to customer
19 classes, would there be these big arguments about --

20 THE WITNESS: It's a little bit more
21 challenging for the larger C&I customers. You're not
22 going to charge a very high fixed customer charge for
23 large commercial and industrial customers, just because
24 there's so much variability within the rate schedules
25 themselves. The size of the customers, the range and the

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1 size of the customers is fairly great.

2 So handling them through demand charges is a
3 reasonable proxy for the largest customers, but for the
4 smallest customers, certainly the basic charge would be a
5 far more eloquent solution.

6 COMMISSIONER JONES: Just finally, I don't mean
7 to focus just on SFV this morning with my questioning,
8 and I don't mean to give the impression that that's the
9 only area of interest, because it's not before us as a
10 specific proposal in this case.

11 So back to your CSA mechanism as proposed, what
12 is the duration? And I'm referring to our policy
13 statement again. What is the duration that you propose
14 for a CSA?

15 THE WITNESS: I propose that it be a permanent
16 mechanism. To the extent that perhaps an SFV-type rate
17 structure were adopted in the future, effectively that
18 would render the CSA moot at that point, but until the
19 issue is resolved, the Company would propose that the CSA
20 remain in effect.

21 COMMISSIONER JONES: Then I'm looking at these
22 other criteria in our policy statement, and I think the
23 only ones I would like to inquire on are -- incremental
24 conservation, I think you answered my question. It's
25 basically a price elasticity argument, right?

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1 THE WITNESS: Uh-huh.

2 COMMISSIONER JONES: What about weather?

3 Weather is not a factor. Weather adjustment mechanism,
4 we asked the Company to provide evidence.

5 THE WITNESS: That would be more appropriate
6 for a decoupling-like mechanism for the CSA. It's --

7 COMMISSIONER JONES: It's not an issue?

8 THE WITNESS: Not an issue.

9 COMMISSIONER JONES: Low-income, what have you
10 proposed? Is there anything that you would like to add
11 to your testimony on low-income, the impact of the CSA on
12 low-income?

13 THE WITNESS: I believe -- well, I've -- if you
14 have specific questions, I could certainly attempt to
15 answer impacts, if you're looking at impacts, but from
16 the standpoint of the policy statement, I believe that
17 Mr. DeBoer and to a lesser extent Mr. Stolarski have
18 addressed the low-income issue.

19 COMMISSIONER JONES: And on the low-income
20 issue, since you did consult for some of these PUDs that
21 I cited to in JAP-7, how were the low-income issues
22 handled with the SFV-type charge?

23 THE WITNESS: It varies. A lot of them, they
24 rely on LIHEAP and the same kind of programs. I was
25 working with Clallam PUD, as an example, and one solution

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1 that they were looking into was essentially giving the
2 customer, the low-income customer, a senior discount,
3 basically absolving them of the basic charge altogether,
4 just we'll give you the basic charge, just pay the energy
5 charge, which seems to be a fairly straightforward way of
6 handling the problem as well.

7 It doesn't get around to the fact that you have
8 to identify who those customers are and, you know, all of
9 the tracking involved with that.

10 But it really varies. I mean some of them,
11 they don't -- some of them, for example, in the coop
12 service territories, they're very self-sufficient-minded.
13 They're not so -- they're not of the mind that electric
14 ratemaking should address these issues, so they generally
15 don't for the most part.

16 COMMISSIONER JONES: You heard the testimony
17 from Mr. Howat yesterday on the Federal LIHEAP program,
18 did you not?

19 THE WITNESS: I tuned in and out of it, yes.

20 COMMISSIONER JONES: And there was a 34 percent
21 reduction last year and there's projected to be, based on
22 how Congress acts, another 15, 16 percent reduction this
23 year.

24 THE WITNESS: I got that sense, yes.

25 COMMISSIONER JONES: So if some of those

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1 customers were relying on the LIHEAP program for some of
2 their bill assistance, how would -- help me understand
3 how an SFV-type utility would handle that from one year
4 to the next.

5 THE WITNESS: I think it's a policy decision,
6 and I probably should be punting this question off to Mr.
7 DeBoer as far as how best to address that.

8 COMMISSIONER JONES: We may have to bring him
9 back up. Thank you. Thank you, Judge. That's all I
10 have.

11 JUDGE MOSS: All right. We'll see if Mr.
12 DeBoer's eyes gleam at the prospect of straight fixed
13 variable rate design.

14 Is there any follow-up to the bench questions?

15 MR. FFITCH: Yes, from Public Counsel.

16 JUDGE MOSS: Go ahead, Mr. ffitch.

17 MR. FFITCH: I have a little bit of time in the
18 bank, I hope.

19 JUDGE MOSS: No, you do not. No deposit, no
20 return. That's our policy here.

21 MR. FFITCH: It's worth a try, Your Honor. I
22 have a few questions. I don't know if you were
23 contemplating a break, but.

24 JUDGE MOSS: I am, but I'm contemplating that
25 your questions will be few in number.

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1 MR. FFITCH: Actually, all right, I will go
2 ahead, if that's your preference.

3 JUDGE MOSS: If you need a break, we can take
4 one. Does the witness need a break, the court reporter
5 need a break?

6 THE WITNESS: I'm fine.

7 JUDGE MOSS: Everybody seems to be doing okay.

8 FURTHER CROSS-EXAMINATION

9 BY MR. FFITCH:

10 Q. Going back to some of the questions I think
11 from Chairman Goltz with regard to the line item issue,
12 you were asked about and suggested that it might be
13 preferable, I gather, from the Company's perspective to
14 include the charge in Schedule 120, conservation tariff
15 line item, correct?

16 A. I'm not so sure that it would -- that a
17 determination has been made that it would be preferable.
18 It's certainly a possibility, though.

19 Q. And if you did that, most customers likely
20 would not know that and probably would never know that
21 there was a conservation savings adjustment, correct?
22 That would mask, that would essentially mask the
23 existence of the CSA from your customer base?

24 A. Yes, but that's no different than if the
25 conservation was reflected in the base rates to begin

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1 with, in which case the rates would be what the rates
2 are. Again, it would be masked, so to speak, the effects
3 of conservation.

4 Q. One of the justifications for the CSA,
5 according to Mr. DeBoer, is to essentially tell customers
6 what the true cost of conservation is.

7 So how do you achieve that if you mask the
8 charge in a line item that is actually designed for a
9 different purpose?

10 A. I believe you should be directing that question
11 to Mr. DeBoer.

12 Q. Okay. Now I'm going to channel a witness from
13 last night's public comment hearing and ask you whether
14 transparency matters to Puget Sound Energy, and wouldn't
15 transparency dictate that you would call out the customer
16 savings adjustment on the bill and be prepared to answer
17 that sort of difficult awkward question that Chairman
18 Goltz is posing?

19 A. Again, I should defer that question to Mr.
20 DeBoer.

21 Q. You spent quite a bit of time in your testimony
22 this morning talking about the fixed cost recovery
23 problem.

24 It's true, isn't it, that problem goes away
25 approximately every 12 or 18 months, whenever Puget's

0683

1 latest rate increase goes into effect?

2 A. No.

3 Q. That's not true?

4 A. No.

5 Q. Because you don't believe that the rates that
6 are set by the Commission are fair, just, reasonable and
7 sufficient?

8 A. I'm suggesting that revenues and costs are
9 matched in a historic test year. The problem is that
10 they diverge immediately from that point forward, and by
11 the time you get to the rate year, the conservation that
12 has been achieved between the time of the test year and
13 the rate year have reduced the revenues that the utility
14 otherwise would have collected in that rate year, forcing
15 a divergence between costs and revenues. So from day 1
16 of the rate year the utility is already behind the
17 eight-ball.

18 Q. So on day 1 the rates are noncompensatory to
19 Puget Sound Energy? If that is the case, why doesn't
20 Puget Sound Energy appeal the Commission's rate-setting
21 orders as not in compliance with the legal standard?

22 A. I would definitely defer that question to Mr.
23 DeBoer.

24 Q. Puget is not committing in this proceeding, if
25 the CSA is adopted, that it will in any way delay any

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1 rate case filing in the future or enter into any
2 moratorium on rate case filings?

3 A. That's not part of our proposal.

4 Q. I wanted to follow up on the questions I
5 believe from Commissioner Jones about your response to
6 Ms. Crane's testimony on the incentive question, and you
7 were looking at your rebuttal testimony, Exhibit 24 and
8 also page 24.

9 I don't know if you really need to have the
10 language there, but I'm going back to that discussion.
11 This is really the question of whether -- you know, the
12 question of incentives, I want to ask you a little bit
13 more about.

14 Wouldn't you agree that if customers know that
15 they are directly being charged more if they conserve
16 energy, that that reduces their incentive to conserve?

17 A. I would think the opposite would be true.

18 Q. Have you attended any recent Puget Sound Energy
19 public comment hearings?

20 A. Not recently, no.

21 Q. Would you accept, and you can read the
22 transcripts, that at almost every hearing now we have
23 customers coming forward relating that despite their
24 extensive conservation efforts, their bills continue to
25 increase, and the tone of the comments is not a tone that

0685

1 they're happy to conserve more in response to that
2 incentive. It's a tone of anger and frustration.

3 Do you accept that?

4 MS. CARSON: I'm going to object to the
5 question. It's more of a speech by counsel.

6 JUDGE MOSS: I'm going to overrule the
7 objection. That's a fair question.

8 THE WITNESS: So can you summarize the
9 question?

10 JUDGE MOSS: Given that characterization, what
11 is your question, Mr. ffitch?

12 BY MR. FFITCH:

13 Q. The question is -- well, maybe I'll continue
14 and ask it in a different way.

15 Wouldn't you agree that there is a difference
16 in the incentives at play between, A, the situation of a
17 customer's reaction to a general rate increase versus a
18 customer's reaction to being told, if the customer is
19 told by the Company or by the Commission's order, You are
20 going to pay more when you save, congratulations for
21 conserving energy, now here's a rate increase for that,
22 here is a line item increase directly rewarding you for
23 conserving? Would you agree that those are two different
24 types of incentives to customers?

25 A. Two different types of incentives. I don't

0686

1 believe so. I'm not exactly clear as to your question.

2 Q. Okay, let me ask it a slightly different way.

3 Would you agree that in the first instance that
4 a customer might be more -- I try to avoid using the word
5 "incented." Experience more of an incentive to save in
6 reaction to just general rate increases than a customer
7 would be incented to save in response to being told,
8 Whenever you save, we're going to charge you some more on
9 your bill?

10 A. I think I earlier addressed that this is -- the
11 problem arises because of our current rate design. So I
12 mean from that standpoint it is what it is.

13 I mean if a customer truly understood the
14 situation, if they understood that whether or not they
15 participated in PSE's conservation programs they pay for
16 them, whether or not they participate in PSE's
17 conservation programs they will be part of the pool of
18 customers upon which the CSA rates will apply, it would
19 seem to me that they would think, Well, I'm going to be
20 paying the CSA rate, better off for me to go out and
21 invest heavily, make full use of PSE's energy efficiency
22 program so that my bill will go down by a greater amount
23 than it would go up as a result of the CSA.

24 The CSA is reducing -- or it would be
25 increasing the proposed rates, electric, residential

0687

1 electric customer's monthly bills by \$0.31 and their gas
2 bills by \$0.11. I would fully expect that one moderately
3 sized energy efficiency measure would reduce the
4 customer's monthly bill by a far greater amount than
5 that.

6 Q. But your customers are already pursuing those
7 measures in response to the endless rate increases that
8 Puget Sound Energy is imposing on its customers in the
9 last decade, are they not?

10 A. There is a price elasticity effect.

11 Q. And the customer is already paying now over a
12 hundred million dollars per year for the conservation
13 programs, are they not?

14 A. I don't know the precise figure.

15 Q. All right.

16 MR. FFITCH: Those are all the questions I
17 have. Thank you, Your Honor. Thank you, Mr. Piliaris.

18 MR. BROOKS: I have one follow-up question.

19 JUDGE MOSS: Mr. Brooks, go ahead.

20 FURTHER CROSS-EXAMINATION

21 BY MR. BROOKS:

22 Q. In response to one of the questions from Mr.
23 ffitich, you indicated that after a general rate case,
24 even on day 1 there is a divergence between the costs and
25 the revenues. Do you recall that?

0688

1 A. Yes.

2 Q. Would you agree, if we assume that that's
3 correct, that that gap that you described is smaller than
4 it would be without a general rate case having gone into
5 effect?

6 A. It's not always the case. There is precedent
7 for rates going the other direction in a rate case, but
8 under normal circumstances that would be the desired
9 outcome.

10 MR. BROOKS: Thank you. That's all.

11 MS. BOYLES: Nothing further, Your Honor.

12 JUDGE MOSS: All right, thank you. Redirect?

13 MS. CARSON: No. I have no redirect.

14 JUDGE MOSS: Thank you, Ms. Carson. I
15 appreciate that.

16 If there's nothing further from the bench
17 either, then we thank you for being here this morning,
18 Mr. Piliaris, and we appreciate your testimony. You may
19 step down, subject to recall, if necessary, if Mr.
20 DeBoer, for example, should defer questions to you.

21 Our next witness will be Mr. Stolarski, but
22 this is a good time for our morning break. So why don't
23 we take our 15 minutes this morning and be back here at
24 11:00.

25 ////

0689

1 (A break was taken from
2 10:45 a.m. to 11:03 a.m.)

3 JUDGE MOSS: Let's come back to order, please,
4 and be on the record.

5 Mr. Stolarski, will you please rise and raise
6 your right hand?

7 Do you solemnly swear or affirm under penalty
8 of perjury that the testimony you give in this proceeding
9 will be the truth, the whole truth and nothing but the
10 truth?

11 MR. STOLARSKI: I do.

12 JUDGE MOSS: Thank you. Please be seated.
13 Your witness, Ms. Carson.

14

15 ROBERT W. STOLARSKI, witness herein, having been
16 first duly sworn on oath,
17 was examined and testified
18 as follows:

19

20 DIRECT EXAMINATION

21 BY MS. CARSON:

22 Q. Good morning, Mr. Stolarski. Please state your
23 name and title and spell your last name for the court
24 reporter.

25 A. Sure. I'm Robert Stolarski. My title is the

0690

1 director of customer energy management. Last name is
2 spelled S-T-O-L-A-R-S-K-I.

3 Q. Mr. Stolarski, do you have before you what has
4 been marked for identification as Exhibit Nos. RWS-1T
5 through RWS-13?

6 A. Yes, I do.

7 Q. Do these exhibits constitute your prefiled
8 rebuttal testimony and related exhibits in this
9 proceeding?

10 A. Yes.

11 Q. Were these exhibits prepared under your
12 supervision and direction?

13 A. Yes.

14 Q. Do you have any corrections to any of these
15 exhibits at this time?

16 A. No, I don't.

17 Q. Thank you.

18 MS. CARSON: Your Honor, PSE offers Exhibits
19 RWS-1T through RWS-13 into evidence, and offers Mr.
20 Robert Stolarski for cross-examination.

21 JUDGE MOSS: Thank you, Ms. Carson. Hearing no
22 objection, those will be admitted as marked.

23 (Exhibit RWS-1T through RWS-13 was admitted.)

24 JUDGE MOSS: And let's see. Again, Mr.
25 Cedarbaum, if you wouldn't mind going first.

0691

1 MR. CEDARBAUM: Thank you, Your Honor. And,
2 actually, my only -- I have reduced my questions below
3 the estimate, and the only -- my only plan was to offer
4 through Mr. Stolarski Cross-Exhibit 14, which is a Staff
5 data request response, but the Company has also
6 designated that as a cross-exhibit for Ms. Reynolds.

7 So in discussions with counsel before we went
8 on the record today, we decided that I wouldn't offer my
9 version and she would offer hers to avoid duplication.

10 JUDGE MOSS: Fine. I thank you for clarifying
11 that, and we will move on to you, Mr. ffitch.

12 MR. FFITCH: Thank you, Your Honor.

13 CROSS-EXAMINATION

14 BY MR. FFITCH:

15 Q. Good morning, Mr. Stolarski.

16 A. Good morning.

17 Q. Isn't it true that this is the first time that
18 you've ever been cross-examined by a Public Counsel
19 attorney or any other attorney on the witness stand?

20 A. That is true. That's also the last time I'm
21 going to make small talk before the testimony.

22 Q. It may be the last time you follow Mr. DeBoer
23 and Mr. Piliaris, too.

24 A. Very fair.

25 Q. So I am going to start out with the questions

0692

1 that were deferred to you, or some of them anyway, and
2 ask you -- I don't know if we need to go to an exhibit
3 here, but the Company did provide a data request response
4 that said that energy efficiency reduces the ability to
5 recover fixed costs, so the CSA would mean that, if
6 approved, CSA rates will now reflect the full cost of
7 energy efficiency.

8 And I can take you to that, but do you recall
9 that?

10 A. I do recall that.

11 Q. Does this mean that if the CSA is approved that
12 Puget believes that CSA revenues should be added as a
13 cost in the Company's cost-effectiveness analysis for its
14 conservation programs, including the total resource cost?

15 A. I do not believe that it should be part of the
16 total resource cost test. I don't see these costs as
17 being a cost of energy conservation.

18 Q. It's my understanding that the Company is
19 justifying this program on the basis that these are costs
20 of energy efficiency.

21 So why wouldn't they be included in the
22 cost-effectiveness analysis?

23 A. Again, from my view in the energy efficiency
24 team, it's a cost, a fixed cost throughout the Company.
25 This is a recovery issue, not a cost issue, and so the

0693

1 total resource cost test looks at the cost of
2 implementing energy efficiency measures.

3 Q. There was also an exchange between Commissioner
4 Oshie and Mr. DeBoer, the gist of which was that Mr.
5 DeBoer stated that the CSA only includes savings from new
6 programs in the current year, and Mr. DeBoer said he
7 believed that was the case.

8 I want to ask you if the CSA includes savings
9 from the Northwest Energy Efficiency Alliance. Isn't
10 that true?

11 A. It is my understanding it does, yes.

12 Q. And do you know if those NEEA savings include
13 savings from programs that are not currently funded,
14 but -- excuse me, were funded in prior years?

15 A. The answer to your question is yes, it does
16 include those. The difference is that, because NEEA
17 works at market transformation, what is reflected is only
18 new energy savings during that period.

19 So that although they may not be investing
20 currently in that intervention in the market, there are
21 still new widgets being installed as a result of that
22 intervention. So the savings reflect only those new
23 installations.

24 Q. And when you say NEEA savings in that period,
25 which period are you referring to specifically?

0694

1 A. The period that we report our energy savings.
2 So if we were reporting, say, 2010 savings, the NEEA
3 reports to us what was the new widgets that were
4 installed during 2010, even though they may not be
5 funding an initiative in that area.

6 Q. Then that 2010 period would be the savings
7 period that you would be using for the CSA mechanism?

8 A. My understanding is yes, but as far as the CSA
9 mechanism, the mechanics behind that, that's Mr.
10 Piliaris's area, but that is my understanding, that 2010
11 savings are included in that.

12 Q. Okay. And, Mr. Stolarski, it's your position
13 that the conservation targets of Puget Sound Energy for
14 the years 2012 and 2013 are aggressive; isn't that true?

15 A. Absolutely.

16 Q. I'm jumping around a bit here. Another
17 deferred question on NEEA from Mr. Piliaris.

18 We were talking about, I think he agreed that
19 Puget's conservation reports do typically report NEEA
20 savings separately from PSE's residential and business
21 programs. Is that correct?

22 A. Our reports, in my mind it's a single report
23 that line-items those areas.

24 Q. Are they broken out? Is there a separate line
25 item for NEEA's regional efforts?

0695

1 A. The category under which we report NEEA is
2 called regional. The numbers that we report are the
3 savings that we expect to be seen in the Puget Sound
4 Energy territory.

5 Q. And you have an exhibit with the 2010 EES
6 report that shows this; is that right?

7 A. That's correct.

8 Q. Would you please turn to your rebuttal exhibit,
9 please? I believe that is Exhibit RWS-1, and go to
10 page 7.

11 COMMISSIONER OSHIE: Excuse me, Counsel. Would
12 you repeat that reference? I thought you said RWS-1.

13 CHAIRMAN GOLTZ: The testimony.

14 MR. FFITCH: Part of RWS-1.

15 JUDGE MOSS: Mr. Stolarski only filed rebuttal
16 testimony.

17 COMMISSIONER OSHIE: Excuse me. I thought you
18 were referring to your exhibit, which I thought that
19 can't be 1. Okay.

20 THE WITNESS: I'm there.

21 BY MR. FFITCH:

22 Q. And this is Exhibit 1 because you did not file
23 direct; you just filed rebuttal, correct?

24 A. That's correct.

25 Q. And on page 7 at line 6, you discuss impact

0696

1 evaluations, and you state, "Impact evaluations which
2 analyze the energy savings that result from a program
3 after it is implemented are particularly relevant to this
4 proceeding;" is that correct?

5 A. That's correct.

6 Q. Can you explain what you mean by the statement
7 that impact evaluations are, quote, particularly relevant
8 to this proceeding?

9 A. What we're distinguishing between is the
10 evaluations, there are three general categories of
11 evaluations that go on, market, process and impact.

12 The market looks at the, you know the market in
13 which we're pursuing the conservation. The process is
14 how we do it, the program mechanics, and impact is the
15 energy savings that are a result of it.

16 So impact is particularly relevant to this
17 proceeding because my testimony is all around whether or
18 not those savings are -- the veracity of those savings.

19 Q. So the veracity of the savings is particularly
20 important in getting the CSA revenue or the CSA charge
21 right?

22 A. That's correct.

23 Q. Can I get you to turn, please, to your
24 Exhibit 3, RWS-3, and page 16?

25 A. Okay, I'm there.

0697

1 Q. And would you please look at the first full
2 paragraph under the bullet points, and that states, "This
3 framework and the industry as a whole focuses on
4 evaluations and the measurement and verification of
5 demand and energy savings associated with the specific
6 programs," correct?

7 A. That's correct.

8 Q. So in general then, these evaluations -- excuse
9 me.

10 So in the context of the evaluations of energy
11 efficiency programs, those evaluations are looking at the
12 estimated energy savings associated with the specific
13 measure or measures in a particular program; is that
14 right?

15 A. They're looking at specific programs.

16 Q. Specific conservation measures?

17 A. So I guess I want to make sure I answer your
18 question. We look at specific conservation measures. We
19 don't look at every conservation measure, but certainly
20 the measures are looked at, specific ones.

21 Q. So in general then, these evaluations are
22 looking at a specific efficiency measure and how that may
23 have changed some aspects of the customer's energy usage,
24 such as lighting or heating; it's not looking at the
25 customer's overall energy consumption. Would you agree

0698

1 with that?

2 A. There's a wide variety of impact evaluations.
3 In some cases we do look at the customer's overall energy
4 consumption to see if the reductions in use from the
5 measure are seen there, but generally I guess I would
6 agree with you, yes.

7 Q. So like the lighting, for example, the lighting
8 program would look at impact on energy use for lighting
9 and the interactive effect, such as the impact on heating
10 load because CFLs cause slightly more heat use?

11 A. I guess I will agree with you in a general
12 sense. I don't know that specifically our impact
13 evaluations look at the interactive effects like that,
14 but generally that's --

15 Q. Generally lighting looks at lighting, heating
16 and AC programs look at the impact on heating and cooling
17 load, correct?

18 A. Absolutely.

19 Q. So would you agree that a major purpose of an
20 impact evaluation is to help determine whether a measure
21 is cost-effective? The impact evaluation identifying
22 estimated energy savings for a particular measure.

23 A. Yes, but not directly. We do our
24 cost-effectiveness test when we design the program. As
25 we operate the program, the impact evaluations then

0699

1 inform our energy savings calculations.

2 Q. So they are -- they're factored into the
3 cost-effectiveness analysis?

4 A. The impact evaluation?

5 Q. Yes.

6 A. The impact evaluations, our evaluation budget
7 is factored into our total portfolio cost-effectiveness
8 test, not by individual measures.

9 Q. Now, let me give you a couple of examples and
10 just maybe try to get into this in a little more depth.

11 The first example asks about whether a CFL
12 evaluation would consider lighting usage but not overall
13 customer usage. So in this example let's say CFL bulbs
14 that are purchased by a residential customer at Home
15 Depot or another retailer. This is not a product
16 placement.

17 An impact evaluation of this kind of program
18 would be focused exclusively on energy savings attributed
19 to those CFLs and how those CFLs change the customer's
20 energy usage, correct?

21 A. You picked a measure in which we do an awful
22 lot of work through the RTF, the Regional Technical
23 Forum.

24 There's many evaluations that roll up this
25 savings figure that the RTF comes up with. Whether or

0700

1 not specifically the type of evaluation that you outline
2 for CFLs has been done, I'm not familiar with that.

3 Q. Can you tell me if, at least in terms of the
4 impact evaluation, if that residential customer also
5 purchased new televisions or additional televisions for
6 their home at the same time, any increased energy usage
7 from those televisions would be included in the impact
8 evaluation?

9 A. If I can speak generally about the type of
10 evaluation that you mention, where we're looking at
11 energy used by a broad group of customers or a control
12 group and then we have a group that purchased that energy
13 conservation measure, there are surveys that are done of
14 both groups to understand what they had done and try to
15 evaluate the differences based on the installation of
16 that conservation measure. So generally I will say yes.

17 Q. So the answer is yes, the CFL usage would be
18 separated, if possible, from the television, additional
19 television load?

20 A. The additional television load would be
21 accounted for in a case where we're looking at a measure,
22 yes.

23 Q. Okay. In the impact evaluation?

24 A. Exactly. We would attempt to isolate that.

25 Q. Okay.

0701

1 MR. FFITCH: It may be all the questions I
2 have. If I could check my notes, Your Honor.

3 I think that's all I have, Your Honor. Thank
4 you.

5 JUDGE MOSS: Thank you. Mr. Roseman.

6 MR. FFITCH: I guess my hesitation was, I had
7 some low-income questions that I will defer to
8 Mr. Roseman. I believe he may be covering this topic,
9 and if I may, if there's anything left over, if I could
10 just follow up to Mr. Roseman, I would make that request.

11 JUDGE MOSS: Go ahead, Mr. Roseman.

12 MR. ROSEMAN: Thank you, Your Honor.

13 CROSS-EXAMINATION

14 BY MR. ROSEMAN:

15 Q. Good morning, Mr. Stolarski.

16 A. Good morning.

17 Q. It appears from your testimony that one way of
18 comparing the low-income programs, low-income
19 weatherization programs to the nonlow-income program is
20 to look at the amount of funding in the budget for both
21 programs?

22 A. That is certainly one way of doing that, yes.

23 Q. And I would like to explore that a little bit.
24 If you would get Cross-Exhibit RWS-15 CX.

25 COMMISSIONER OSHIE: Mr. Roseman, before you go

0702

1 further, would you make sure your mike is on?

2 MR. ROSEMAN: Thank you, Your Honor. From my
3 angle it looked like the light was on, but it wasn't.

4 BY MR. ROSEMAN:

5 Q. So the document, again, is RWS-15 CX, a
6 cross-exhibit.

7 A. Yes, sir.

8 Q. Are you there?

9 A. Yes, I am.

10 Q. It is a letter to Dave Danner that contains
11 pages from the PSE annual report of energy efficiency
12 services, and I would like you to go to the fifth page,
13 which is Appendix A, that has the electric conservation
14 rider cost and savings.

15 A. I'm there.

16 Q. And I just want to confirm by going through
17 this that if you look at the electric conservation rider
18 cost and savings. There is a budget for all programs,
19 all residential programs, of \$34,639,000; is that
20 correct?

21 A. I must be looking at a different chart. So
22 just hang on one sec. Yes, that's correct.

23 CHAIRMAN GOLTZ: Where is that on that exhibit?

24 MR. ROSEMAN: It's --

25 CHAIRMAN GOLTZ: I see it. Never mind.

0703

1 34,639,000?

2 MR. ROSEMAN: That's correct.

3 BY MR. ROSEMAN:

4 Q. And the amount of money for the low-income
5 program that is bucketed is \$2,207,080; is that correct?

6 A. That's correct.

7 Q. \$2,207,080. Let's do the same thing with the
8 gas, and then I will ask you my questions.

9 For the gas program for low-income, when you
10 when you say goal in dollars, is that the same as the
11 budget?

12 A. That is fair. And this is actually from our
13 annual report. So these are actual numbers, but --
14 rather than budget, it is the amount spent.

15 Q. So the budget for the low-income program on the
16 gas side is \$567,500?

17 A. That's correct.

18 Q. And the total for the residential program is
19 \$11,013,500?

20 A. Correct.

21 Q. And would you accept, subject to check, that
22 the low-income program comprises about 6 percent of the
23 total residential program, the funding for low-income
24 programs is about 6 percent?

25 A. If that's based on these numbers, yes, that's

0704

1 the math I would do, and I would say that for those
2 specific low-income programs, yes.

3 Q. And now I'd like to -- there's been a lot of
4 questions regarding low-income participation in the
5 conservation program.

6 So let's go to the same appendix, but it's the
7 last two pages of this, and they're called electric
8 conservation counts and natural gas conservation counts.
9 So tell me if you are there.

10 A. I'm there. Thank you.

11 Q. Everyone sees where we are?

12 On the low-income weatherization program for
13 the electric side, it looks like there were 1,758 homes
14 completed?

15 A. That's correct.

16 Q. And on the gas side there were 517 homes?

17 A. That's correct.

18 Q. So assuming, this was information provided by
19 the Company, that there are 255,000 low-income customers
20 in Puget's service territory -- the Chairman referenced
21 this number yesterday in a question -- and there are
22 approximately, well, not approximately, there are 2,275
23 households that have received low-income weatherization,
24 then that results in approximately 0.009 percent of the
25 low-income households have received weatherization in

0705

1 2010.

2 Will you accept that, subject to check?

3 A. I will accept the math that you did there,
4 subject to check, and I get that, but I can't accept the
5 fact that that's all the services that low-income
6 customers participated in in our programs.

7 CHAIRMAN GOLTZ: Actually, I think you are off
8 by a couple decimal points there.

9 MR. ROSEMAN: I might be.

10 CHAIRMAN GOLTZ: Because basically you said
11 255,000 low-income customers?

12 MR. ROSEMAN: Right.

13 CHAIRMAN GOLTZ: And there's about 2,000 some?

14 MR. ROSEMAN: 2,275.

15 CHAIRMAN GOLTZ: So that's about 1 percent?

16 MR. ROSEMAN: Right.

17 CHAIRMAN GOLTZ: And you said 0.009 percent.

18 MR. ROSEMAN: You are correct. Thank you.

19 BY MR. ROSEMAN:

20 Q. So will you tell me? This is, I thought, the
21 number of low-income people homes that you, that the
22 Company is aware of that has received energy efficiency
23 measures.

24 A. And I apologize if that's the impression that
25 this report gives. This report, the low-income

0706

1 weatherization, is a specific conservation program that
2 we work through the state CAP agency, through Chuck's
3 organization, and these are the results from working
4 through that particular organization or group of
5 agencies. So it reflects only that. It does not reflect
6 all services provided to low-income customers.

7 Q. Do you know the numbers of other low-income
8 customers who have received weatherization measures?

9 A. No, I don't. We do not track income level when
10 customers participate in our programs. We have several
11 programs that we believe have a high number of low-income
12 customers participating in them, but we do not have that
13 data.

14 Q. And one of those programs would be a
15 multifamily apartment building, for example?

16 A. That's one of them that I'm talking about, yes.

17 Q. Then you don't verify or determine income of
18 the people who live in those apartment buildings, so this
19 is your estimate that some of those people may be
20 low-income? Is that what you're saying to me?

21 A. We haven't estimated. My assertion is, is that
22 there are a lot of low-income. The census data I saw is
23 that approximately 69 percent of renters in multifamily
24 facilities are below, I want to say at least -- I'm not
25 sure what the number was.

0707

1 Q. I think you said 150 percent of poverty.

2 A. 150 percent. And so my program manager tells
3 me that approximately 90 percent of our multifamily
4 program go through apartments.

5 So you're right that I can't quantify that
6 number, but I certainly believe that an awful lot of
7 low-income customers are being served through that
8 program.

9 Q. This is what is confusing to me. So it's my
10 belief that we have these low-income weatherization
11 programs because, unlike your nonlow-income programs,
12 low-income customers would generally not be able to
13 participate unless the Company or someone had a program
14 that was paying for the weatherization measures.

15 So if you have an apartment building of
16 low-income, as you're alleging, and nonlow-income, a
17 mixed apartment building, how do you think that a
18 low-income family can avail themselves of these measures?

19 A. The property management firm that owns the
20 facility participates in our program, and we go in and we
21 do the weatherization and we do the direct installs in
22 all the units.

23 So, again, some percentage of those units are
24 occupied by low-income customers, and they receive the
25 benefits of that weatherization and those direct installs

0708

1 at no direct cost to them.

2 Q. So you aren't expecting them to make any
3 contribution; you're just saying that since some
4 low-income people live in apartment buildings, when you
5 go do an apartment building, you must be catching,
6 capturing some of those low-income customers there, but
7 you don't know how many?

8 A. That's correct.

9 Q. Let me ask you a few more questions about these
10 multifamily complexes.

11 So Puget goes in to do, weatherize a 50-unit --
12 maybe that's unrealistic. Maybe a 20-unit apartment,
13 apartment complex, and it comes through a Puget program,
14 not a low-income program.

15 So is there any funding that is required of the
16 landlord or the management company or the tenants or
17 anyone else in order to pay for the, at least in part or
18 maybe all the installation of these conservation
19 measures?

20 A. Yes. In total, there are specific measures
21 within the package that are fully covered, but there are
22 many measures that are not fully covered.

23 So yes, there is a -- the cost, direct cost, to
24 someone to make that conservation happen, that is on top
25 of what PSE can provide.

0709

1 Q. So there is a contribution from the landlord or
2 the management company, let's say. There could also be a
3 contribution from Puget?

4 A. There is a contribution from Puget, and then
5 there is a contribution from the landlord.

6 Q. Okay. And do you know approximately how much
7 the contribution is from, generally from Puget and how
8 much from the landlord?

9 A. I'm sorry. I don't have that information.

10 Q. Okay. Does it vary apartment to apartment?

11 A. It varies based on the size. Like many of the
12 measures will say per square foot of windows, per square
13 foot of installation, those type of things.

14 The unit cost or unit contribution doesn't
15 vary, but, again, because different complexes are
16 situated differently, those costs vary.

17 Q. So the landlord receives this improvement to
18 his property. The home is better weatherized, the
19 apartment building is, and so his property is improved,
20 and you say some low-income people could be living in
21 there.

22 Is the landlord -- do you have a contract with
23 the landlord that would curtail the amount of rent
24 increases that he could charge as a result of these
25 improvements to his property?

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1 A. I'm trying to recall whether anything like that
2 exists. I don't believe it does, but I can't testify one
3 way or the other.

4 Q. Are there any limitations due to the
5 contribution to his -- are there any limitations on that
6 the building -- I'm going to give you a few examples --
7 that the building has to be rented to people who are at a
8 150 percent of poverty or lower if you accept the
9 weatherization of these units?

10 A. Again, I don't know of any PSE-imposed
11 limitations. Obviously we work with complexes that may
12 have those, but not, not --

13 Q. But not as a result of PSE putting this --

14 A. Again, I'm not aware of any. Not to say that
15 there aren't.

16 MR. ROSEMAN: That's all my questions. Thank
17 you, Your Honor.

18 JUDGE MOSS: Ms. Boyles, do you still have
19 anything for this witness?

20 MS. BOYLES: I have nothing for this witness.

21 JUDGE MOSS: Thank you, Ms. Boyles.

22 MR. BROOKS: Your Honor, may I follow up?

23 JUDGE MOSS: I'm sorry, Mr. Brooks. I meant to
24 turn back to you. Five minutes, I think you said.

25 MR. FFITCH: With your permission, I just had

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1 one or two low-income-related questions to finish up my
2 cross, and then I'm finished.

3 JUDGE MOSS: All right, Mr. ffitch, go ahead.

4 FURTHER CROSS-EXAMINATION

5 BY MR. FFITCH:

6 Q. Just to clarify a couple of points Mr. Roseman
7 made, Mr. Stolarski, the Company does not track
8 participation by income level, except for the low-income
9 weatherization program; is that correct?

10 A. I have two points to make on that. One, that
11 is correct, we don't track it. We don't actually track
12 by the low-income program. The agencies do that and we
13 work through them. It's a privacy issue. We do not try
14 to understand the income level of any of our customers.

15 I guess my second point is, is that while we
16 have considered that, that is a barrier, a cost-
17 effectiveness barrier that would -- we're concerned about
18 being able to do that and still provide the services to
19 that class.

20 Q. Can you explain what you mean by that a little
21 bit more? What is the --

22 A. Sure. I realized that that might have gone
23 there.

24 The concern we have is that we have worked
25 through the LIW program, low-income weatherization

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1 program, for many years, and we've worked very hard to
2 expand that program.

3 And I think as Mr. Cavanagh said, Do everything
4 that Chuck says to do, we've done all those things. As
5 he said that yesterday, I was going through the list and
6 I'm like, Yeah, we do all those things.

7 And we've moved -- we've made that pipeline as
8 large as it can and we've responded to every request for
9 funding that has been made, and respond positively to
10 every request that has been made.

11 Our concern is are we serving those customers
12 enough, and so we considered is there a way to start
13 qualifying customers on our own, and there's privacy
14 issues. There's several barriers to PSE doing that.

15 So what we have done is we have created several
16 other programs. Multifamily is one of them, there's a
17 refrigerator replacement program that is another one,
18 that we think are very responsive to our low-income
19 customers where there is no customer contribution
20 necessary.

21 So forgive me for the speech, but we don't
22 track customer income levels for participation in our
23 conservation programs, and even with the LIW program.

24 Q. Well, I think what you started to tell us is
25 why that would not be cost-effective.

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1 Am I understanding you correctly to say that
2 you had considered doing the income eligibility function
3 yourselves and that that in the Company's mind would not
4 ultimately be cost-effective in the delivery of the
5 program?

6 A. That is fair. That's where I was going. And
7 that's true. The low-income programs, all of our
8 residential programs, save a few, are right on the edge,
9 and any additional cost like that would really be money
10 that we couldn't provide to our customers as incentives
11 to pursue energy efficiency.

12 Q. And the last question, does the Company track
13 energy savings by income level?

14 A. No, we do not, except for the low-income
15 weatherization program, obviously.

16 Q. All right. Thank you.

17 MR. FFITCH: Thank you for the indulgence, Your
18 Honor. And I wanted to offer Public Counsel's
19 cross-exhibits for Mr. Stolarski, which are RWS-15
20 through 18.

21 JUDGE MOSS: I have through 19.

22 MR. FFITCH: This exhibit list is --

23 JUDGE MOSS: 15, 16, 17, 18, 19. Five
24 exhibits.

25 MR. FFITCH: I apologize, Your Honor. I

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1 clearly have ended up with an incorrect exhibit list. So
2 I would like to offer all of Public Counsel's
3 cross-exhibits, and I will accept your numbering.

4 JUDGE MOSS: All right.

5 MR. FFITCH: I can double-check it and let you
6 know if there's any further changes.

7 JUDGE MOSS: All right. Hearing no objection,
8 those will be admitted.

9 (Exhibit RWS-15 CX through RWS-19 CX admitted.)

10 JUDGE MOSS: Mr. Brooks, do you still have
11 something? Go ahead.

12 MR. BROOKS: Yes, I have a few questions.

13 JUDGE MOSS: Proceed, please.

14 CROSS-EXAMINATION

15 BY MR. BROOKS:

16 Q. Good morning, Mr. Stolarski.

17 A. Good morning.

18 Q. Could I get you to turn to Cross-Exhibit JAP-41
19 CX? And I realize this was not one that was designated
20 for you, but Mr. Piliaris was kind enough to say that you
21 would answer questions about it.

22 A. Yes, sir, I'm there.

23 Q. Part of this data request inquired as to what
24 conservation programs would be included in the CSA rate,
25 and the first paragraph in the response says that it's

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1 all conservation programs eligible to satisfy statutory
2 requirements under RCW 19.285.

3 As Mr. Piliaris said, that typically doesn't
4 include gas conservation. So can you describe what gas
5 conservation programs will be included in the CSA?

6 A. I would say all the gas conservation programs
7 but one. There is a pilot program, the home energy
8 reports program, that we don't believe -- and there was
9 some discussion about it last night, that I don't believe
10 it would be included in the CSA. It's a very small
11 amount.

12 Q. And broadly speaking, is there a -- can you
13 describe what the basis is for the Company pursuing these
14 gas conservation efforts?

15 For example, I can understand that the electric
16 programs might go to being an obligation under RCW
17 19.285. What is the broad obligation or reason for
18 pursuing the gas programs?

19 A. Just let me clarify your question. Is your
20 question, is why does the Company do gas energy
21 efficiency programs?

22 Q. Yes.

23 A. All our IRP has shown that it's a lower cost
24 way of serving load.

25 Q. What is the most recent IRP that identified the

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1 gas conservation programs that are going to be included
2 in the CSA?

3 A. The IRP doesn't identify specific programs. It
4 identifies that costs -- that there is cost-effective gas
5 energy efficiency available and that at a certain level
6 it is cost-effective.

7 Q. And what is the most recent instance of
8 determining that one of these programs is cost-effective?

9 A. Again, if you are focusing on a specific
10 program, our biennial conservation plan that we filed on
11 the 1st of November with this Commission and approved at
12 the end of December walks through the gas conservation
13 programs and their cost-effectiveness tests and the
14 outcomes of those.

15 Q. If I could get you to turn to the attachment of
16 that same data request, which is page 3 of that document.

17 A. Yes, sir.

18 Q. I will also preface my questions to you the
19 same way I did with Mr. Piliaris, that all my questions
20 are going to relate to gas programs and in particular
21 industrial customers.

22 So to the extent that your answer changes
23 between gas and electric or residential and industrial,
24 please try to provide me with an answer that relates to
25 industrial gas customers.

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1 A. Perfect.

2 Q. Does this exhibit broadly depict the kinds of
3 savings that Puget expects to achieve in 2012 and 2013
4 for gas conservation programs?

5 A. Yes, it does.

6 Q. And, for example, I believe there's a line item
7 for approximately 5.8 million in savings resulting from
8 commercial and industrial retrofits?

9 A. That's -- well, it's a \$5.8 million budget.
10 The commercial and industrial retrofit, the budget is
11 \$5.8 million. The savings is 952,000 therms.

12 Q. Will the CSA mechanism capture declines in gas
13 usage that result from a customer's decrease in
14 operations as compared to a decline in usage that results
15 from the improvements, such as these retrofits? And let
16 me provide you with an example.

17 If a industrial manufacturer installs a
18 high-efficiency boiler and is expected to achieve a
19 certain amount of savings, but then after installation
20 its productivity is cut in half, say for economic
21 reasons, does the CSA carve out the differences in the
22 drivers behind those two different savings?

23 A. The CSA doesn't look at the total bill use of
24 that particular site. It looks at the energy savings
25 that would result from the installation of that

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1 high-efficiency boiler, and so the CSA would see only the
2 numbers from that high-efficiency boiler.

3 Q. Is it fair to characterize it then that the CSA
4 presents an estimate of the savings that would be
5 achieved if everything else were to stay the same?

6 A. That is true, except the word "estimate." I
7 think it's much more than an estimate.

8 Q. Can you describe with a little more detail the
9 verification process, and specifically I'm interested in
10 sort of that same line, and how the verification process
11 captures the potential savings at the outset versus are
12 you actually going to get down to a customer audit of a
13 particular customer's bill?

14 A. The example you gave is a program under which
15 we have an energy management engineer visit that site
16 typically several times over a large project like that.

17 There are savings calculations that are
18 verified by a senior engineer in our quality control, a
19 process we have in place, and then signed by the manager
20 in the commercial and industrial area who is also a PE,
21 and if it's large enough, I've got to sign it. So the
22 process of estimating the energy savings that we will see
23 from that is thorough.

24 Then as part of the scope of work that that
25 manager -- well, actually the quality control engineer

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1 and the manager sees in every case, and again sometimes I
2 see it, the scope of work includes a verification plan.
3 That verification plan really varies, depending on the
4 complexity of the installation that goes in.

5 We are using a hypothetical boiler, but it's
6 actually much more complex than that, if it's a straight
7 condensing boiler or if there's air/fuel mix. There's
8 just a wide variety of measures that could come
9 underneath an example like that.

10 So the verification plan would change,
11 depending on the complexity of that project, but in all
12 cases it's something that is thoroughly considered.

13 Q. Could you describe more examples of the kind of
14 data that you would need in order to make that
15 verification?

16 A. That's fair. Obviously the baseline, you know
17 what was there when we arrived, the type of boiler, the
18 efficiency it's operating at, the natural gas use, the
19 loads that it serves, you know, how much steam or hot
20 water is necessary to be delivered, and then obviously
21 after the installation is completed, those same things
22 except for the new equipment.

23 Q. Will you take into account economic factors,
24 such as broad downturns in the economy or within a
25 particular sector?

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1 A. I guess I will say generally yes, but not
2 specifically, and it is something that we typically work
3 on an as-is basis.

4 Q. Generally, how would that be taken into
5 account?

6 A. And it's a -- the intent is to try to show what
7 the energy savings is actually going to happen. If we
8 know something that is going to change at that facility
9 and they share it with us, and obviously we ask a lot of
10 questions about the operation and the loads that a device
11 like that would be serving, if they share that with us,
12 we obviously account for it. If they don't, we don't.

13 Q. Would you get as detailed as to compare a
14 particular customer's usage compared to other similar
15 situated customers in the same class or in the same
16 industry?

17 A. No, not in a specific conservation measure. We
18 may do it for benchmarking reasons, but not for a
19 specific conservation measure.

20 Q. And as part of this mechanism, is there a
21 process where a customer or a group of customers can
22 contest the results of that verification process?

23 A. I'm focusing on your word "contest," and
24 there's really no reason for them to contest it. So I
25 don't -- there is no process and there's never been a

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1 cause. So I'm not following why they may.

2 Q. What if the reason was they disagreed with the
3 outcome of your verification and that the various causes
4 of the decline in use were resulting from either the
5 high-efficiency measures as compared to other
6 nonconservation measures like economics?

7 A. You seem to be speaking as if we've withheld
8 funds from them. At the completion of the project, at
9 the completion of the verification, we pay them the
10 incentive that we've contracted with them for.

11 So if something happens later, in other words,
12 a downturn in the economy, we cannot go back, and we
13 don't go back, and ask them for any of that money back.
14 So there's really no reason for them to contest those
15 findings.

16 Q. I guess the point of my question is more in
17 terms of how this plays out in the CSA mechanism, not for
18 receiving the funds for the efficiency measures, but in
19 order to verify that the savings were achieved for the
20 CSA purposes.

21 If the customer or the group of customers
22 disagreed with that verification, is there a process for
23 them to contest that or to seek to have it altered?

24 A. One does not exist now. I would submit that
25 the energy savings -- the lack of energy use in your

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1 example in the future is at least partially the result of
2 the energy efficiency measure that was installed that
3 would be recovered under the CSA.

4 There may be additional reduction in energy
5 usage as a result of the economic conditions you are
6 talking about, so, but there has been -- there is no
7 process contemplated to have customers contest those
8 results.

9 MR. BROOKS: Thank you. That concludes my
10 questions.

11 JUDGE MOSS: Thank you. Any questions for Mr.
12 Stolarski from the bench?

13 CHAIRMAN GOLTZ: I have a couple. And I
14 probably should know this, but it might be good to have
15 this in the record, and maybe it is and you can refer me
16 to an exhibit if it is.

17 So your conservation programs are based on a
18 calendar year?

19 THE WITNESS: That's true.

20 CHAIRMAN GOLTZ: So when will you know the sort
21 of verified conservation savings for 2011?

22 THE WITNESS: It's an interesting question,
23 because we're working under the biennium 2010-2011.
24 There's a new process in place over the most recent --
25 when we did the I-937 targets that there be a third-party

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1 verification done across the full portfolio of our
2 programs.

3 So I guess I would say that when that report is
4 ready is when the verified savings will be known. That
5 report is -- PSE has to submit it by June 1st, and we
6 expect to see that report sometime in May.

7 CHAIRMAN GOLTZ: So I guess I was wondering
8 with the CSA, why in the first year -- if we're looking
9 at you were speaking 75 percent and Mr. Piliaris says
10 you're really going back a year to 2011, if we were to
11 put this into effect in May of 2012, what we're really
12 talking about is 2011 savings, but we still have to only
13 include 75 percent of the anticipated savings, even
14 though it's over a year ago.

15 So you're saying that we don't know the
16 actual -- in May we won't know the verified savings for
17 2011?

18 THE WITNESS: We won't have that third-party
19 review of it.

20 CHAIRMAN GOLTZ: But do you know fairly close
21 what it is?

22 THE WITNESS: We feel very confident that our
23 results will be very close to what the third-party
24 concludes.

25 CHAIRMAN GOLTZ: I believe you also testified

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1 that the CSA would include NEEA savings?

2 THE WITNESS: Yes.

3 CHAIRMAN GOLTZ: So would the NEEA savings
4 numbers be somewhat -- would it be fair to say those are
5 less precise than a number of your more direct measures?

6 THE WITNESS: I can see why you would say that.
7 I guess that the comfort I have around me is that they
8 are regionally vetted numbers. There's obviously a lot
9 of utilities, a lot of commissions that look at them very
10 carefully, but I don't do them, my staff doesn't do them.
11 We don't hire the third-party verifiers to do that.

12 So I can't really speak specifically to how
13 precise they are. The nature of the beast is they may be
14 less precise, but there is a more thorough vetting
15 process. So I guess I want to be careful in that area.

16 CHAIRMAN GOLTZ: So of the annual savings
17 attributable to PSE's programs, including NEEA, what
18 percent, approximately what percentage is NEEA?

19 THE WITNESS: On the electric side, I believe
20 the NEEA, the NEEA expectation over the next two years is
21 37 or 39 million kilowatt hours. Our total target is
22 over 665 million.

23 CHAIRMAN GOLTZ: Ask Mr. Roseman to do the
24 math.

25 THE WITNESS: Yes. It's 35 over 665.

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1 CHAIRMAN GOLTZ: So about 5 percent?

2 THE WITNESS: I will accept that, since you
3 corrected him once.

4 COMMISSIONER OSHIE: Don't trust him, Mr.
5 Stolarski.

6 JUDGE MOSS: I was going to say one-half of
7 1 percent.

8 CHAIRMAN GOLTZ: So much of what NEEA does is
9 so-called market transformation; is that correct?

10 THE WITNESS: That's true.

11 CHAIRMAN GOLTZ: And so am I correct that that
12 basically accelerates the availability of some
13 technologies so they're here earlier than they otherwise
14 would be?

15 THE WITNESS: Yes.

16 CHAIRMAN GOLTZ: So what you are doing is
17 you're measuring -- your savings are attributable to the
18 time difference between when they're available because of
19 market transformation and when they otherwise would be
20 available?

21 THE WITNESS: That's what NEEA is measuring,
22 that's correct.

23 CHAIRMAN GOLTZ: So the NEEA savings are only
24 counted in the first year or the first two years, or does
25 it matter?

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1 THE WITNESS: NEEA savings in respect to our --
2 is very similar to our programs, in that NEEA is
3 calculating number of widgets that were installed during,
4 again, the calendar year period we're talking about as a
5 result of their efforts.

6 Those savings that they claim are based on a
7 12-month period. So when we say we're going to save a
8 thousand kilowatt hours, that's over 12 months.

9 CHAIRMAN GOLTZ: But I guess in the context of
10 the CSA, Mr. Piliaris said that a measure like an
11 installation, if the Company didn't come in for a rate
12 case, those savings that would be part of the CSA
13 calculation would be additive every year, year 1, year 2,
14 year 3, year 4?

15 THE WITNESS: Until you've reset.

16 CHAIRMAN GOLTZ: Right, but NEEA savings would
17 be different from that, right, because they're sort of --
18 NEEA itself would say they're only good for the first
19 year or two, because absent market transformation, the
20 market would have transformed itself but just slightly
21 later?

22 THE WITNESS: Yes, I see where you're going,
23 and what you are speaking to is really the life of those
24 NEEA savings and --

25 CHAIRMAN GOLTZ: In other words, the life of

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1 the NEEA savings aren't -- truly shouldn't be added year
2 after year after year, they're time limited?

3 THE WITNESS: If they're time limited. And it
4 really depends on how long of a life they have, in other
5 words, how much did they accelerate adoption of that.

6 Also, my involvement with NEEA is it's
7 typically significantly longer than two or three years.

8 CHAIRMAN GOLTZ: You mentioned an item that
9 would be excluded from the CSA, which is home energy
10 reports?

11 THE WITNESS: Uh-huh.

12 CHAIRMAN GOLTZ: Is that OPOWER?

13 THE WITNESS: Yes, it is.

14 CHAIRMAN GOLTZ: And how much does the Company
15 spend a year on OPOWER?

16 THE WITNESS: Well, I was going to look at the
17 2010 report. And, I'm sorry, I don't know the number off
18 the top of my head. I certainly could look it up, but
19 I'm going to say it's around a million dollars, in that
20 range.

21 We've scaled that program back significantly
22 from the last year, that it's only 24,000, 25,000
23 customers who are receiving that currently.

24 CHAIRMAN GOLTZ: Is it still in the, I guess I
25 would say the study phase?

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1 THE WITNESS: I wouldn't characterize it that
2 way. We actually worked with the CRAG last fall and got
3 their approval to count the energy savings towards it.

4 Staff was very helpful as far as an LBL study
5 that went there. It is kind of in the study phase, in
6 that we agreed not to expend -- expand it beyond that
7 group of customers until we work them, with CRAG to do
8 that.

9 CHAIRMAN GOLTZ: So I guess my question is,
10 there's no more data to come in and analyze; you're just
11 saying, We're going to limit the program to this current
12 scope?

13 THE WITNESS: The data analyzed actually under
14 the agreement with our advisory group, we are looking
15 at the -- we will submit energy savings after the
16 calendar year.

17 So we will do a -- I think it is called an
18 ex-post evaluation, in that the study will be done after
19 the calendar year and calculate the savings attributed to
20 the OPOWER program.

21 CHAIRMAN GOLTZ: And so then there's still
22 decisions to be made on whether to expand the program or
23 not expand or to contract the program?

24 THE WITNESS: Absolutely true. There's some
25 study going on where we're actually removing some

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1 customers from it to see what sort of persistence comes
2 from it. So you are absolutely right. It's in a study
3 phase in that respect.

4 CHAIRMAN GOLTZ: I was just thinking from my
5 notes of the public hearing in Bellevue. A woman was
6 somewhat critical of that and she was wondering if there
7 could be an opt-out.

8 Is that something that you are considering?

9 THE WITNESS: We do allow customers to opt out.
10 If they talk to our energy management help line, we will
11 take them off the program.

12 CHAIRMAN GOLTZ: Well, Ms. Lowery wasn't aware
13 of that.

14 THE WITNESS: Do you have an account number?
15 We would obviously get her off, and we would prefer to
16 have her off if she doesn't want it.

17 CHAIRMAN GOLTZ: I have nothing further. Thank
18 you.

19 COMMISSIONER OSHIE: I just have a few
20 questions, Judge, for Mr. Stolarski.

21 Let's go back -- I just want to briefly touch
22 on this NEEA issue, Mr. Stolarski, because I have a hard
23 time getting my mind around how the allocation of benefit
24 is distributed between utility and NEEA.

25 Let me use as an example the introduction in

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1 this region of ductless heat pumps, which NEEA was at the
2 forefront of introducing, but Puget was also offering a
3 significant contribution of conservation dollars for a
4 ductless heat pump installation.

5 Now in a given year -- and I would say let's
6 look at 2009, was probably the year, 2008, 2009, when,
7 you know, they were kind of the hot potato.

8 So how would -- if a ductless heat pump were
9 installed in your service territory and the customer
10 wanted to -- and they use the rebate that you offered or
11 the credit, would NEEA get any share of that, or would
12 you just get the savings, say that's part of our program
13 and NEEA has no, would receive no allocation of the
14 benefits?

15 THE WITNESS: As far as the reports that we
16 make, NEEA would get no share of those benefits. We take
17 the NEEA numbers and we subtract out everything from our
18 programs that we know exist, and then if NEEA -- and if
19 there's any other things that NEEA is suggesting they
20 accomplished, say, in the agricultural area, areas where
21 we know we -- our customers didn't benefit, we will take
22 out those also.

23 So we don't take the NEEA numbers and then
24 report them. We do actually work through them, vet them
25 through, reduce them by, you know, so no double-counting,

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1 and try to make them as accurate as possible for PSE
2 customers and reflect our work with PSE customers.

3 COMMISSIONER OSHIE: Let me move on to another
4 area. It's related to the predictability, I guess, of
5 the savings over time. With the NEEA questions from the
6 Chairman, I understood really that's the core really, the
7 central theme of the questioning.

8 I want to talk about a couple of other areas,
9 and one of them is CFLs and just general customer
10 behavior. So let's use as a hypothetical that you have a
11 customer that has implemented energy efficiency measures
12 in their home that has resulted in a savings and they
13 have accessed the funds available by the Company, made
14 available by the Company, and so the Company then has an
15 understanding of what the savings were to be expected
16 going forward after the installation.

17 So let's just -- and they're very -- let's use
18 as an example probably some of the easier ones, where
19 it's a new high-efficiency furnace, with new windows and
20 new installation. It's kind of a package deal.

21 They reduced their use by X, whatever the
22 savings are, whether they're deemed or deemed and been
23 refined, and then it's my understanding of the CSA, is
24 that that number would carry forward into future years
25 until the number gets reset through some kind of a rate

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1 case or some other mechanism.

2 So how does the -- how would you, the Company,
3 be able to ferret out foreclosures, where those measures
4 have been installed but the home is now empty and there
5 are no therms being sold or they're minimal and
6 there's -- maybe the only kilowatt hours really burning
7 is from a couple of lights, maybe a porch light that
8 someone leaves on. Does the CSA make any adjustment for
9 that kind of change in behavior?

10 Or another example, a customer that reaches
11 retirement age and decides they don't want to live in
12 Seattle or Olympia or Bellingham during their retirement
13 winters, so they go to Arizona and boy, they're not
14 burning therms anymore while they're gone, even though
15 they may have installed a high-efficiency furnace
16 thinking ahead. So how does the CSA adjust for that, or
17 does it?

18 THE WITNESS: I guess on a couple of examples,
19 the furnace and the windows and such are really good
20 ones, that when we calculate energy savings, we're basing
21 it over the life of that measure, right, and what we
22 report are year 1 savings, 12 months' savings.

23 If they move, obviously that furnace is still
24 going to be there and the next tenant will use it, or the
25 next owner of that property will use it, and we would

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1 expect the similar level of energy savings. It's -- like
2 you said, it's fairly solid, makes a lot of sense.

3 If you want to get into -- the CFLs is a really
4 good example.

5 COMMISSIONER OSHIE: Before you leave that, I
6 picked those for a reason, but we can get into it.

7 So, but the CSA wouldn't really adjust; it's
8 just that there's an expectation that if there's a
9 foreclosure that someone else would move right in?

10 In other words, there would be no gap in the
11 use. The furnace is installed, the therms would be
12 burned, the savings would be, would be made. The impact
13 then is sort of incorporated into the CSA. Actual
14 customer behavior on the other end is not really a
15 factor.

16 THE WITNESS: I guess the only caveat -- so I
17 will say yes to that, but there's a caveat. The caveat
18 is that when -- we don't base it just on an engineering
19 analysis. It is not just an efficiency change based on a
20 load that we would expect from a home like that. It is
21 done by evaluations.

22 So we are basically confirming engineering
23 analysis with a lot of these deemed measures, and many of
24 the deemed measures have market effects attached to the
25 savings claim we make for deemed measures. So some of

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1 those things may be captured.

2 So what we believe is, is that for any
3 individual measure, we're probably not -- that home isn't
4 going to save exactly that amount of energy savings, but
5 on average we believe it's a very good calculation with a
6 very precise answer.

7 COMMISSIONER OSHIE: Now, let's go to CFLs.
8 What do CFLs represent as a percentage of the total
9 efficiency expected for 2011? I don't recall what the
10 number was, but what would they represent?

11 THE WITNESS: It's a very significant number.
12 You know, in very round numbers -- please don't check me
13 or --

14 COMMISSIONER OSHIE: I'm not good with numbers,
15 Mr. Stolarski.

16 THE WITNESS: Whatever I testify, I swore to
17 tell the truth.

18 COMMISSIONER OSHIE: You don't have to worry
19 about that from me.

20 THE WITNESS: Tough estimate, as I've heard my
21 manager over at the residential side say, on the electric
22 side, it's some 60, 70 percent of the residential
23 savings. That's half. Residential is about half of the
24 total. So call it 30, 20, 30, 40 percent. That's a very
25 broad guess. Please give me lots of room on that one.

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1 COMMISSIONER OSHIE: You will have to refresh
2 my memory here as well. So what is the expected life of
3 a CFL that you make available to customers at very good
4 rates in box stores like Costco?

5 Say, for instance, just to put it date on it,
6 someone bought a CFL in January of 2011. So what -- how
7 long are you going to count those savings?

8 THE WITNESS: The vast majority, some
9 99 percent of our CFLs that are put in customers' hands
10 are done so under a savings claim that we make with the
11 RTF. We are required to use RTF numbers.

12 The RTF recently revised quite a bit of their
13 savings claims and their lives on CFLs, and they brought
14 the life down for those CFLs down to five years. That's
15 what the region is seeing, is a five-year life on CFLs.

16 COMMISSIONER OSHIE: Now let's compare my
17 personal experience with CFLs. You probably knew this
18 was coming.

19 I use them in my kitchen on a regular basis. I
20 should say "our" kitchen. It's not mine, but. And
21 there's a number of them in there, and they're very --
22 you know, they're very efficient. They save us a lot of
23 money, but I'm replacing those CFLs on a regular basis.
24 I don't believe I have one in the house that has lasted
25 five years.

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1 And so that's, if that's -- that was my
2 question, really. You have a large component of your
3 savings that are driven, if you will, or directed by your
4 CFL sales, and if those CFLs do not perform as expected,
5 then those savings do not endure and people have to go
6 out and buy, like I do as an example, go out and buy more
7 of the same kind. Maybe that's my problem. I'm buying
8 the same brand at Costco instead of buying a better one,
9 but I'm replacing them.

10 So the credit under the CSA, as I understand
11 it, would be, the credit would be -- it would inure to
12 the Company from my new purchase, but it would also get
13 the benefit of the one I just deposited down at the
14 HazoHouse and basically recycled.

15 THE WITNESS: First of all, thank you for not
16 installing an incandescent light there instead.

17 COMMISSIONER OSHIE: I'm sure Ms. Harris thanks
18 me, too.

19 THE WITNESS: Good point. So these savings
20 really are there when you're replacing it. You're not
21 getting the five-year life out of it.

22 There are -- when the RTF does these types of
23 analysis, it is across the board, and as I said, not any
24 individual measure is going to save or last that long,
25 but on average it is expected to be there.

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1 Things like that are considered. Are they
2 considered sufficiently for the particular application,
3 the type of bulb that you are using? Obviously we'd like
4 to work with you to make sure we can get a better light
5 bulb installed there.

6 COMMISSIONER OSHIE: I'm probably waiting for
7 LEDs.

8 THE WITNESS: There you go. Very exciting
9 technology, and the prices are just plummeting.

10 COMMISSIONER OSHIE: Let me go -- just one last
11 question, area of questioning, and it has to do with
12 EM&V.

13 Under the CSA -- I guess I wasn't quite clear
14 from some of the testimony -- is the Company going to go
15 back for historic periods and do EM&V, other than the
16 year's current results?

17 Let's use this year as an example. You are
18 going back to look at 2011. If we were to implement the
19 CSA, are you going to go back to 2011 and say what has
20 been the endurance of the efficiency that we've been
21 installed? Are you going to do that in 2012, if there
22 is, without an adjustment, or 2013 or 2014, going to go
23 back and do EM&V on all the historic periods that are in
24 play and say, We actually think those savings have
25 endured year over year, or will you just rely on the RTF,

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1 your initial analysis, and then move on to the future
2 year --

3 THE WITNESS: I'm only hesitating because there
4 has been quite a bit of persistence evaluation done over
5 the years in the energy management industry, and I'm
6 hesitating because I don't know of any recent work done
7 there.

8 So certainly our evaluations could include
9 that. They don't currently focus on that, but if that
10 would be something that would be helpful, it might make
11 sense to include that.

12 COMMISSIONER OSHIE: Thank you, Mr. Stolarski.

13 COMMISSIONER JONES: No questions.

14 JUDGE MOSS: That would appear to complete
15 questions from the bench. I would like to complete this
16 witness before we break for lunch. And, Mr. ffitch, I
17 see you reaching for the microphone.

18 MR. FFITCH: We both do apparently, Your Honor.

19 JUDGE MOSS: Go ahead.

20 MR. FFITCH: Thank you, Your Honor. Just a
21 couple.

22 FURTHER CROSS-EXAMINATION

23 BY MR. FFITCH:

24 Q. Mr. Stolarski, you mentioned OPOWER under
25 examination from Chairman Goltz.

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1 Am I correct that OPOWER savings evaluations
2 look only at the overall household consumption and it's
3 not an impact evaluation of a particular measure? Isn't
4 that right?

5 A. It's not looking at a particular measure,
6 that's true. It is a very thorough evaluation of the
7 overall energy use by that set of customers compared to a
8 control group of customers, but it is not looking at a
9 particular measure of how the customer saved energy.

10 Q. And you testified that OPOWER home energy
11 report savings are based on customer behavior, which
12 changes significantly year to year.

13 So those savings estimates are not stable,
14 unlike the savings estimates that come from
15 hardware-based measures; isn't that right?

16 A. Because they're -- they may be behavior-based
17 and there's an unknown there, it lends itself to the type
18 of impact evaluation we're doing for that program. I
19 don't know if that answered your question or not.

20 Q. Well, I'm actually just relating your own
21 testimony in your rebuttal, where you --

22 A. Perhaps you should point me to that testimony.

23 Q. I will do that. It's page 19 of RWS-1.

24 A. Yes, sir.

25 Q. And at line 13 through 16, this is what I was

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1 referring to. You state that home energy report savings,
2 which are -- is an OPOWER program, are achieved through
3 changes in customer behavior which could change
4 significantly from year to year, whereas the savings from
5 hardware-based measures, which constitute most of Puget's
6 program energy savings, are stable?

7 A. Yes, sir.

8 Q. Those are all the questions I have. Thank you,
9 Mr. Stolarski.

10 JUDGE MOSS: Mr. Brooks.

11 FURTHER CROSS-EXAMINATION

12 BY MR. BROOKS:

13 Q. In response to a question from Chairman Goltz,
14 you indicated that the 2011 verified savings are going to
15 be presented in a report in June; is that correct?

16 A. The -- yes, we're -- we've just submitted our
17 annual report for 2011. The third-party will be looking
18 at those results, or has been looking at those results,
19 and will present the verification of those results and
20 any modifications they suggest to it by June, yes.

21 Q. Do those results include the savings from both
22 electric and gas conservation programs?

23 A. The verification is only required -- the
24 current third-party verification is required only for the
25 electric side. Our results in all of our EM&V practices

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1 still apply to the natural gas side, though.

2 Q. So when will the gas side be available for the
3 2011 savings?

4 A. I believe we just submitted that report
5 yesterday to the Commission. So those results are
6 available now.

7 Q. Thank you.

8 JUDGE MOSS: We will check our records, then.
9 Let's see if there is any redirect.

10 MS. CARSON: No redirect.

11 JUDGE MOSS: All right, Ms. Carson. You must
12 be hungry, or a smart lawyer who knows when to be silent.

13 It's 12:20 now, but I am going to ask that we
14 still be back at 1:30 so we can move along.

15 And we may run a little bit late this evening.
16 My judge-like instincts tell me we can finish today if we
17 work hard at it, and so that's what I'm going to try to
18 do. Back at 1:30 then.

19 (A lunch break was taken
20 from 12:19 p.m. to 1:35 p.m.)

21 JUDGE MOSS: Do you solemnly swear or affirm
22 under penalty of perjury the testimony you give will be
23 the truth, the whole truth and nothing but the truth?

24 MS. REYNOLDS: I do.

25 JUDGE MOSS: Please be seated. Mr. Cedarbaum.

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1 MR. CEDARBAUM: Thank you, Your Honor.

2

3 DEBORAH REYNOLDS, witness herein, having been
4 first duly sworn on oath,
5 was examined and testified
6 as follows:

7

8 DIRECT EXAMINATION

9 BY MR. CEDARBAUM:

10 Q. If you could please state your full name,
11 spelling your last name.

12 A. Deborah Reynolds. R-E-Y-N-O-L-D-S.

13 Q. And you have prepared testimony in this case on
14 behalf of Commission Staff?

15 A. Yes, I have.

16 Q. Referring you to what has been marked for
17 identification as Exhibit DJR-1T, does that constitute
18 your response testimony in this case?

19 A. Yes.

20 Q. If you can turn to page 1 of that exhibit. At
21 line 8, lines 8 through 11, you provide your employment
22 capacity with the Commission.

23 Have there been changes since you filed this
24 testimony that you would like to report?

25 A. Yes, there have. I am now the assistant

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1 director of the conservation and energy planning section
2 of the regulatory services division.

3 Q. When did that assignment occur?

4 A. February 1st.

5 Q. And can you just briefly describe your duties
6 in that new position?

7 A. Yes. I'm responsible to increase the
8 oversight, the visibility of the Commission oversight of
9 conservation and renewable resources, infrastructure
10 planning and development, and low-income programs.

11 Q. Now, in your testimony you refer to Exhibit
12 DJR-2. Is that the exhibit of yours accompanying your
13 response testimony?

14 A. Yes.

15 Q. Did you also file cross-answering testimony
16 that is marked as DJR, DJR-3T?

17 A. Yes.

18 Q. Do you have any corrections to either portion
19 of your testimony in this case?

20 A. Yes. In DJR-1T, at page 32, line 18, the words
21 "annualizing adjustments" should be followed by "all
22 ready in place."

23 Q. Did everyone have a chance to write that in?

24 Why don't you continue then, if you have more
25 corrections.

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1 A. Thank you. At page 20.

2 JUDGE MOSS: Same exhibit?

3 THE WITNESS: Yes, sir. Footnote 18 has an
4 incomplete citation. After 13, paragraph 19, there
5 should be a comma, "at 16:27 and 19 -- 19:29," period.

6 And I also have two minor footnote corrections
7 in DJR-3T.

8 BY MR. CEDARBAUM:

9 Q. Give everyone a second to get to that before
10 you provide those corrections. Okay.

11 A. At page 10, Footnote 24, the Id. should be
12 replaced with "the coupling policy statement."

13 Q. Okay.

14 A. And the same change to Footnote 30 on page 13.

15 Q. Are all those the corrections you need to make?

16 A. That is all the corrections. Thank you.

17 Q. So Exhibits DJR-1T through 3T are now true and
18 correct to the best of your knowledge and belief?

19 A. Yes.

20 Q. And are you also adopting certain testimony in
21 an exhibit of Chris Mickelson, in Exhibit CTM-3T and
22 CTM-4?

23 A. Yes, I am.

24 Q. And to the best of your knowledge and belief,
25 those exhibits are true and correct, to the best of your

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1 knowledge and belief?

2 A. Yes.

3 Q. Thank you.

4 MR. CEDARBAUM: Your Honor, at this time I
5 would offer Exhibits DJR-1T through DJR-3T, CTM-3T and
6 CTM-4.

7 JUDGE MOSS: Hearing no objections, those will
8 be admitted as marked.

9 (Exhibit DJR-1T through DJR-3T,
10 CTM-3T and CTM-4 was admitted.)

11 MR. CEDARBAUM: Ms. Reynolds is available for
12 cross-examination.

13 JUDGE MOSS: Ms. Carson, do you prefer to go
14 last or first? There is one intervenor, NWECC, indicating
15 cross for this witness.

16 MS. CARSON: I will go first.

17 JUDGE MOSS: Very well. Go ahead.

18 CROSS-EXAMINATION

19 BY MS. CARSON:

20 Q. Good afternoon, Ms. Reynolds, and
21 congratulations on your new position.

22 A. Thank you.

23 Q. Could you please turn to page 30 of your
24 testimony?

25 JUDGE MOSS: Let's keep in mind there are two

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1 testimonies.

2 MS. CARSON: This is DJR-1T.

3 THE WITNESS: I'm there.

4 BY MS. CARSON:

5 Q. This section has -- the heading is "Known and
6 Measurable Conversation Effects Not Present," and as I
7 understand it, one of your concerns about the CSA
8 proposal that PSE has made in this case is exactly that,
9 there are known and measurable conservation effects not
10 present; is that right?

11 A. That's correct.

12 Q. And as I look at lines 5 through 7, you say --
13 you express concerns that the mandated savings, again,
14 are not known and measurable.

15 Can you tell me where that known and measurable
16 standard comes from that you point to?

17 A. The known and measurable standard is part of
18 the overall ratemaking guidance that the Commission uses.
19 It has been memorialized in a WAC as well.

20 Q. Is that WAC 480.07.510(3) that addresses pro
21 forma adjustments?

22 A. I believe that's correct.

23 Q. The CSA is not a pro forma adjustment, is it?

24 A. No, it is not.

25 Q. Please turn to Exhibit DJR-4 CX.

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1 A. I'm there.

2 Q. Did you prepare this response to the data
3 request?

4 A. Yes, I did. Probably very late at night.

5 Q. In this data request from PSE, you were asked
6 to reconcile the fact that the Commission -- to basically
7 reconcile the known and measurable standard for
8 ratemaking that you cite in your testimony to the fact
9 that the conservation target, 19.285.060, sets a target
10 for conservation; and again you cite to the known and
11 measurable standard in this response; is that correct?

12 A. Yes.

13 Q. As I read your response, you express concerns
14 that the standard for the conservation targets is based
15 on engineering estimates. Is that your concern?

16 A. I don't think I characterized it as a concern.
17 Are you talking about my concern about the
18 targets or my concern about using known and measurable
19 data to adjust load?

20 Q. Well, let me rephrase that question.

21 You have said that known and measurable is the
22 standard for ratemaking, correct?

23 A. Yes.

24 Q. And in this case the CSA adjustment doesn't
25 meet, or the CSA rate tracker does not meet that

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1 standard, and so it shouldn't be accepted by the
2 Commission, correct?

3 A. Yes.

4 Q. But isn't it true that PSE uses the engineering
5 estimates that are a part of the conservation program to
6 establish its conservation target in 19.285.060?

7 A. Yes, and I believe that's what I'm describing
8 here, but the targets in 19.285.060 are required to be
9 set in the context of the Council methodology, and the
10 Council methodology relies on savings estimates. So
11 those targets were never intended to be used to set
12 rates.

13 Q. But those targets are used -- those engineering
14 estimates that you refer to are used to set the
15 conservation targets that are required by law, right?

16 A. Absolutely.

17 Q. And if PSE doesn't comply with those targets,
18 it's subject to penalties, right?

19 A. Absolutely.

20 Q. And those conservation targets are also used
21 when setting the Schedule 120 tariff, right?

22 A. No.

23 Q. So what is the Schedule 120 tariff budget
24 estimates based on?

25 A. Well, when the Company comes up with the budget

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1 estimate, which is the amount of money, the total amount
2 of money it is going to spend on conservation, it does
3 use the savings estimates to develop the total budget
4 number, but, again, that is developing a revenue
5 requirement, essentially.

6 Then that revenue requirement gets divided over
7 load just the same way we set rates in any other -- in
8 general rates. It gets divided over the billing
9 determinants, the number of hours that -- the number of
10 kilowatt hours or the number of customers that are going
11 to be paying those rates.

12 Q. So I think I heard you say that in fact the
13 engineering estimates that are used for the different
14 conservation programs are in fact used to set the
15 Schedule 120 tariff; is that right?

16 A. Yes, but the piece of that that is missing is
17 that at some point the Company spends those dollars and
18 they become known and measurable expenditures.

19 So when we set the rates, we use an estimate,
20 but then we go back and true it up to known and
21 measurable numbers, the actual conservation spending that
22 the Company has made.

23 Q. And how is that true-up done?

24 A. Through the Schedule 120 annual filing.

25 Q. And is part of that the evaluation, measurement

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1 and verification program that PSE undertakes in terms of
2 verifying the conservation savings?

3 A. I wouldn't characterize that as part of the
4 Schedule 120 filing. The Schedule 120 filing is about
5 the recovery of the expenses.

6 Q. For the programs?

7 A. For the programs.

8 Q. And isn't that in part based on your
9 conservation targets or PSE's conservation targets and
10 then this budget relates to the conservation targets?

11 A. Yes.

12 Q. And the conservation targets are based on
13 programs, conservation programs, that are based on
14 engineering estimates of savings or other estimates of
15 savings, correct?

16 A. That is correct, but, again, the known and
17 measurable piece of that is the actual money that the
18 Company spends on conservation.

19 Q. And then after --

20 A. And there's no similar piece in the CSA.

21 Q. And then after the program year there is this
22 verification process, correct?

23 A. Yes.

24 Q. And you are a member -- are you a member of the
25 CRAG, the Conservation Resource Advisory Committee?

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1 A. I am no longer the Staff representative on
2 CRAG.

3 Q. You have been a member of the CRAG, though,
4 right?

5 A. Yes.

6 Q. So you have been involved in setting the
7 standards for the EM&V process, correct?

8 A. Actually, the EM&V framework development or
9 the -- there's been so much EM&V activity in terms of
10 standards. Which piece?

11 Q. You have been involved providing some guidance,
12 whether it was in the last biennial conservation target
13 settlement or otherwise, and providing input about what
14 kind of EM&V should take place, right?

15 A. Yes.

16 Q. It's a pretty rigorous standard that PSE
17 undertakes, right?

18 A. Yes, it is.

19 Q. Is it fair to say that PSE has made a
20 significant investment in conservation over the past
21 decade?

22 A. Yes, I would agree with that statement.

23 Q. Do you agree that significant investment in
24 conservation may reduce a Company's revenues because a
25 portion of the fixed costs are recovered in use charge?

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1 A. I believe I make a statement to that effect in
2 my testimony.

3 Q. You do. And you note that the Company's
4 response to this problem has been to file frequent rate
5 cases, right?

6 A. I do.

7 Q. So is it your testimony that frequent rate
8 cases is the best way for PSE to deal with this loss of
9 revenue from its significant conservation?

10 A. I believe actually my testimony says that an
11 attrition adjustment is one of the best ways to deal with
12 the concerns that PSE has raised.

13 I would say that the CSA is a little bit
14 broader than strictly conservation, notwithstanding Mr.
15 DeBoer's answers yesterday.

16 Q. Could you turn to page 32 of your testimony?

17 A. Yes.

18 Q. On page 32 you say the CSA is not necessary,
19 right?

20 A. I do.

21 Q. And you also acknowledge that the change in use
22 patterns from energy efficiency of existing customers
23 results in a \$4.5 million change in the electric revenue
24 requirement in this case; is that right?

25 A. Could you repeat that?

0753

1 Q. You acknowledge --

2 A. Did you just quote?

3 Q. No, I don't think I quote. So maybe you want
4 to -- if you want to characterize, there's a \$4.5 million
5 difference with or without the CSA, as I understand it.
6 Is that what you're saying?

7 Actually, what you say is the calculated change
8 in use patterns from energy efficiency only change the
9 electric revenue requirement 0.21 percent or 4.5 million
10 for the electric.

11 A. Yes, and my -- this is actually in my work
12 papers, and it shows that what the attempt was, was to
13 show the 2010 test period, and so it isn't with or
14 without the CSA. It's the 2010 test period with or
15 without conservation, not -- but that -- and that's using
16 the assumption that -- that Mr. Piliaris's representation
17 of conservation savings estimates in JAP-11 and JAP-12.
18 I just accepted those.

19 Q. Okay. All right. But it is your testimony
20 that this \$4.5 million impact is not significant; is that
21 right?

22 A. I think it's that the annualizing adjustments
23 already in place capture those significant changes. So
24 that's not exactly the same thing as saying -- I mean I
25 get what -- I'm not sure I understand the point of your

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1 question.

2 I guess I'm saying this section of testimony
3 says this is captured in an annualizing adjustment that
4 looks at how load changed for 2010.

5 Q. Let's look at page -- again, page 32 of the
6 testimony, and I think you talk about the budget for --
7 or you talk about the EM&V.

8 Do you know the budget for PSE's EM&V for this
9 biennium?

10 A. Is that on page 32?

11 Q. No. I don't know that it is. I'm going to
12 move on from page 32. I'm sorry.

13 A. Okay.

14 Q. I want to talk about the budget for PSE's
15 evaluation, measurement and verification.

16 Do you know what it is for the 2012-2013
17 biennium?

18 A. Not off the top of my head.

19 Q. Does in the range of 4.7 million for the
20 biennium sound correct to you?

21 A. Yes.

22 Q. Let's turn to DJR-5 CX.

23 A. Is 4.7 million somewhere in the record before
24 you just put it in? Is it in an exhibit somewhere?

25 Q. I can -- I don't have it here in front of me,

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1 where it is.

2 MR. CEDARBAUM: Your Honor, I guess I prefer if

3 Ms. Reynolds could just accept that, subject to check.

4 It would be fine to do it that way. At least it gives

5 her an opportunity to check it and the Company can help

6 her out on that.

7 JUDGE MOSS: Sure, that's fine.

8 THE WITNESS: Thank you.

9 BY MS. CARSON:

10 Q. So we're going to turn to DJR-5 CX.

11 A. Yes.

12 Q. Do you recognize this document?

13 A. I do.

14 Q. Did you prepare this?

15 A. No, I did not.

16 Q. But you are listed as the witness on this

17 response, correct?

18 A. Yes. I'm sorry. I prepared the page, the

19 response, not the attachment.

20 Q. DJR-5 CX is a response to a data request,

21 correct?

22 A. Yes.

23 Q. And this was sent from PSE to Commission Staff?

24 A. Yes.

25 Q. And you are the witness and responder to this,

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1 correct?

2 A. Yes, I am. Sorry about that.

3 Q. So in your testimony you talk about the need
4 for -- if the CSA were to be approved, as I understand
5 it, you talk about the need for a more statistically
6 significant post installation analysis; is that right?

7 A. Yes.

8 Q. And you point to this study that is attached to
9 DJR-5 CX; is that right?

10 A. Yes.

11 Q. And as I understand it, this study is something
12 that you or Staff presented to PSE's CRAG; is that
13 correct?

14 A. I'm not certain how it was shared with PSE.
15 The Staff requested assistance from Lawrence Berkeley
16 National Lab in reviewing the home energy report, and so
17 we worked with LB&L, LBNL, to do this while they -- and
18 basically the experts actually prepared this document.
19 So Monica Todd and Steven Schiller and Charles Goldman.

20 Q. And this is an analysis of the PSE's home
21 energy report program?

22 A. Yes.

23 Q. And it's my understanding that the CRAG --
24 well, it's my understanding that this Lawrence Berkeley
25 National Laboratory Report, or LBNL, basically affirmed

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1 or confirmed the verification and analysis that had been
2 led by KEMA that PSE had had done; is that right?

3 MR. CEDARBAUM: Do you have a page reference of
4 this document you can refer her to?

5 BY MS. CARSON:

6 Q. I think if you look at -- I think in numerous
7 places in the document it refers to KEMA, including the
8 first paragraph, the executive summary, and various other
9 places it comments on KEMA's analysis and results?

10 A. Yes.

11 Q. So this -- as I read your testimony, it seemed
12 that you were holding this study or the standard in this
13 study up as a standard to be used throughout PSE's energy
14 efficiency portfolio for EM&V; is that correct?

15 And I should say in the context of the CNA,
16 you're saying if the CSA was approved, this is the type
17 of statistically significant evaluation that would need
18 to be done. Is that a correct summary of your testimony
19 and response to this data request?

20 A. Well, as I pointed out in my response, I didn't
21 have anything in the record to refer to that Puget had
22 provided, and so this was actually a convenient -- it
23 happened to be sitting on top of my desk.

24 And I said in the response that in this
25 particular case, this statistically significant post

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1 implementation analysis was an appropriate substitute for
2 post installation analysis, which is what this study is
3 about.

4 Q. So you are not proposing this level of
5 statistically significant in that post implementation
6 analysis for all of PSE's conservation programs if the
7 CSA were to be approved, are you?

8 A. I was not. I think that the -- the control
9 groups would be pretty difficult for Puget to use.

10 My -- and, again, just at a higher level, my
11 concern around using the savings estimates is that they
12 were never intended to be used to identify actual impacts
13 on load. They're intended to identify what the energy
14 savings would be if conditions were normal.

15 Q. And just to clarify, going back to this report
16 that I was asking you about, the CRAG accepted the
17 analysis by KEMA and I guess by the LBNL analysis for
18 purposes of the home energy report, but the CRAG did not
19 endorse the use of this standard across PSE's entire
20 conservation portfolio, correct?

21 A. I don't know.

22 Q. Are you familiar with Avista's limited
23 decoupling mechanism?

24 A. Yes.

25 Q. Do you recall that Avista's limited decoupling

0759

1 mechanism limits deferrals to 45 percent?

2 A. Yes.

3 Q. Do you know what that 45 percent is based on?

4 A. I believe my testimony in that case said that
5 it was more art than science.

6 Q. So it looks at decreases in usage per customer
7 and it takes 45 percent of the decrease in usage per
8 customer and assigns it to conservation; is that right?

9 A. The Commission's order actually has a fairly
10 lengthy discussion about the 45 percent.

11 Q. So --

12 A. And I would say that that might -- the
13 reduction from 90 percent to 45 percent was intended to
14 reflect the difference, but the Commission also
15 recognized, I believe, in its order that it had not
16 landed on a specific number because it was exactly the
17 right number, that there was still some uncertainty about
18 how much of it was the conservation effect.

19 Q. So just to go back, is it correct that
20 originally the -- of the declines in usage per customer
21 conservation, those declines were -- 90 percent of those
22 declines were attributed to conservation? Is that what
23 you're saying? You mentioned 90 percent.

24 A. No. The original mechanism was 90 percent, the
25 deferral amount, but that was 90 percent of all changes

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1 in use, and I don't think that there was ever -- I don't
2 recall if there was ever a specific link of that
3 90 percent to conservation. I don't believe so.

4 Q. But 90 percent of the deferral amount was
5 originally included in the decoupling program?

6 A. Yes, it was, but I think my testimony in that
7 case said that it covered far more effects than just
8 conservation.

9 Q. And was there some kind of a known and
10 measurable determination to reach that 90 percent number?

11 A. I don't believe so. The known and measurable
12 portion of the -- of the Avista limited decoupling
13 mechanism is that it uses actual load, and so whether
14 normalized load from a base period and whether normalized
15 load from a rate period, and picks the difference between
16 those two and does actually -- on a month-to-month basis
17 does actually increase and decrease the deferral amount.
18 It's a -- it's both sides of the mechanism.

19 Q. And was there any kind of known and measurable
20 criteria that was used to change the deferral amount from
21 90 percent to 45 percent?

22 A. No.

23 MS. CARSON: I have no further questions.

24 JUDGE MOSS: Thank you, Ms. Carson.

25 MS. CARSON: I would ask for Exhibits DJR-4 CX

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1 and 5 CX to be admitted.

2 JUDGE MOSS: Being no objection, they will be
3 admitted as marked.

4 (Exhibit DJR-4 CX and DJR-5 CX was admitted.)

5 JUDGE MOSS: Ms. Boyles, do you still have some
6 cross for this witness?

7 MS. BOYLES: Just a few, Your Honor.

8 JUDGE MOSS: Go ahead, please.

9 CROSS-EXAMINATION

10 BY MS. BOYLES:

11 Q. Ms. Reynolds, my name is Kristen Boyles. Nice
12 to meet you.

13 A. You, too.

14 Q. Just a few questions about your decoupling
15 testimony.

16 Is it correct for any mechanism to deal with
17 the effect of PSE's energy efficiency programs'
18 contribution to its growing expense per customer, that
19 there is limited, if any, information about the impact of
20 those mechanisms on low-income consumers?

21 A. Could you just repeat that whole question?

22 Q. Probably not. I'm trying to get at the
23 question of if there is limited, if any, information
24 about the impacts of decoupling or limited decoupling or
25 any kind of mechanisms that we've been talking about on

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1 specifically low-income consumers.

2 A. I would agree that there's limited or no
3 information available.

4 Q. Thank you. Given that there is a lack of
5 information currently, would you agree that if the
6 Commission were to order some sort of decoupling or
7 limited decoupling, that we should also evaluate those
8 impacts on low-income consumers after the mechanism is in
9 place?

10 A. I would agree with that. I think there's a
11 statement in my testimony at the end of DJR-3T.

12 Q. I think that's right. I think that's DJR-3T at
13 page 17?

14 A. I believe that's correct.

15 Q. Thank you. Switching gears slightly, have
16 other commissions implemented decoupling without
17 simultaneously lowering the utility's return on equity?

18 A. Yes.

19 Q. Do you know which ones?

20 A. No. That was the hesitation, was whether I
21 knew which ones.

22 Q. Thank you, Ms. Reynolds.

23 MS. BOYLES: I have nothing further, Your
24 Honor.

25 JUDGE MOSS: Thank you, Ms. Boyles.

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1 Anything from the bench for Ms. Reynolds?

2 COMMISSIONER JONES: No.

3 COMMISSIONER OSHIE: No.

4 CHAIRMAN GOLTZ: Yes.

5 THE WITNESS: Would you like an opening

6 statement?

7 JUDGE MOSS: We will take a pass on that.

8 COMMISSIONER OSHIE: We learned our lesson

9 yesterday.

10 CHAIRMAN GOLTZ: Just a couple of quick

11 questions.

12 First just sort of a different topic. In your

13 rebuttal testimony you talk briefly about saying it was

14 acceptable to Commission Staff to increase the amount

15 going to low-income, but I sort of sense that you were

16 sort of in search of a principle by which to set that

17 amount?

18 THE WITNESS: Yes.

19 CHAIRMAN GOLTZ: And the witness yesterday, Mr.

20 Howat, you disagreed with his percentage of revenue, as I

21 recall, or principles he was enunciating?

22 THE WITNESS: Did I disagree with his

23 principles or did I say he could provide more

24 information?

25 CHAIRMAN GOLTZ: Well, I read it as being

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1 somewhat like you weren't quite persuaded by just his --
2 the amount that he was suggesting.

3 I'm looking at page 19 of Exhibit DJR-3T,
4 starting at line 10. So you were basically saying in the
5 future we want better information to make this
6 determination.

7 THE WITNESS: I should clarify that I was
8 saying if we wanted the number to go higher, above what
9 other utilities are already providing, that they would
10 need to provide additional justification for that, but I
11 think it's a pretty easy reach to get to the levels that
12 he recommended. So I said further increases, further --

13 CHAIRMAN GOLTZ: So you were recommending -- so
14 the Staff's position is to -- is in support of the level
15 of funding proposed by the energy project?

16 THE WITNESS: It is. It's reasonable. I did
17 go and look at -- I do actually maintain a table that
18 looks at this comparison, and I'm aware that Puget is
19 low.

20 CHAIRMAN GOLTZ: Based on percentage of
21 revenue?

22 THE WITNESS: Yes.

23 CHAIRMAN GOLTZ: So is that -- what is the
24 metric that we should apply to figure out what the
25 appropriate level is? Because yesterday I was asking Mr.

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1 Howat about, Well, doesn't it depend on poverty level in
2 the service territory, and so if you see a percentage of
3 revenue, that doesn't account for that.

4 So what metric do we look for to get the
5 appropriate level, or is it all just kind of, We aren't
6 quite enough yet, so let's add a little bit more?

7 THE WITNESS: First of all, I think that
8 there's a presumption that discounts for low-income
9 customers are appropriate and, also, I think at some
10 point a fairness issue about whether or not we are able
11 to provide those low-income discounts to all customers
12 that qualify.

13 So I think until we are actually able to
14 provide low-income programs that cover all customers that
15 qualify, the percent of revenue is a reasonable approach
16 in the interim.

17 CHAIRMAN GOLTZ: Last night at the public
18 hearing there was a woman expressing concern that she was
19 having a lot of trouble paying her energy bill despite
20 heroic conservation efforts, but yet she didn't qualify
21 for any low-income assistance program, but she was
22 contributing to the low-income assistance programs.

23 So at the lower end people who are just above
24 the eligibility threshold are nevertheless paying for
25 people that are just below that threshold.

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1 So has there been any thought to how to sort
2 of -- you know, the people on the cusp, how to
3 accommodate for that?

4 THE WITNESS: We have had -- we've had actually
5 several proposals. The Oregon Commission has been
6 looking at sort of moderate income, but currently the
7 Department of Commerce defines low-income customers, and
8 they're the only state agency that does that for us, and
9 so we have leaned on their definition, which is
10 150 percent of poverty, and so I haven't felt very
11 comfortable going outside of that.

12 CHAIRMAN GOLTZ: You have not felt very
13 comfortable?

14 THE WITNESS: No.

15 CHAIRMAN GOLTZ: Let me go back to the set
16 of -- to the CSA issue. I think you said that in your
17 view the CSA goes beyond compensating Puget, or would go
18 beyond compensating Puget for lost revenues attributable
19 to their conservation programs?

20 THE WITNESS: Yes.

21 CHAIRMAN GOLTZ: Even though Puget witnesses
22 said that was what it does. Why do you say it goes
23 beyond?

24 THE WITNESS: My contention that it goes beyond
25 is really based on these engineering estimates of

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1 savings.

2 So I think it would be a very -- it would
3 create a perverse incentive for Puget to -- for any
4 company with this kind of program really to inflate their
5 savings estimates numbers because those increases would
6 directly translate into more money under this program,
7 and that's not -- that's one of the things that has been
8 raised by, quote, a Cappers study, which is another
9 Lawrence Berkeley National Lab study on incentive
10 programs in my testimony, and it's one of the concerns,
11 that if you have too much money in the incentive
12 category, it becomes too attractive and just encourages
13 abuse and at some point increases the level of scrutiny
14 required so much that no one could keep up with it.

15 CHAIRMAN GOLTZ: Speaking of levels of scrutiny
16 and administrative burdens, you also have a concern in
17 the NWECC's full decoupling proposal, that that would
18 increase the administrative burden on Commission Staff,
19 correct?

20 THE WITNESS: Yes, I do.

21 CHAIRMAN GOLTZ: Can you just describe what,
22 the magnitude of that? I don't know how much thought you
23 have given to it, but any sort of further thoughts on
24 what we would be subjecting you all to?

25 THE WITNESS: Well, I would go back to sort of

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1 my testimony in the Avista case, where I described, I
2 think, 800 pages of reporting under the decoupling
3 mechanism.

4 Now, some of that is conservation reporting
5 that would come in anyway, but it does add another layer
6 on top of that. It adds an additional filing every year,
7 and that filing is certainly a more complex filing than,
8 say, just sort of an individual tariff program.

9 Like if we were to get a green power program
10 filing, for example, it might have three or four pages of
11 supporting work papers, and a conservation -- a
12 decoupling tariff filing has about a hundred pages of
13 supporting work papers, just as a comparison.

14 CHAIRMAN GOLTZ: The Commission Staff has
15 offered up a -- and maybe when Mr. Elgin is here he will
16 have a better name for it, but I'm calling it an
17 accelerated true-up mechanism, and that strikes me as
18 kind of offering up a fair time commitment on Commission
19 Staff for that, and I'm just wondering if that would be
20 in excess of what the burden would be for a decoupling --
21 the decoupling mechanism might not be less burden, or is
22 it apples and oranges?

23 THE WITNESS: Apples and oranges. Thank you.
24 That's exactly what I was just going to say. Decoupling
25 just breaks the link for the throughput incentive, as

0769

1 several witnesses said yesterday.

2 CHAIRMAN GOLTZ: Or Mr. DeBoer said weaken the
3 link.

4 THE WITNESS: Weaken, yes. But the attrition
5 adjustment and -- in meeting rate case, or expedited rate
6 case proposed by Mr. Elgin, is really intended to address
7 the overall attrition issue, which is a different issue
8 than what decoupling would address anyway.

9 CHAIRMAN GOLTZ: Right. I'm just wondering, if
10 we were debating between what to do here and we had --
11 and we're mindful of the burden on Commission Staff, if
12 the decoupling mechanism would be less of a burden than
13 a -- than the accelerated true-up mechanism?

14 THE WITNESS: I think the accelerated true-up
15 mechanism is, hopefully, a substitute for annual rate
16 cases, and that would certainly be a lower burden on
17 Staff.

18 CHAIRMAN GOLTZ: Whereas decoupling might not
19 be?

20 THE WITNESS: Yeah, decoupling would not be.

21 CHAIRMAN GOLTZ: I have no further questions.
22 Thank you.

23 JUDGE MOSS: Any follow-up? Mr. Roseman.

24 CROSS-EXAMINATION

25 BY MR. ROSEMAN:

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1 Q. Ms. Reynolds, do you know how many low-income
2 customers currently are assisted by the HELP program?

3 A. We heard earlier testimony about that. You
4 would have to remind me of the specific numbers.

5 Q. Okay. On the electric side, 19,434. On the
6 natural gas side, 7,603.

7 Will you take those numbers, subject to check?

8 A. Yes.

9 Q. Thank you. And do you know at 150 percent of
10 poverty, which I think was the number you used from the
11 Department of Commerce that sets the poverty level in the
12 state, do you know how many low-income customers are in
13 Puget's service territory?

14 A. I believe that was the number we heard earlier
15 in testimony.

16 Q. We heard that one earlier also, that's correct,
17 and that number is 255,000. It's in SML-8 Cross-Exhibit.
18 Thank you.

19 JUDGE MOSS: Mr. Cedarbaum, any redirect?

20 MR. CEDARBAUM: I do, Your Honor.

21 REDIRECT EXAMINATION

22 BY MR. CEDARBAUM:

23 Q. Ms. Reynolds, you were asked questions by
24 Company counsel about the known and measurable standard
25 and its location in the Commission rule regarding pro

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1 forma adjustments.

2 Do you recall that?

3 A. Yes.

4 Q. Do you think that the known and measurable
5 concept, though, is one that is equally applicable to
6 analysis of the CSA?

7 A. Yes, I do.

8 Q. And why is that?

9 A. Because it's a broad ratemaking standard. It's
10 a generally accepted principle.

11 Q. Why is it important to apply, though, to
12 analysis of the CSA, that concept?

13 A. It's important to apply that to analysis of the
14 CSA because the CSA is relying on engineering estimates
15 to create the number that would be recovered, the amount
16 that would be recovered.

17 Q. You were also asked questions with respect to
18 Cross-Exhibit DJR-4, which asked you -- essentially the
19 line of questions was the engineering estimates of
20 conservation savings are used for the conservation
21 targets, and I believe you made a distinction between
22 that exercise and ratemaking.

23 Do you recall that?

24 A. Yes.

25 Q. Can you just -- I'm not sure you were able to

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1 explain that completely, but if you didn't, please go
2 ahead.

3 A. Yes, I did want to explain a little bit further
4 that the engineering estimates that are relied on that
5 are developed by the Council through the RTF -- that's
6 the Regional Technical Forum, and this is the Northwest
7 Power and Conservation Council -- these energy savings
8 estimates are really intended to be used for forecasting
9 and as a guide for making a decision about which plant to
10 purchase, where plant A is conservation and plant B is a
11 gas plant, and it's intended to be used to help the
12 Company make a decision about which one of those is going
13 to be the best purchase for customers.

14 I would liken them to the EPA's mileage-per-
15 gallon estimates, which are you can have two cars. One
16 is rated 25 miles to the gallon, the other one is rated
17 35 miles to the gallon.

18 That piece of information is useful to you when
19 you go to buy a car and you look at those two cars and
20 you say, Mmm, I really care about the fuel efficiency, so
21 I'm going to buy the one that gets 35 miles to the
22 gallon, but then when you drive the car you don't
23 actually expect to get 35 miles to the gallon.

24 You get gas -- you get the fuel efficiency that
25 comes with your particular driving condition, how many

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1 hills there are between the office and work, whether you
2 are a lead-foot. So all of those things play into that,
3 and you wouldn't budget for your gas based on that
4 35-mile-per-gallon EPA efficiency rating. You would
5 budget for your gas based on your actual experience.

6 And I think that's the difference that is
7 happening in this data request response, is that the
8 savings estimates that are relied on by the Council are
9 that kind of information. They're intended to inform
10 your decision at the time of purchase. They're not
11 intended to help you figure out how much gas you need to
12 buy this next year or how much power you need to produce
13 this next year. So thank you.

14 Q. I have a few questions for you on DJR-5, which
15 was your second cross-exhibit, your response to the
16 Company's Data Request 25.

17 And in my just reading of the attachment, there
18 appears to be a discussion of some statistics concepts;
19 is that correct?

20 A. Yes.

21 Q. Are you generally familiar with those concepts?

22 A. Yes, I am.

23 Q. Have you had training in statistics?

24 A. Yes. My master's degree included multiple
25 courses in statistics.

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1 Q. If I could have you turn to page 26 of the
2 document. 26 is noted in the upper right-hand corner.

3 There is a section 5 called "External
4 Validity." Do you see that?

5 A. Yes.

6 Q. My page 26 is not what I was hoping for. I'm
7 sorry, it does.

8 The second paragraph has a heading "General
9 Discussion," and then the first sentence says, "In
10 general, results cannot be extrapolated beyond the study
11 duration or outside of the study population."

12 Do you see that?

13 A. Yes.

14 Q. Can you just explain your understanding of what
15 that means?

16 A. Yes. It is generally telling us that while the
17 results that Puget got with the home energy reports are
18 good for the specific category of customers to which it
19 was applied, you could not apply it to other customers or
20 extrapolate it to the entire population.

21 And I think part of what is important about
22 that is that the CSA uses a small -- and this home energy
23 report, uses a sampling of energy efficiency effects or
24 outcomes, but when we set rates, we rely on the entire
25 population, a census. All the data goes into, when we

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1 choose what -- when we land on our billing determinants,
2 it's the entire population of data. It's not a sample.

3 Q. On page 27 of the exhibit, under the
4 "Double-Counting" section, there's a discussion about
5 considering savings estimates from other programs when
6 reviewing the impacts of the home energy reports.

7 And perhaps you just answered this, but just to
8 be clear, why is it important to consider the savings
9 estimates from other programs when reviewing the impacts
10 of the HER?

11 A. In part, I think it's important -- and I think
12 this is sort of the answer I just gave about the
13 difference between engineering estimates and actual
14 savings that occur, and in this case the home energy
15 report does look at a sample of customers and finds the
16 energy savings that actually occurred, but the other
17 programs are all based on those engineering estimates.

18 So that's the reason it's so important to make
19 sure that you don't double-count, because on one side of
20 the program you have what actually happened in those
21 homes and on the other side you have engineering
22 estimates about what happened.

23 Q. And you also earlier talked about the savings
24 estimates developed by the RTF. Do you recall that?

25 A. Yes.

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1 Q. Can you provide a specific example of a program
2 that -- so we can better understand your discussion of
3 that?

4 A. Yes. I think we've had several discussions
5 today about this, but CFLs are one example,
6 refrigerators, some of those types of measures.

7 Q. Did the RTF do a pilot project on power strips?

8 A. Yes, they did.

9 Q. That's the one I was hoping you would explain.

10 JUDGE MOSS: At the risk of leading your
11 witness.

12 MR. CEDARBAUM: I didn't hear any objection.

13 THE WITNESS: Yes. The RTF did just recently
14 approve power strips as a measure, and what I found
15 interesting as I reviewed that material was that the
16 savings estimates that they came to, which I believe is
17 about a hundred kilowatt hours per year, were based on
18 about 250 observations.

19 And that's pretty good for a study, but it
20 certainly isn't the entire census of all the power strips
21 in all the houses, or in all the offices. This was
22 actually a commercial installation, but in all the
23 offices, that certainly does not cover them all.

24 BY MR. CEDARBAUM:

25 Q. So there's a distinction between a sample size

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1 and what did you call it? A census size?

2 A. Yes. And the census is the entire population,
3 and the sample size at 250 is a very small portion of
4 that.

5 Q. And how does that relate to the CSA, looking at
6 the CSA?

7 A. It relates to looking at the CSA because,
8 again, the savings estimates that are being used to
9 develop the revenue requirement under the CSA are these
10 engineering estimates of savings, and they're not
11 statistically significant.

12 MR. CEDARBAUM: Thank you. Those are all my
13 questions.

14 JUDGE MOSS: Thank you, Mr. Cedarbaum. I don't
15 believe there is anything further for this witness. So,
16 Ms. Reynolds, we appreciate you being here and giving
17 your testimony today again, and we will move on with our
18 proceeding.

19 Just looking at my list of witnesses here, I
20 see next we have Crane, who I believe no one has any
21 questions for.

22 Can we stipulate the exhibits and so forth for
23 Crane?

24 MS. CARSON: Yes.

25 JUDGE MOSS: No objections? Okay.

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1 (Exhibit ACC-1T through ACC-5T was admitted.)

2 JUDGE MOSS: The same thing for Mr. Schoenbeck.

3 As I understand it, there are no questions from the bench

4 or from any parties for Mr. Schoenbeck, so I would

5 propose that we stipulate his exhibits. Yes? Okay,

6 everybody is in agreement. At least nobody is in

7 disagreement.

8 (Exhibit DWS-1CT through DWS-9 was admitted.)

9 JUDGE MOSS: And we've had Mr. Cavanagh on the
10 stand. Higgins we've previously taken care of.

11 I understand Ms. Harris, that the bench has no
12 questions and that there's no cross from Staff.

13 Therefore we will stipulate Ms. Harris's material in.

14 (Exhibit Nos. KJH-1T and KJH-2 was admitted.)

15 JUDGE MOSS: I'm sure you will all stop me if
16 there is any problem with what I'm doing here.

17 Next is McLain, and I understand that
18 Ms. McLain would be available by phone. Is there still
19 cross for Ms. McLain from Public Counsel?

20 MR. FFITCH: Yes, Your Honor.

21 JUDGE MOSS: And also Energy Project?

22 MR. FFITCH: Your Honor, it's my understanding
23 that Mr. Roseman also has cross.

24 JUDGE MOSS: But he's not here, so we will call
25 him first.

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1 MR. FFITCH: We would be willing to take
2 Ms. McLain out of order, if it takes a bit to get her on
3 the phone. I'm not sure what the situation is.

4 MS. CARSON: She is on the line now, is my
5 understanding.

6 JUDGE MOSS: Ms. McLain, are you there?

7 MS. McLAIN: Yes, I am.

8 JUDGE MOSS: Very good. I'm going to swear you
9 in, and since you are not in the hearing room, I'm not
10 going to stand up either, but I'm going to ask you, do
11 you solemnly swear or affirm under penalty of perjury
12 that the testimony you give in this proceeding will be
13 the truth, the whole truth and nothing but the truth?

14 MS. McLAIN: Yes, I do.

15 JUDGE MOSS: Thank you very much. Mr. ffitch,
16 you may -- no, I'm sorry. I'm getting ahead of myself.
17 We need to put the witness on first.

18

19 SUSAN McLAIN, witness herein, having been
20 first duly sworn on oath,
21 was examined and testified
22 as follows:

23

24 DIRECT EXAMINATION

25 BY MS. CARSON:

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1 Q. Ms. McLain, please state your name and spell
2 your name for the court reporter?

3 A. Susan McLain. S-U-S-A-N. McLain is M-c
4 capital L-A-I-N.

5 Q. Ms. McLain, do you have before you what has
6 been marked for identification as Exhibit Nos. SML-1T
7 through SML-7T?

8 A. I do.

9 Q. Do these exhibits constitute your prefiled
10 direct and rebuttal testimony and related exhibits in
11 this proceeding?

12 A. It does.

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

15 A. Yes.

16 Q. Do you have any corrections to any of your
17 exhibits at this time?

18 A. No.

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

22 A. Yes, they are.

23 Q. Thank you.

24 MS. CARSON: Your Honor, PSE offers Exhibits
25 SML-1T through 7T into evidence, and offers Ms. Susan

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1 McLain for cross-examination.

2 JUDGE MOSS: Those will be admitted as marked.

3 (Exhibit SML-1T through SML-7T was admitted.)

4 JUDGE MOSS: Mr. ffitch, why don't you proceed.

5 MR. FFITCH: Thank you, Your Honor.

6 CROSS-EXAMINATION

7 BY MR. FFITCH:

8 Q. Good afternoon, Ms. McLain.

9 A. Good afternoon.

10 Q. Do you have a copy of your direct testimony
11 there, SML-1T?

12 A. Yes, I do.

13 Q. And could you please turn to page 49 of that
14 testimony?

15 A. Yes. I'm on that page.

16 Q. And please look at line 4. That's your first
17 Q&A.

18 A. Yes.

19 Q. The Q&A there essentially gives a thumbnail
20 sketch of the history of the service quality index
21 program and identifies its genesis as being a condition
22 of the merger of Washington Natural Gas and Puget Sound
23 Power & Light in the mid-1990s, correct?

24 A. That's correct.

25 Q. So the service quality index as a whole has

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1 been in effect for over 15 years?

2 A. Yes, it has been.

3 Q. And it was actually reaffirmed by the Company,
4 by agreement with multiple parties, as part of the 2001
5 general rate case, correct?

6 A. I believe so. I'm not absolutely positive on
7 that, but I would -- I know it has been reaffirmed.

8 Q. All right. And the service quality incentive
9 program as a general proposition is -- excuse me, the
10 service quality index program is an incentive program as
11 a general proposition, correct?

12 A. When you say "incentive," could you elaborate
13 on your meaning of that?

14 Q. All right. The index contains a number of
15 different measures, 10 or 11 measures, each which has a
16 performance metric, and if the Company fails to meet
17 those metrics, with one or two exceptions, it's subject
18 to financial penalties, correct?

19 A. Yes, that is correct.

20 Q. And so I want to just ask specifically about
21 SQI-9, which is the disconnection ratio that is at issue
22 here.

23 The disconnection ratio is not a hard cap on
24 company disconnections, is it?

25 A. It is a ratio of the percentage of disconnects

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1 that are allowed, and as a consequence, it does represent
2 a hard count of customers ultimately. If we reach the
3 point where the percentage is being exceeded, then there
4 would be a stoppage of disconnection.

5 Q. But the service quality index No. 9 itself does
6 not prohibit Puget Sound Energy from disconnecting
7 customers, does it? It simply says if you disconnect
8 enough customers to exceed the metric, you are subject to
9 penalties; isn't that true?

10 A. That is correct.

11 Q. So what the service quality index No. 9 does is
12 in effect provide Puget Sound Energy an incentive to
13 manage its -- manage the billing situation, the credit
14 situation of its customers, to work with them to try to
15 avoid the customer getting into a situation where
16 disconnection is required; isn't that right?

17 A. I would disagree with that characterization, in
18 that the original, the original purpose of this was due
19 to ensure that the Company did not exceed what it had
20 historically been performing in the metric, and so the --
21 it wasn't to assist the Company in terms of staying below
22 a certain percentage or above a certain percentage. It
23 was -- the intent of the measure originally was to ensure
24 that the Company did not exceed its historical practices.

25 Q. I'm getting a lot of activity on the line. I'm

0784

1 sorry, Ms. McLain.

2 A. And I'm trying to pause in between the beeps as
3 well.

4 JUDGE MOSS: You are doing just fine,
5 Ms. McLain. We appreciate your consideration in that
6 regard.

7 BY MR. FFITCH:

8 Q. I understand your answer, Ms. McLain. However,
9 I'm not asking so much about the original intent of the
10 measure as about its objective effect or operation, which
11 is that if the Company wishes to avoid exceeding -- let
12 me start again.

13 Wouldn't you agree that if the Company wishes
14 to avoid exceeding the disconnect ratio, it can in part
15 achieve that goal by managing its credit and collection
16 policies in such a way as to help customers avoid getting
17 into a disconnect situation?

18 A. We're already taking many actions to try to
19 interact with customers well before we actually go to the
20 point of disconnecting them.

21 We are through those notification processes
22 reaching out to customers and trying to provide them with
23 the tools to help prevent that disconnection from taking
24 place.

25 Q. And the more success you have with that, the

0785

1 lower your number of disconnects would be? Wouldn't that
2 follow?

3 A. It can assist in that. However, during
4 difficult economic times we have seen an increase in the
5 number of customers pushing to that threshold, and in
6 some cases customers are not necessarily reaching out to
7 us or responding to those disconnect notices, and we
8 sometimes find that at the point in time where we
9 actually perform the disconnect, that is the point in
10 time where we are able to talk to the customer directly
11 and provide them with more information on their specific
12 situation relative to payment assistance, to PSE's HELP
13 program, to LIHEAP and other pledges that may be
14 available in their local charity, but in some cases it
15 actually requires that disconnect step in order to have
16 that conversation with the customer.

17 Q. Do you agree with the numbers provided by Mr.
18 Kouchi in his testimony that state that for calendar year
19 2010 -- I'm sorry, let me back up and ask you a
20 preliminary question.

21 You have indicated that this metric has been in
22 place for about 15 years or so, but I think the record
23 reflects that it's currently suspended, and that this
24 case is about whether to reinstitute the metric, correct?

25 A. Yes, that is correct.

0786

1 Q. So we already know -- we have direct experience
2 of what happens without a metric being in place, correct?

3 A. Well, there was an interim step. I think in
4 October of 2009 the SQI limit was moved from the 0.03 to
5 0.038 disconnects, and that was at the time of the change
6 in the economics. And then in 2010, in August, we were
7 granted the opportunity to eliminate the SQI on an
8 interim basis.

9 Q. All right, thank you. And Mr. Kouchi's
10 testimony reports that for calendar year 2010, I believe,
11 the disconnects jumped 32 percent, by a number of 17,000
12 disconnections, correct?

13 A. I don't have that directly in front of me. If
14 you pointed me to a page number, I could -- I read his
15 testimony. I believe that you are accurate, but I cannot
16 find the exact number.

17 Q. That's sufficient. Thank you, Ms. McLain. We
18 have that in the record.

19 That's the ballpark from your understanding?

20 A. Yes. And, again, that does coincide with the
21 period of time where there was a significant change in
22 the local economy.

23 Q. So if the cap is reinstated, can we tell from
24 that data that the Company would -- if the Company is
25 treating this as a hard cap, as you indicated, the

0787

1 Company would potentially refrain from 15 to 20,000
2 disconnects in the next year?

3 A. I believe that's the approximate number, yes.
4 We would need to manage to that level in order to ensure
5 meeting the SQI.

6 Q. And do you know what the revenue impact on
7 Puget Sound Energy would be of avoiding disconnecting
8 those households?

9 A. No, I do not.

10 Q. It's true, is it not, that increased
11 disconnection activity imposes costs on -- imposes
12 increased cost on Puget Sound Energy?

13 A. Both the -- the lack of collecting revenues
14 from customers, but additionally yes, there are costs
15 associated with collection activities, yes.

16 Q. And you discussed that briefly on page 48 of
17 your testimony; isn't that right, starting at line 11?

18 A. Yes.

19 Q. Have you quantified those additional costs on
20 the Company?

21 A. No, I have not.

22 Q. Looking at page 50 of your testimony at line 9,
23 you indicate that the disconnection ratio, SQI-9, hinders
24 Puget's ability to carry out Commission credit and
25 disconnection rules.

0788

1 Aren't you essentially saying there it hinders
2 Puget's ability to disconnect customers from electric
3 service and gas service?

4 A. I think it's a fairness issue relative to the
5 customer, in that these rules are in place in order to
6 provide protections for customers relative to dispute
7 resolution and complaints and working on the Company
8 treating its customers fairly, and as a consequence,
9 when -- if the Company were to follow the SQI and not
10 perform a disconnect on one customer versus performing a
11 disconnect on another simply because the quota had been
12 met, there would be a fairness issue relative to the
13 customer who was or was not disconnected simply because
14 of a quota being in place.

15 Q. But as you have indicated, that's within the
16 discretion of Puget Sound Energy, correct? This is not a
17 hard cap; you are free to disconnect any customer who is
18 otherwise subject to disconnection under the Commission
19 rules?

20 A. Subject to a penalty, yes.

21 Q. Would you agree that what you call inequitable
22 treatment is simply an inherent feature of a limitation
23 of this type, this, in other words -- I'm sorry, I will
24 stop there. Would you agree with that statement?

25 A. Could you repeat your statement, please?

0789

1 Q. Certainly. Would you agree that the
2 characteristic that you referred to as an inequity with
3 this measure is simply an inherent feature of having a
4 limitation, as you've framed it, for example, a cap?

5 A. Yes, I would agree with that. I might
6 characterize it as an unintended consequence.

7 Q. And this feature of the index has been true for
8 15 years; it was understood by Puget Sound Energy at the
9 time it agreed to this program and understood,
10 presumably, by the Commission when it approved it and
11 placed it in an order, wasn't it?

12 A. It was, but it was in a different decade, well
13 before the economic changes in the United States.

14 Q. But the so-called inequitable feature of this
15 design has been understood from the beginning and it's
16 been in place the entire life of the index, has it not?

17 A. It was.

18 Q. Going back to your statement about the
19 hindrance in carrying out the Commission's credit and
20 disconnection rules, isn't it true that the ratio is
21 actually part of the disconnection rules framework?

22 It's contained in the Commission order. It's
23 agreed to by the Company. It had been part of Company
24 credit and collections and disconnection operations for
25 15 years.

0790

1 So it's not really accurate to characterize it
2 as a sort of outside interference with the administration
3 of the credit and collection rules, is it?

4 A. Well, again, I think that because the economic
5 conditions are so very different from the time in which
6 the SQI was originally put in place to the economic
7 condition that the region currently faces, that it is an
8 issue.

9 Q. You would agree then, I take it, that your
10 customers are facing particularly severe economic
11 circumstances at the present time?

12 A. Absolutely I would agree with that, yes.

13 Q. Do you know whether the available assistance
14 programs in Puget Sound Energy's service territory are
15 adequate to serve all of the customers who are eligible
16 for those programs?

17 A. I don't know that. I do not know that. I do
18 know I did -- have reviewed the materials and data
19 requests. I did listen in on other witness testimony
20 relative to the quantity of individuals and households,
21 and so I am familiar with some of the numbers.

22 I do not know the number of customers who may
23 apply for assistance and/or whether or not there are --
24 all who do apply for assistance, whether or not they are
25 eligible and do not receive that.

0791

1 Q. Would you agree with the fact that
2 approximately 20 percent of PSE's customer base is or can
3 be classified as low-income, using the metric of
4 150 percent of federal poverty level?

5 A. Yes. I believe that was in Data Request
6 No. 224.

7 Q. Would you also agree that above that level
8 there are -- there is a segment of the population that is
9 not eligible for the programs that require 150 percent of
10 federal poverty level, but nevertheless are facing severe
11 challenges paying for energy bills?

12 A. I would agree, yes.

13 Q. Could you tell me what the amount of
14 shareholder funds, Puget Sound Energy shareholder funds,
15 is that has contributed to energy assistance programs in
16 Washington?

17 JUDGE MOSS: Mr. Ffitch, we aren't getting any
18 objection from counsel, but aren't you getting a little
19 far afield from Ms. McLain's two pages of testimony on
20 the elimination of SQI-9?

21 MR. FFITCH: I don't believe so, Your Honor.

22 JUDGE MOSS: I think you are. I want you to
23 move on, please. We have had other testimony. The
24 record is full of this sort of statistical information
25 you are talking about. Ms. McLain is not the witness on

0792

1 these points.

2 MR. FFITCH: Your Honor, with respect, I'm
3 following up specifically on her testimony with regard to
4 the available -- availability of customer assistance
5 programs in this state.

6 JUDGE MOSS: Where is that?

7 MR. FFITCH: Page 51 of the testimony, starting
8 at line 1 and continuing on through line 15, Your Honor.

9 JUDGE MOSS: Well, again, I just don't see this
10 testimony as getting into the level of detail that you
11 are getting into with this witness on these issues.

12 MR. FFITCH: I understand your concern, Your
13 Honor. I think this is actually a single question about
14 the shareholder fund contribution of these programs, and
15 I only have a few more questions.

16 JUDGE MOSS: All right. Please wrap it up.

17 THE WITNESS: I'm sorry, Mr. ffitch. I do not
18 know that number. I'm unaware of the dollar amount.

19 BY MR. FFITCH:

20 Q. Ms. McLain, would you agree that there is a
21 direct correlation between the frequency of rate
22 increases requested and granted to the Company and
23 customers' ability to pay?

24 A. I'm sorry. Could you repeat your question?

25 Q. Would you agree that there is a direct

0793

1 correlation between the frequent rate increases requested
2 and granted to Puget Sound Energy and customers' ability
3 to pay and, by continuation, customers' likelihood of
4 nonpayment and disconnection?

5 MS. CARSON: I object to this.

6 THE WITNESS: I would --

7 JUDGE MOSS: Ms. McLain, there is an objection.

8 THE WITNESS: Sorry.

9 MS. CARSON: I think this does go beyond Ms.
10 McLain's scope of knowledge and testimony in this case.

11 JUDGE MOSS: And, Mr. ffitch, we are getting
12 even further afield than when I expressed my concern
13 before. Ms. McLain is not testifying about the
14 relationship between the frequency of PSE's rate cases
15 and these sorts of issues. Her testimony on this point
16 is actually very brief.

17 MR. FFITCH: Yes, it is, Your Honor. I just
18 have one or two more questions.

19 JUDGE MOSS: Well, if they're of the same
20 nature, they're probably going to draw objections, Mr.
21 ffitch, but go ahead.

22 BY MR. FFITCH:

23 Q. Looking at page 50 of your testimony,
24 Ms. McLain.

25 A. Yes.

0794

1 Q. Line 19?

2 A. Yes.

3 Q. And you refer to the -- you say that Puget
4 believes the Commission's credit and disconnection rules
5 protect customers and that reinstatement of SQI-9 would
6 interfere with the proper application of the customer
7 protections listed above.

8 Do you see that?

9 A. Yes, I do.

10 Q. Isn't it true that Puget Sound Energy is
11 currently subject to a formal complaint action from the
12 Commission with respect to improper charges for
13 disconnection visits? And that's Docket U-111465.

14 A. Yes, I believe so, but although I have not been
15 personally involved with that matter.

16 Q. And isn't it also true that Puget Sound Energy
17 is subject to a formal complaint action currently pending
18 for multiple violations of the prior obligation rule?
19 I'm sorry, I don't have that docket number at hand.

20 A. Yes, that's my understanding as well.

21 Q. Ms. McLain, are you the sole witness for Puget
22 Sound Energy in support of termination of SQI-9?

23 A. I am.

24 Q. And your testimony on this topic totals three
25 pages, the three pages we've just been looking at?

0795

1 A. Yes.

2 Q. Am I correct that you have provided no
3 additional exhibits supporting your recommendation?

4 A. I do not have any additional exhibits on this
5 matter.

6 Q. Thank you, Ms. McLain.

7 MR. FFITCH: I have no further questions, Your
8 Honor.

9 JUDGE MOSS: Thank you. Mr. Roseman, to the
10 extent Mr. ffitch's extensive cross-examination on this
11 topic has not covered your questions, please complete
12 your cross.

13 MR. ROSEMAN: I don't know about -- but I think
14 Mr. ffitch has covered the vast majority of my questions.
15 In the interest of moving this along, I won't pursue this
16 at this time.

17 JUDGE MOSS: Thank you, Mr. Roseman. I
18 appreciate you, your accommodation of our schedule.

19 Any questions from the bench for Ms. McLain?

20 COMMISSIONER JONES: No.

21 JUDGE MOSS: Apparently not. Ms. McLain, you
22 are not here, so I won't release you from the witness
23 stand, but I will release you as a witness subject to a
24 subsequent telephone call if we need you again.

25 THE WITNESS: Absolutely. Thank you.

0796

1 JUDGE MOSS: Thank you for appearing.

2 Well, I guess at this point we should take our
3 afternoon break, and then when we come back we will have
4 Mr. Gaines. I'm sorry, Dr. Olson. We will have Dr.
5 Olson.

6 MR. FFITCH: I would like to, Your Honor, if I
7 may, move the admission of Ms. McLain's cross-exhibits.

8 JUDGE MOSS: Sure.

9 MS. CARSON: No objection.

10 JUDGE MOSS: They will be admitted as marked.

11 (Exhibit SML-8 CX and SML-9 CX was admitted.)

12 MR. FFITCH: Thank you, Your Honor.

13 JUDGE MOSS: You bet. Now we will take our
14 break until 3:15. Please be back promptly, and we will
15 have Dr. Olson on the stand.

16 (A break was taken from
17 3:00 p.m. to had 3:17 p.m.)

18 JUDGE MOSS: As a matter of witness logistics,
19 we have been asked to take Ms. Erdahl out of order, so
20 that is why she is sitting on the stand, and Dr. Olson
21 has not changed identity. He will be with us shortly,
22 but let's go on the record at least briefly now. Oh,
23 Commissioner Oshie is here.

24 Please rise and raise your right hand? Do you
25 solemnly swear or affirm under penalty of perjury that

0797

1 the testimony you give in this proceeding will be the
2 truth, the whole truth and nothing but the truth?

3 MS. ERDAHL: I do.

4 JUDGE MOSS: Please be seated. Mr. Cedarbaum,
5 proceed.

6 MR. CEDARBAUM: Thank you for accommodating
7 Ms. Erdahl, taking her out of order.

8

9 BETTY ERDAHL, witness herein, having been
10 first duly sworn on oath,
11 was examined and testified
12 as follows:

13

14 DIRECT EXAMINATION

15 BY MR. CEDARBAUM:

16 Q. Ms. Erdahl, if you could please state your full
17 name, spelling your last name.

18 A. Betty Erdahl. E-R-D-A-H-L.

19 Q. And you are -- you have presented testimony in
20 this proceeding on behalf of Commission Staff?

21 A. Yes.

22 Q. Referring you to what has been marked for
23 identification as Exhibits BAE-1T through BAE-7, is that
24 your prefiled testimony and exhibits in this case?

25 A. Yes, they are.

0798

1 Q. And were they prepared by you or under your
2 supervision or direction?

3 A. Yes.

4 Q. Are they true and correct to the best of your
5 knowledge and belief?

6 A. Yes.

7 MR. CEDARBAUM: Thank you, Your Honor. I would
8 move the admission of Exhibits BAE-1T through 7.

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

11 (Exhibit BAE-1T through BAE-7 was admitted.)

12 MR. CEDARBAUM: The witness is available for
13 questioning.

14 JUDGE MOSS: All right. Ms. Carson, I
15 understand you have a few questions for Ms. Erdahl.

16 MS. CARSON: Yes, just a few.

17 CROSS-EXAMINATION

18 BY MS. CARSON:

19 Q. Good afternoon, Ms. Erdahl. Please turn to
20 your prefiled testimony BAE-1T, beginning on page 6.

21 Do you have that?

22 A. I do.

23 Q. You have proposed an adjustment to PSE's goals
24 and incentive plan, haven't you?

25 A. Yes, I have.

0799

1 Q. You proposed to remove 50 percent of the cost
2 of the incentive plan from the test year?

3 A. That's correct.

4 Q. And specifically you testified that customers
5 should not pay for that portion of the plan that is based
6 on financial metrics, right?

7 A. Correct.

8 Q. Isn't it true that customers benefit from an
9 efficiently run company?

10 A. If the O&M expenses are -- I would say yes, to
11 the extent that the O&M expenses, operating and
12 maintenance expenses, are decreased and that level is
13 maintained into the next rate proceeding and it's
14 captured in rates.

15 Q. Thank you. Isn't it important for PSE to not
16 only meet its service quality indicators but also to
17 provide efficient, cost-effective service to its
18 customers?

19 A. Yes, it is. To the extent that efficiencies
20 are achieved and rates are not decreased, the
21 shareholders benefit from those efficiencies.

22 Q. But customers benefit too, don't they?

23 A. Well, they're paying the cost of the O&M
24 expenses when rates are set at a point in time, and then
25 if there's efficiencies achieved after that point, they

0800

1 don't flow through to the ratepayers until rates are set
2 again, including those decreased O&M expenses.

3 Q. But as you said, if the efficiencies stay in
4 place, customers continue to benefit over the years from
5 efficiently run companies, correct?

6 A. That's correct, if it's for the long term.

7 Q. Now, would customers benefit in a scenario in
8 which PSE was able to use unlimited resources to meet its
9 service quality indicators and then put those costs into
10 rates?

11 A. Meaning the sky is the limit on costs?

12 Q. Exactly.

13 A. I do not believe the ratepayers would benefit.

14 MS. CARSON: Thank you. No further questions.

15 JUDGE MOSS: Thank you, Ms. Carson.

16 Anything from the bench for this witness? All
17 right, Ms. Erdahl -- I should ask if there's redirect.

18 Mr. Cedarbaum.

19 MR. CEDARBAUM: No, Your Honor.

20 JUDGE MOSS: Ms. Erdahl, thank you for being
21 here and giving your testimony today. You may step down
22 from the witness stand.

23 THE WITNESS: Thank you.

24 JUDGE MOSS: Now we will have Dr. Olson,
25 please.

0801

1 Dr. Olson, I will save you the jack-in-the-box
2 routine. If you will just remain standing there.

3 Do you solemnly swear or affirm under penalty
4 of perjury that the testimony you give will be the truth,
5 the whole truth and nothing but the truth?

6 Dr. OLSON: Yes, I do.

7 JUDGE MOSS: Thank you very much. Please be
8 seated.

9

10 CHARLES E. OLSON, Ph.D., witness herein, having been
11 first duly sworn on oath,
12 was examined and testified
13 as follows:

14

15 DIRECT EXAMINATION

16 BY MS. CARSON:

17 Q. Good afternoon, Dr. Olson.

18 A. Good afternoon.

19 Q. Please state your name and title and spell your
20 last name for the court reporter.

21 A. My name is Charles, middle initial E, last name
22 Olson. O-L-S-O-N. My title is Professor of the
23 Practice, Robert H. Smith School of Business, University
24 of Maryland.

25 Q. Dr. Olson, do you have before you what has been

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1 marked for identification as Exhibit Nos. CEO-1T through
2 CEO-10T?

3 A. Yes, I do.

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

7 A. Yes, they do.

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

10 A. Yes, they were.

11 Q. Do you have any corrections to any of your
12 exhibits at this time?

13 A. No, I don't.

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

17 A. Yes.

18 Q. Thank you.

19 MS. CARSON: Your Honor, PSE offers Exhibits
20 CEO-1T through CEO-10T into evidence, and offers Dr.
21 Charles E. Olson for cross-examination.

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

24 (Exhibit CEO-1T through CEO-10T was admitted.)

25 JUDGE MOSS: Mr. Cedarbaum, you seem to have

0803

1 offered up some exhibits here and are on the list for
2 cross-examination. Would you like to go first?

3 MR. CEDARBAUM: I would, Your Honor. I think I
4 am the only one signed up.

5 JUDGE MOSS: I think you are the only one.

6 MR. CEDARBAUM: And perhaps I can start just by
7 moving the admission of the Cross-Exhibits CEO-11 through
8 CEO-18.

9 JUDGE MOSS: If history is any god, there will
10 be no objections. So those will be admitted as marked.

11 (Exhibit CEO-11 CX through CEO-18 CX admitted.)

12 CROSS-EXAMINATION

13 BY MR. CEDARBAUM:

14 Q. Hello, Dr. Olson.

15 A. Good afternoon.

16 Q. If you could first turn to page 7 of your
17 rebuttal testimony, which is CEO-10T.

18 A. I have that.

19 Q. At lines 1 through 13, you disagree with Mr.
20 Elgin's opinion that the most significant factors for
21 investors are growth and book value and internal growth.
22 Is that essentially --

23 A. Wait a minute. I'm on the wrong exhibit. I'm
24 sorry.

25 Q. I'm looking at your rebuttal testimony.

0804

1 A. Yes. I figured that out.

2 JUDGE MOSS: And that's page again?

3 MR. CEDARBAUM: 7.

4 THE WITNESS: Yes, I have that.

5 BY MR. CEDARBAUM:

6 Q. My question is, at lines 1 through 13, you
7 disagree with Mr. Elgin for his opinion that the most
8 significant factors for investors are growth and book
9 value and internal growth, correct?

10 A. That's correct.

11 Q. If you could turn to Cross-Exhibit CEO 11, this
12 was a data request in which we asked you to clarify with
13 respect to that testimony whether you were asserting that
14 Mr. Elgin relied upon historical data for purposes of
15 estimating dividend growth; is that correct?

16 A. Yes.

17 Q. And you answered that you don't know what Mr.
18 Elgin did and you were just commenting on what Mr. Elgin
19 said was important; is that correct?

20 A. Yes, that's correct.

21 Q. So you weren't implying in your testimony that
22 Mr. Elgin was relying upon historical data to estimate
23 long-term dividend growth in his DCF study; is that
24 correct?

25 A. That is correct. I was simply saying he said

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1 it was important, but I was not sure exactly how he got
2 to his number.

3 Q. If you could look at Exhibit CEO-13.

4 And do you recognize this document as a Value
5 Line publication for NV Energy dated February 3, 2012?

6 A. Yes, I do.

7 Q. And NV Energy is one of the companies in your
8 proxy group; is that correct?

9 A. That's correct.

10 Q. On the far right-hand side of the page, in the
11 middle about, there's a column entitled -- that says 14
12 through 16. Do you see that?

13 A. Right-hand side, yes, middle of the page. I've
14 got that.

15 Q. And that stands for the years 2014 through
16 2016?

17 A. Yes.

18 Q. And then below that there are a number of
19 financial metrics that run for about the middle third of
20 the page; is that right?

21 A. That's correct.

22 Q. So this Value Line document shows forecasted
23 data for the period 2014 through 2016 for these financial
24 metrics?

25 A. Yes. Presumably that represents a three-year

0806

1 average, '14, '15 and '16.

2 Q. And Value Line does a similar sort of forecast
3 and publication for all of the companies that both you
4 and Mr. Elgin included in your Value Line -- excuse me,
5 in the proxy group that you and Mr. Elgin included in
6 your DCF studies?

7 A. That's correct.

8 Q. And, finally, we probably solved that, but on
9 page 7 of your rebuttal testimony, this is at line 6, you
10 refer to the Gordon, the Gordon article; is that correct,
11 that Mr. Gorman cites on behalf of ICNU?

12 A. Yes.

13 Q. And that's the article that is included in
14 Exhibit CEO-18?

15 A. That's correct.

16 Q. And the remaining cross-exhibits that we
17 introduced through you are answers to Staff data requests
18 that you provided?

19 A. Let me check. I did look at this before, but I
20 want to do this one more time.

21 That's correct.

22 Q. Thank you, Dr. Olson.

23 MR. CEDARBAUM: Those are all my questions.

24 JUDGE MOSS: Thank you, Mr. Cedarbaum.

25 Do we have questions from the bench for

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1 Dr. Olson?

2 COMMISSIONER JONES: I just have one, Judge
3 Moss.

4 JUDGE MOSS: Very well.

5 COMMISSIONER JONES: Dr. Olson, could you go to
6 your direct testimony, page 23?

7 THE WITNESS: I have that, Commissioner.

8 COMMISSIONER JONES: And I'm going to be
9 referring to lines 13 through 20.

10 Were you here yesterday when we had a dialogue
11 with Dr. Gorman on small G, the growth rate, and the
12 various ways to calculate that?

13 THE WITNESS: Yes.

14 COMMISSIONER JONES: So as I understand your
15 growth rate that you are choosing, you are selecting, and
16 it's in CEO-4, something from Yahoo Finance, which
17 produces a mean growth rate of 7.81 percent; is that
18 right?

19 THE WITNESS: That's correct.

20 COMMISSIONER JONES: Now, talk to me a little
21 bit about, or help me understand how you square the
22 five-year projected earnings growth rate with the
23 short-form DCF requirement that it be both constant and
24 in perpetuity? Are you implying here that five years
25 equals perpetuity?

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1 THE WITNESS: I would say to you that there is
2 no such requirement.

3 COMMISSIONER JONES: There is no such
4 requirement?

5 THE WITNESS: There is no such requirement.
6 FERC uses the five-year analyst estimate. Myron Gordon,
7 who was the essential inventor of the notion that it be
8 long term and sustainable changed his mind, as is
9 evidenced by CEO-18.

10 He completely changed his mind, and this whole
11 thing of sustainability is out the window, because you
12 get better predictability in the variation of share
13 prices with the analysts' estimates. They are in effect
14 what is in the mind of the investor as the best long-term
15 proxy.

16 COMMISSIONER JONES: And mathematically that
17 squares as well?

18 THE WITNESS: DCF is not mathematical. It's a
19 concept. It says what the investor gets is yield plus
20 growth, but it's not a formula. It's a concept.

21 COMMISSIONER JONES: So nothing you heard
22 yesterday would, or you read in other testimony would
23 dissuade you from your recommendation here that the
24 five-year projected earnings growth rate should be used?

25 THE WITNESS: No, it would not.

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1 COMMISSIONER JONES: That's all I have. Thank
2 you.

3 JUDGE MOSS: Thank you, Commissioner Jones.

4 CHAIRMAN GOLTZ: Just a couple of questions,
5 Dr. Olson.

6 When I read your testimony, I thought I would
7 find somewhere elsewhere in PSE's proposal for a future
8 test year, because you talked a lot about a future test
9 year, and I was wondering what the relevance of that is
10 to the cost of capital discussion?

11 THE WITNESS: The relevance is that whatever
12 the cost of capital that you as the decision body find
13 should be earned in the first 12, 18, 24 months. If it's
14 not earned and investors get the expectation that it
15 won't be earned, it will add to risk and it will add to
16 the return requirement.

17 So first and foremost what investors want, and
18 first and foremost on my wish list of everything that the
19 Company is asking for, and I know it's a lot, is that you
20 use a ratemaking approach that will allow them to earn
21 whatever it is you authorize.

22 CHAIRMAN GOLTZ: So when you say earn for 24
23 months, are you saying future two test years? I mean
24 what is the significance of 24 months?

25 THE WITNESS: Well, the significance of 24

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1 months is that a company shouldn't have to be in every
2 year for a rate increase.

3 CHAIRMAN GOLTZ: So how would a future test
4 year work then? We would be presented -- instead of with
5 the results of operations from a historic test year, we
6 would get a budget for a future test year, or a future
7 year?

8 THE WITNESS: Yes. In future test year
9 jurisdictions, such as California and New York, FERC and
10 the many others, known and measurable refers to that
11 budget. It does not mean or refer to the historical
12 numbers, it refers to the budget, but there would be a
13 budget, and Staff, instead of measuring by looking
14 backwards, would have to become more expert in
15 forecasting.

16 CHAIRMAN GOLTZ: So we would -- it would have
17 line items in their budget that presumably we would, some
18 of which at least we would approve, and that amount then
19 would then go into rates?

20 THE WITNESS: Sure. They might come in and say
21 we're forecasting 4 percent increases in wages for each
22 of the next two years, and Staff would look that over and
23 they'd say, No, we don't think it's 4, we think it's 2,
24 and you would say, Well, we have looked at both of these
25 sets of evidence and we think it's 3. So you would come

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1 up with 3.

2 CHAIRMAN GOLTZ: So let's say that we accepted
3 4, and then a year later, or the next rate it turned out
4 that they didn't give 4 percent rate increases. They
5 gave no rate -- no wage increases. Then what is -- what
6 are we to do with that?

7 THE WITNESS: Then you are to take that into
8 account when you evaluate their testimony the next time,
9 if what they said isn't true one time, the first time
10 shame on them, the second time shame on you.

11 CHAIRMAN GOLTZ: So we would be looking ahead
12 and evaluating the budget, but we would also be auditing
13 the past, so we'd be doing both?

14 THE WITNESS: I don't know if I would use the
15 term "auditing." You'd be doing due diligence on the
16 past. You'd be keeping your eyes open. You'd be
17 watching what they said. You'd be watching how close
18 they came to achieving what they said was going to
19 happen, and if there was a deviation, you'd look for an
20 explanation.

21 CHAIRMAN GOLTZ: So then if there was a --
22 taking the wage increase example, what would be -- if
23 they thought we were going to take that into account the
24 next time around, what would be their incentive to hold
25 wages down?

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1 THE WITNESS: What is their incentive to hold
2 wages down? When they raise rates too much, there's a
3 demand elasticity response. They're going to sell less.

4 CHAIRMAN GOLTZ: What I mean is, is that if
5 they had a 4 percent wage increase in their budget and
6 they knew that if they gave no wage increases, we would
7 frown upon that because we would feel tricked.

8 THE WITNESS: You would feel tricked.

9 CHAIRMAN GOLTZ: But then what would be --
10 that's a disincentive for them to hold wages down. Don't
11 we want them to have incentives to hold wages down?

12 THE WITNESS: Oh, I think they've got every
13 incentive based on elasticity of demand to hold them
14 down.

15 And, also, their feet would be held to the fire
16 by knowing that they asked for a future test year and you
17 were judging this very carefully, because they would know
18 if it were abused you could go back to the old way.

19 CHAIRMAN GOLTZ: And currently they aren't
20 asking for a future test year in this case?

21 THE WITNESS: There's talk about a future test
22 year. There's not a filing based on a future test year,
23 but essentially the idea is that they're not asking for
24 an attrition adjustment. They're saying we want rates
25 based on forward costs so we can earn the return, and we

0813

1 think the present way of doing things isn't working.

2 CHAIRMAN GOLTZ: And your testimony is that if
3 we did have more forward-looking costs, there would be
4 less attrition?

5 THE WITNESS: Yes.

6 CHAIRMAN GOLTZ: And because of in effect the
7 more attrition, the higher risk of attrition, the higher
8 the cost of capital?

9 THE WITNESS: Yes, with the following caveat:
10 I used comparable companies that have no attrition or far
11 less attrition than Puget.

12 Mr. Gorman based his DCF on my comparable
13 companies. He didn't disagree. Mr. Elgin took, I think,
14 six or so of my companies. There wasn't a big
15 disagreement there.

16 So there was nothing in my rate of return, Mr.
17 Elgin's rate of return or Mr. Gorman's rate of return for
18 attrition. So if you take an action to reduce attrition,
19 the return shouldn't be reduced, because there's been
20 nothing in past rates or nothing that is going to be in
21 these rates to offset the attrition.

22 CHAIRMAN GOLTZ: Let me ask just one final
23 question, and that is on the issue about whether ROE
24 should be reduced because of the presence or absence --
25 or presence of a decoupling mechanism.

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1 Am I correct that the Maryland and the District
2 of Columbia's Commissions reduced ROE because at the time
3 they implemented a decoupling mechanism?

4 THE WITNESS: Yes. I'm familiar with those
5 cases. I live right outside of Washington, D.C., in
6 Maryland, and I testify in Maryland, and there was no
7 evidence in those cases. They did it, in my opinion,
8 because they're annoyed at those companies for other
9 reasons.

10 CHAIRMAN GOLTZ: That's not present here, you
11 understand.

12 THE WITNESS: From what I see, there's a fair
13 amount of mutual respect here, but if you were familiar
14 with the outages associated with the company whose rates
15 were at issue, you would understand, because you wouldn't
16 have the phone capacity to deal with the calls you were
17 getting, so --

18 CHAIRMAN GOLTZ: You should have been here a
19 few weeks ago.

20 THE WITNESS: My testimony on the case is
21 basically along the lines that Mr. Cavanagh discussed
22 yesterday. I only know of one study. The study doesn't
23 support any reduction.

24 There are lots of factors that impact risk.
25 And, frankly, I don't think investors look at that very

0815

1 carefully when they look at utilities. They look at
2 dividends, and there is enough room for most utilities
3 between the earnings and the dividends, that if there is
4 a bad year because of weather or something else, they
5 don't have to cut the dividend.

6 So I don't think it's a fluctuation that they
7 worry about, and you can't see it and that makes it
8 difficult to deal with.

9 CHAIRMAN GOLTZ: Am I correct that in the
10 District of Columbia proceeding that the witness for the
11 company agreed to a 25-basis point reduction?

12 THE WITNESS: Yes, you are.

13 CHAIRMAN GOLTZ: That was Dr. Morin; am I
14 correct?

15 THE WITNESS: Yes.

16 CHAIRMAN GOLTZ: I have no further questions.

17 JUDGE MOSS: I just have one point I'm curious
18 about, Dr. Olson, and that is that you mentioned several
19 jurisdictions that have forward-looking rate years,
20 including the FERC, and I have some familiarity with that
21 practice whereby they allow rates to go into effect as
22 filed, subject to refund.

23 Do the other jurisdictions you cited as
24 examples also have the power to order refunds?

25 THE WITNESS: No. They take a year to process

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1 their cases. So at the end of the year, it's like it is
2 here, I believe, that you don't get it processed, the
3 rates go into effect period, not subject to refund.

4 So in New York and California, they take their
5 year, they process the case, and there's no subject to
6 refund. At FERC, they've got a short suspension period
7 and it is impossible to process the rate case in the
8 amount of time they've got.

9 JUDGE MOSS: Or even in ten years in some
10 instances.

11 THE WITNESS: I've got one that has got an '04
12 docket number on it. It's still open.

13 JUDGE MOSS: Thank you. That's all I have.

14 Do we have anything further from counsel as a
15 result of the Commissioners' questions?

16 MS. CARSON: No.

17 JUDGE MOSS: And there is no redirect either?
18 All right. Dr. Olson, we very much appreciate you being
19 here to give your testimony today, and you may step down
20 from the witness stand.

21 THE WITNESS: Thank you.

22 JUDGE MOSS: Mr. Gaines is eager.

23 MR. GAINES: You betcha. It's my birthday. I
24 want to testify on my birthday.

25 JUDGE MOSS: Well, happy birthday, Mr. Gaines.

0818

1 Q. Do these exhibits constitute your prefiled
2 direct and rebuttal testimony and related exhibits in
3 this proceeding?

4 A. They do.

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

7 A. They were.

8 Q. Do you have any corrections to any of your
9 exhibits at this time?

10 A. I have two very minor corrections. In my
11 exhibit DEG-1T, on page 24, line 18, if my notes are
12 right, there is the word -- line 18 in the question,
13 about the sixth word in is the word "earning," and it
14 should be "earned." That's my first correction.

15 My second correction is in my rebuttal
16 testimony, DEG-14T. On page 3, line 5, the second word
17 from the end of that line, it says "if slightly." It
18 should read "is slightly."

19 Q. With those corrections, are your prefiled
20 direct and rebuttal testimony and accompanying exhibits
21 true and correct to the best of your information and
22 belief?

23 A. They are.

24 Q. Thank you.

25 MS. CARSON: Your Honor, PSE offers Exhibits

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1 DEG-1T through DEG-20 into evidence, and offers Mr.
2 Donald E. Gaines for cross-examination.

3 JUDGE MOSS: Thank you. Being no objection,
4 those will be admitted as marked.

5 (Exhibit DEG-1T through DEG-20 was admitted.)

6 JUDGE MOSS: For Mr. Gaines, that is you again,
7 Mr. Cedarbaum.

8 MR. CEDARBAUM: Thank you, Your Honor.

9 CROSS-EXAMINATION

10 BY MR. CEDARBAUM:

11 Q. Hello, Mr. Gaines.

12 A. Hi.

13 Q. If we could start with Cross-Exhibit DEG 21.
14 Do you have that?

15 A. I do. Do we have to admit those in first, Mr.
16 Cedarbaum? I think we just put in through 20, but I have
17 all the cross-exhibits as well, if you want to put them
18 in.

19 Q. I'm happy to move the admission of the Staff
20 exhibits.

21 JUDGE MOSS: Mr. Gaines is just helping me out.

22 CHAIRMAN GOLTZ: It's his birthday.

23 JUDGE MOSS: I notice you have no questions,
24 Mr. ffitch, but you also have an exhibit. Did you want
25 it in?

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1 MR. FFITCH: Yes, Your Honor.

2 JUDGE MOSS: Well, let's take care of all of it
3 at once. No objections? They'll all be admitted as
4 marked.

5 MS. CARSON: Your Honor.

6 JUDGE MOSS: There is an objection.

7 MS. CARSON: No objections. I just wanted to
8 note that there are two of these exhibits that have been
9 supplemented and you should have copies of the
10 supplements. So it's DEG-22 CX and DEG-24 CX.

11 JUDGE MOSS: And I notice two of these are ICNU
12 as well, so. But, anyway, the cross-exhibits will all be
13 admitted as marked.

14 I believe I did receive updates from ICNU and I
15 know those have been distributed to the parties, so, and
16 Staff.

17 (Exhibit DEG-21 CX through DEG-26 CX admitted.)

18 JUDGE MOSS: All right, Mr. Gaines, we're all
19 set. Everything is admitted.

20 THE WITNESS: Perfect.

21 BY MR. CEDARBAUM:

22 Q. Would you like to ask my questions for me?

23 A. Sure, I would be happy to. Are you completed?

24 Sure.

25 Q. Anyway, turning to DEG Exhibit 21.

0821

1 A. Yes, I have it.

2 Q. Now, this is pages from the Company's SEC
3 Form 10-Q for the third quarter of 2011; is that right?

4 A. Yes, it is.

5 Q. And if we go to the last page of the exhibit,
6 this shows the Utility Company's consolidated statement
7 of cash flow; is that right?

8 A. Yes, that's right. Page 11 of 11, if I'm
9 reading it right, upper right-hand corner. Or page 16 of
10 the 10-Q at the bottom center.

11 Q. I'm looking at the page numbers in the upper
12 right-hand corner. It's the last page of the exhibit no
13 matter how you count it.

14 A. Okay, great.

15 Q. If we look at the first nine months of 2011, it
16 shows that Puget Sound Energy generated net cash of
17 \$795,238,000. Do you see that?

18 A. I do.

19 Q. And then just below that it shows construction
20 expenditures for the same period of time of 784 thousand,
21 six -- 784,608,000; is that right?

22 A. Yes.

23 Q. Looking farther down the page, there is a line
24 labeled "Dividends Paid Under Financing Activities."

25 Do you see that?

0822

1 A. I do.

2 Q. And the amount shown for the first nine months
3 of 2011 -- well, first of all, this shows dividends paid
4 by Puget Sound Energy to Puget Energy; is that right?

5 A. That's correct, yes.

6 Q. And so for the first nine months of 2011, the
7 amount in dividends paid to Puget Sound Energy to its
8 parent, Puget Energy, is the \$185,175,000; is that right?

9 A. That's correct.

10 Q. If we turn back in the exhibit to page 7.
11 Again, this is staying with the page numbers in the upper
12 right-hand corner.

13 A. Thank you.

14 Q. At the line at the bottom entitled "Net Income
15 or Loss." Do you see that?

16 A. I do.

17 Q. And this shows that for the nine months ended
18 September 30, 2011, Puget earned 145 thousand --
19 \$145,245,000; is that right?

20 A. For the nine months, yes, that's correct.

21 Q. If we could turn to Exhibit DEG-22.

22 A. I'm there.

23 Q. And if you could look at the first page of --
24 well, first of all, this is the Company's SEC 10-K for
25 2010; is that right?

0823

1 A. Yes, it is.

2 Q. Let's look --

3 A. The statement of cash flows for that, yes.

4 Q. And the first page of the exhibit, which is
5 labeled page 2 of 4 at the top, as you say, shows the
6 Utility Company's consolidated statement of cash flow; is
7 that right?

8 A. Yes, it is.

9 Q. And, again, toward the bottom of the page,
10 there is a line "Dividends Paid." Do you see that?

11 A. Yeah. About the same number as it was for the
12 first nine months of the year.

13 Q. Let's talk about the specific numbers before
14 you characterize them.

15 This, again, represents dividends paid by Puget
16 Sound Energy to its parent, Puget Energy; is that right?

17 A. That's correct.

18 Q. Now, in 2008, on that line that I reference, it
19 shows \$145,840,000 in dividends paid by PSE to Puget
20 Energy, correct?

21 A. Yes, that's correct.

22 Q. In 2009 that went up to 183,071,000?

23 A. Yes.

24 Q. And that payment in -- the dividends paid in
25 2009 occurred after the recent acquisition; is that

0824

1 correct?

2 A. I would have to think so, although I know that
3 the acquisition occurred in February, and I don't think
4 there were any dividends paid between January and the
5 close of that date.

6 Q. So under that assumption then, the dividends
7 paid in 2009 occurred after the acquisition?

8 A. I believe that's true.

9 Q. And moving still across the page on that same
10 line, the dividends paid by Puget Sound Energy to Puget
11 Energy for 2010 are the 186,773,000; is that right?

12 A. Yes, it is.

13 Q. Now, earlier in Exhibit DEG-21 -- I will get
14 you the right page number. This was the last page of the
15 exhibit.

16 We discussed the dividends paid for the first
17 three-quarters of 2011. That's the \$185 million figure.
18 I'm wondering if during the last quarter of 2011
19 dividends were paid by Puget Sound Energy to Puget
20 Energy?

21 A. I believe the way to determine that number
22 would be to subtract the 185 from the 186. So roughly a
23 million dollars or so was paid in the fourth quarter.

24 We take the annual number from the 10-K from
25 DEG-22 and we subtract the 185, and so it would be

0825

1 roughly a million dollars.

2 Q. So does that mean that -- are you saying that
3 the dividend, a dividend was not paid in the fourth
4 quarter of 2011?

5 A. I think there was a small one. The amount --
6 the difference between -- let me just be accurate here.

7 The difference between 186,733 and 185,175. So
8 roughly a million-six, maybe, something like that.

9 Q. If we turn to your rebuttal testimony --

10 CHAIRMAN GOLTZ: Could I just ask a clarifying
11 question? I'm sorry. But on exhibit -- page 11 of 11 of
12 Exhibit 21, that's the nine months, the first nine months
13 of 2011, correct?

14 THE WITNESS: Yes.

15 CHAIRMAN GOLTZ: And the other figure, 186,733,
16 was the entire year of 2010?

17 THE WITNESS: I think you may be right on that.
18 Yes, because we haven't released the annual report for
19 2011. That would be correct.

20 MR. CEDARBAUM: I guess I was confused. Thank
21 you, Chairman.

22 BY MR. CEDARBAUM:

23 Q. So the dividend will be issued for the fourth
24 quarter of 2011?

25 A. It will be a small one. Historically, if you

0826

1 looked at the quarters, let's just -- and they're not in
2 the exhibit, Mr. Cedarbaum, or not in the materials here,
3 but I think if we looked at the quarterly Q's, for the
4 quarters leading up to the year, you would see the bulk
5 of the dividends that Puget Sound Energy paid to Puget
6 Energy were probably paid in the first and second
7 quarters and not a lot in the third and fourth quarters.

8 Q. When will it be known the amount of the
9 dividend for the fourth quarter of 2011?

10 A. It's probably known now, not just by me. Our
11 financial statements will be released in a couple of
12 weeks on March, say, 4th, so we will know then.

13 We can subtract the annual number again, or the
14 first nine months' number from the annual number. And we
15 could do a record requisition, or however you want, and
16 get board minutes.

17 MR. CEDARBAUM: Your Honor, I'm wondering if
18 you want to make it a bench request or a record
19 requisition for the Company to provide the fourth quarter
20 2011 dividend paid by Puget Sound Energy to Puget Energy.

21 JUDGE MOSS: Seeing it's already been paid, so
22 somewhere somebody in your company has the number.

23 THE WITNESS: We can get it from the board
24 minutes or actual journal entries.

25 JUDGE MOSS: Why don't we provide that for the

0827

1 record, and that will be Bench Request 12.

2 BY MR. CEDARBAUM:

3 Q. Now, turning to your rebuttal at page 15, lines
4 14 to 17, you criticize Mr. Elgin for not adjusting the
5 capital structures of his peer groups of holding
6 companies for nonutility operations?

7 A. I criticize him for not looking at them. He
8 didn't look at the holding -- he didn't look at the
9 capital structures of the utilities underneath his
10 holding companies.

11 Q. Your testimony states at line 14, "Mr. Elgin
12 states in his response to PSE Data Request No. 41 that he
13 did not adjust the capital structures of his peer groups
14 of holding companies for nonutility operations," and then
15 you say you did so?

16 A. Yes.

17 Q. And you say you did so in Exhibit DEG-17?

18 A. Correct.

19 Q. So let's turn to DEG-17.

20 Is it correct that the information you have on
21 DEG-17 is the authorized returns and authorized ROEs and
22 equity ratios that were approved by the various
23 commissions of the various companies that you show?

24 A. That's correct.

25 Q. So you did no independent analysis yourself of

0828

1 these capitalization ratios; you just reported what
2 commissions authorized?

3 A. I felt that was the most appropriate data here,
4 because a lot of companies have various adjustments that
5 they make --

6 Q. Mr. Gaines, I just simply asked --

7 A. -- to their book numbers. So I thought it was
8 good to get what the --

9 Q. I simply need --

10 JUDGE MOSS: One at a time, Mr. Cedarbaum.

11 THE WITNESS: Sorry. Go ahead.

12 BY MR. CEDARBAUM:

13 Q. When I speak, that's a signal for you to stop.

14 A. Or vice versa.

15 Q. No. I asked for a yes or no question. I would
16 appreciate yes or no, and that's it. If your counsel
17 wants to redirect, she can do that.

18 A. All right.

19 Q. Looking at the information on this page, you
20 show, for example, under Alliant Energy, you have entries
21 for Wisconsin Power & Light Company twice for an order
22 that was issued on December 18, 2009. Do you see that?

23 What I'm specifically looking at is you show,
24 Wisconsin Power & Light, decision date December 18, 2009,
25 the most recently allowed ROE and then the most recently

0829

1 allowed equity ratio are the same number; is that
2 correct?

3 A. I see those numbers. When you say they're the
4 same number, I don't know what you mean. I see the
5 Wisconsin number 12/18/2009 and an ROE and an equity
6 ratio.

7 Q. So those figures came out of the same decision
8 by the Wisconsin Commission?

9 A. Oh, yes. I'm sorry, yes. They did, yeah.

10 Q. At the same time, same order at the same time?

11 A. Same order, yes.

12 Q. For the same company?

13 A. Yes.

14 Q. Is the same true for under Avista Corporation,
15 the Washington jurisdiction? In other words, that was
16 one commission -- this Commission's order, a single
17 order, issuing an authorized return for the combined
18 electric and gas operations of Avista Corporation?

19 A. That's my understanding, yes.

20 Q. And the same is true for the Idaho
21 jurisdiction?

22 A. Yes. Sorry.

23 Q. And the same would be true, if we look down to
24 the bottom of the page, for Wisconsin Energy, the first
25 two entries?

0830

1 A. Yes.

2 Q. And staying on this exhibit, back up at the top
3 under Alliant Energy, it says for Interstate Power &
4 Light Company.

5 Do you see those two entries?

6 A. I do.

7 Q. The second one is an October 2005 entry shown
8 of -- for equity ratio of 49.35 percent.

9 Do you see that?

10 A. I do.

11 Q. And then five years later, in a more recent
12 decision of that commission, the equity ratio for that
13 same company was lowered to 44.24 percent?

14 A. Yes. And the ROE was increased.

15 Q. From 10.4 to 10.44?

16 A. Yes.

17 Q. If you could look at Exhibit DEG-20.

18 A. Yes.

19 Q. And this is your updated estimate of your
20 calculation of benefits for a rating upgrade; is that
21 right?

22 A. Yes, it is.

23 Q. Looking at the column just to the right of the
24 middle, Estimated Annual Interest Savings, do you see
25 that?

0831

1 A. I do.

2 Q. Would you accept, subject to check, that if we
3 added up the numbers in that column we'd get an estimated
4 annual interest savings of \$3.133 million?

5 A. 0.6, yes.

6 Q. And that would be on a total principal of
7 \$1.77 billion?

8 A. Correct.

9 Q. Now, in his testimony, Mr. Elgin estimates the
10 cost of a higher equity ratio that you propose as
11 \$13.2 million.

12 Do you recall that?

13 A. I do.

14 Q. And you don't challenge his calculation?

15 A. I did a calculation that comes to, I think it
16 was 12 million. So I'm not too far off his 13.

17 Q. If we use his 13.2 million, would you accept,
18 subject to check, that comparing the annual savings of
19 the 3.133 million that we calculated before to the
20 13.2 million cost that Mr. Elgin calculates, that we get
21 a cost-to-benefit ratio of 4.2-to-1?

22 A. I would, although there are some caveats there.

23 Q. Finally, on page -- Exhibit DEG-22, on the last
24 page of the exhibit, in the last full paragraph above
25 Section 4 toward the bottom?

0832

1 A. I see it.

2 Q. There is a reference to a February 6, 2009,
3 Puget Energy contribution of about \$805 million to Puget
4 Sound Energy.

5 Do you see that?

6 A. I do.

7 Q. And that was an equity infusion at that time?

8 A. Yes, it was.

9 Q. If we could just turn quickly to your exhibit
10 DEG-4 at page 4. This is one of your direct exhibits.

11 A. DEG-4, page 4, I'm there.

12 Q. Just give us a moment to get you to the right
13 cite.

14 A. Maybe page 2?

15 Q. That's correct. Thank you.

16 On page 2, column B, for December 2009, on
17 line 17, there is a common equity ratio of 50.59 percent.

18 A. I'm wondering if I'm looking at the same thing.
19 Did you say February 2009? I think it's 2010.

20 Q. I'm looking at column B.

21 A. B? I'm sorry, B. I thought you said D. I'm
22 sorry. December 2009, yes, yes.

23 Q. On line 17, the 50.59 percent equity ratio, do
24 you see that?

25 A. I do.

0833

1 Q. So that would include the equity infusion that
2 we just discussed; is that correct?

3 A. Yes, it would.

4 MR. CEDARBAUM: Thank you. Those are all my
5 questions.

6 JUDGE MOSS: Do we have questions for the bench
7 for Mr. Gaines?

8 COMMISSIONER JONES: Just one follow-up
9 question, Judge Moss.

10 Mr. Gaines, let's go back to DEG-22, where it
11 talks about dividends being paid out.

12 THE WITNESS: Yes.

13 COMMISSIONER JONES: And I note in the two
14 columns, 2008 is 145,840 and then 2009 is 183,071?

15 THE WITNESS: Yes.

16 COMMISSIONER JONES: That's an increase of
17 \$38 million?

18 THE WITNESS: Yes.

19 COMMISSIONER JONES: What's the math on that,
20 since you are so good at doing calculations?

21 THE WITNESS: What you say "the math," what is
22 the reason for the increase?

23 COMMISSIONER JONES: No, the percentage
24 increase.

25 THE WITNESS: 38. It's about 20 percent,

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1 30 percent, something like that.

2 COMMISSIONER JONES: Somewhere in there. So is
3 this typical for utilities in the Dow Jones Utility
4 Index, to pay such a high rate of increase in dividends?

5 THE WITNESS: No. This is comparing pre-merger
6 2008 to post-merger 2009.

7 COMMISSIONER JONES: Who makes the decisions on
8 dividending up to the parent?

9 THE WITNESS: The board of directors.

10 COMMISSIONER JONES: Which board of directors?

11 THE WITNESS: Puget Sound Energy board of
12 directors.

13 COMMISSIONER JONES: What about the Puget
14 Energy board of directors?

15 THE WITNESS: They make the decision as to what
16 dividends get paid out, above out of Puget Energy.

17 COMMISSIONER JONES: Aren't there people who
18 serve on both board of directors?

19 THE WITNESS: There's quite a similarity
20 between the board members, yes.

21 COMMISSIONER JONES: That's all I have. Thank
22 you.

23 JUDGE MOSS: Anything else? Any redirect?

24 MS. CARSON: Yes, a couple of questions.

25 /////

0835

1 REDIRECT EXAMINATION

2 BY MS. CARSON:

3 Q. Mr. Gaines, turning to DEG-22 CX and the
4 dividends paid 2008, 2009 and 2010, I think you testified
5 that you thought all the dividends paid in 2009 were post
6 the merger; is that right?

7 A. I believe that's correct, yes.

8 Q. Was there any stub dividend paid by PSE in
9 January 2009?

10 A. There may have been, and I would -- I just
11 don't know off the top of my head.

12 Q. Is that something that you would be able to
13 readily check and get back with the Commissioners?

14 A. I think I could probably call somebody -- yeah,
15 I could probably call somebody back at the office to find
16 that out.

17 MS. CARSON: We'd like to reserve the right to
18 update that response that Mr. Gaines made in the event
19 that there were additional dividends paid prior to the
20 acquisition.

21 JUDGE MOSS: The record will certainly benefit
22 from an accurate answer. So yes, I will allow that.

23 BY MS. CARSON:

24 Q. Mr. Cedarbaum asked you about the cost-to-
25 benefit ratio of 4.2-to-1. Do you recall that?

0836

1 A. I do.

2 Q. And you agreed to that, subject to check, with
3 some caveats?

4 A. Yes.

5 Q. Did you want to elaborate on those caveats?

6 A. I would. There's a couple of caveats there.

7 The first one is, the annual savings started in
8 2009, when we did the first bond issue, and so that 3
9 million a year or the portion of it attributable to the
10 securities that were issued in 2009 and 2010, customers
11 have been getting those benefits from lower capital
12 costs, and we haven't updated the capital structure yet.

13 And that continues on until -- if the capital
14 structure weren't updated, they would still be getting
15 that benefit, and that's why I think we have to look at
16 the present value of the savings, the 40 million, and
17 compare that to the cost, because capital structures may
18 go up and may go down.

19 It could be that it stays at 46. It could go
20 up to 48. It could go up to 48 and then go down to 46
21 again, but regardless of what happens to that number, the
22 44 million present value, or the annual savings 3 million
23 a year, which equates to the 44 million, is constant and
24 will never change.

25 MS. CARSON: Thank you. I have no further

0837

1 questions.

2 JUDGE MOSS: Thank you very much.

3 Mr. Gaines, I believe that completes --

4 MR. CEDARBAUM: Your Honor.

5 JUDGE MOSS: I'm sorry?

6 MR. CEDARBAUM: I don't know if I'm out of
7 order to ask just one follow-up question.

8 JUDGE MOSS: Well, you could be without
9 permission to do so, but I will allow that.

10 MR. CEDARBAUM: Thank you.

11 RE-CROSS-EXAMINATION

12 BY MR. CEDARBAUM:

13 Q. Mr. Gaines, you indicated that the decision for
14 payment of dividends by Puget Sound Energy to Puget
15 Energy is made by the board of Puget Sound Energy?

16 A. Yes.

17 Q. Are there members of the investor consortium
18 that acquired Puget Energy that sit on the board of Puget
19 Sound Energy?

20 A. Yes, there are some.

21 MS. CARSON: So I would like to object to this
22 line of questioning. Mr. Cedarbaum -- those questions
23 were raised by the bench. Mr. Cedarbaum had no
24 questions. I did redirect. I think any questions he has
25 now should be related to the redirect.

0838

1 MR. CEDARBAUM: That was my only question.

2 JUDGE MOSS: Then we're done. Thank you, Mr.
3 Gaines. We appreciate you being here today, and you may
4 step down. Mr. Elgin, you may step up.

5 Do you solemnly swear or affirm under penalty
6 of perjury that the testimony you give in this proceeding
7 will be the truth, the whole truth and nothing but the
8 truth?

9 MR. ELGIN: I do.

10 JUDGE MOSS: Please be seated.

11

12 KENNETH L. ELGIN, witness herein, having been
13 first duly sworn on oath,
14 was examined and testified
15 as follows:

16

17 DIRECT EXAMINATION

18 BY MR. CEDARBAUM:

19 Q. Would you please state your full name and spell
20 your last name?

21 A. Kenneth L. Elgin. E-L-G-I-N.

22 Q. And, Mr. Elgin, you have prepared prefiled
23 response testimony in this proceeding on behalf of
24 Commission Staff?

25 A. Yes.

0839

1 Q. Referring you to Exhibit KLE-1T, is that your
2 prefiled response testimony?

3 A. Yes.

4 Q. And are Exhibits KLE-2 through 7 the associated
5 exhibits to your response testimony?

6 A. Yes.

7 Q. Were all these materials prepared by you under
8 your supervision or direction?

9 A. Yes.

10 Q. And are they true and correct to the best of
11 your knowledge and belief?

12 A. Yes, they are.

13 MR. CEDARBAUM: Your Honor, I would offer
14 Exhibits KLE-1T through 7.

15 MS. CARSON: No objection.

16 JUDGE MOSS: They will be admitted as marked.

17 (Exhibit KLE-1T through KLE-7 was admitted.)

18 JUDGE MOSS: Your witness is available?

19 MR. CEDARBAUM: Yes, Your Honor.

20 JUDGE MOSS: Ms. Carson, I believe you are the
21 only one designating cross-examination for Mr. Elgin.

22 You may go ahead.

23 MS. CARSON: Thank you, Your Honor.

24 CROSS-EXAMINATION

25 BY MS. CARSON:

0840

1 Q. Mr. Elgin, please turn to your direct
2 testimony, your response testimony, KLE-1T, page 16.

3 A. Yes.

4 Q. On this page, lines 7 through 11, you reference
5 the new debt PSE issued in November 2011 and you claim
6 that lowers PSE's equity ratio; is that correct?

7 A. Yes.

8 Q. That debt doesn't lower PSE's equity level, as
9 it's used to replace existing debt, does it?

10 A. It depends on the magnitude and the amount of
11 debt that is replaced.

12 Q. But to the extent that it replaces existing
13 debt, it doesn't lower PSE's equity level, correct?

14 A. If there is a one-for-one tradeoff, under that
15 hypothetical it would not.

16 Q. Mr. Elgin, did you review your proxy group to
17 determine which companies had what you consider to be
18 risk-reducing mechanisms, such as future test years,
19 decoupling, riders, trackers, etc.?

20 A. No. My selection criteria were not that
21 refined.

22 Q. Mr. Elgin, on page 78 of your testimony, if you
23 could turn to that.

24 A. Yes, I have that.

25 Q. In this section of your testimony you are

0841

1 addressing concerns about attrition; is that right?

2 A. Yes. The Company's alleged attrition.

3 Q. And on page 78, lines 7 through 9, you cite to
4 Moody's, referring to the Commission's collaboratory
5 regulatory relationship and credit supportive regulatory
6 practices; is that correct?

7 A. Yes.

8 Q. And you have a footnote pointing to DEG-5?

9 A. Yes.

10 Q. Do you have DEG-5?

11 JUDGE MOSS: I think the Company is going to
12 provide you a copy. There you go.

13 THE WITNESS: Thank you. I have that.

14 BY MS. CARSON:

15 Q. And do you see the heading that you were
16 referencing, the collaborative regulatory relationship?
17 It's on page 2.

18 A. Yes.

19 Q. Along with this heading about collaboratory
20 regulatory relationship, doesn't Moody's express concern
21 about some underearning?

22 A. Yes, it does.

23 Q. In the final paragraph in that section Moody's
24 expresses concern about the regulatory equity ratio has
25 been set at 46 percent, below its actual level of

0842

1 48 percent, correct?

2 A. That's correct.

3 Q. And Moody's also expresses concern about the
4 effects of regulatory lag from the use of the historical
5 test year?

6 A. Yes. And I should add that those are ongoing
7 communications, and those concerns are communicated to
8 the rating agencies by Puget.

9 So to the extent that these are independent
10 analyses, but these are also presentations that the
11 Company raises with the rating agencies. So it's partly,
12 in my mind, Puget speaking as well.

13 Q. And do you think the rating agencies just take
14 what Puget says and print it out here, or do you think
15 they do some analysis of their own?

16 A. No, I think it's a combination of both. My
17 testimony is that it's not all Moody's saying this. It
18 is some of PSE saying this as well.

19 Q. Would you turn to page 24 of your testimony?
20 Again, this is KLE-1T.

21 A. Yes.

22 Q. Here you list your comparable companies for
23 purposes of the ROE analysis, correct?

24 A. That is correct.

25 Q. And then you also state that in terms of your

0843

1 analysis of capital structure you also looked at this
2 proxy group; that was one of the factors that you used to
3 determine your 46 percent equity ratio, correct?

4 A. The capital structure or the bond rating?

5 Q. Why don't you turn to KLE-8 CX, your cross-exam
6 exhibit, and we can look a little closer at that.

7 A. I have that.

8 Q. Did you prepare this document, Mr. Elgin?

9 A. Yes, I did. Staff response to PSE Data Request
10 No. 38.

11 Q. And in this response you are providing
12 additional information as to how you reached your
13 46 percent equity ratio, correct?

14 A. Yes.

15 Q. And in your response in the second paragraph,
16 No. 2, you say it is consistent with the capital
17 structure of the proxy group; is that right?

18 A. That is correct.

19 Q. Your comparable companies are holding
20 companies, aren't they?

21 A. Yes. One of the selection criterias was that
22 they were principally operations who were regulated, and
23 I did eliminate one of the companies, OGE, that Dr. Olson
24 chose because of the degree of unregulated revenues in
25 its operations.

0844

1 So to the extent that they're holding
2 companies, their principal source of revenues and
3 earnings are regulated operations.

4 Q. But you are comparing the capital structure of
5 these holding companies to the capital structure of PSE,
6 correct?

7 A. That is correct.

8 Q. And in DEG-17 there's a comparison of the
9 regulated companies' capital structure as compared to the
10 capital structure that you identify for each of these
11 holding companies, correct?

12 A. No, that's not correct. That's not what DEG-17
13 is.

14 Q. Well, shall we look at DEG-17?

15 A. I have that.

16 Q. Just one moment. Okay. So DEG-17, are you
17 saying that the -- for example, Alliant Energy is one of
18 your comparable companies; is that right?

19 A. Yes.

20 Q. And that is a holding company, isn't it?

21 A. Yes.

22 Q. And listed below are Interstate Power & Light
23 and Wisconsin Power & Light, which are regulated
24 utilities of Alliant Energy, aren't they?

25 A. Yes.

0845

1 Q. And isn't that true of the other companies on
2 this page?

3 A. Yes.

4 Q. So DEG-17 shows the --

5 A. Except for Avista Corp. and Portland General
6 Electric in terms of the way I would view their
7 structure, but in general, yes.

8 Q. Okay. And so DEG-17 does show the capital
9 structure for the regulated utilities underneath the
10 holding companies that you identified as comparables,
11 right?

12 A. No, it does not. What it shows is that it
13 shows what the regulatory bodies use for ratemaking for
14 these companies. It does not show what you have asked me
15 or what Mr. Gaines has asserted in his testimony.

16 It does not go to those consolidated financial
17 statements and remove the companies and does an analysis
18 of what their actual equity ratio is. That's not what
19 this exhibit shows.

20 Q. But it does show what the respective
21 commissions determined was an appropriate capital
22 structure and equity ratio for these companies, right?

23 A. That's correct.

24 MS. CARSON: I have no further questions.

25 JUDGE MOSS: Thank you. Anything from the

0846

1 bench? Commissioner Jones, I think, has something.

2 COMMISSIONER JONES: Yes. I can't see you
3 Judge Moss. There you are.

4 JUDGE MOSS: I can see you.

5 COMMISSIONER JONES: Good afternoon, Mr. Elgin.

6 THE WITNESS: Good afternoon, Commissioner.

7 COMMISSIONER JONES: Did you overhear my
8 dialogue with Dr. Gorman yesterday?

9 THE WITNESS: Yes, I did.

10 COMMISSIONER JONES: Would you agree with his
11 assessment that the debate or the discussion over growth
12 estimate, what people call small g , is kind of at the
13 crux of this DCF methodology in this case?

14 THE WITNESS: Yes. That accounts for the
15 differences between Dr. Olson's recommendation and Mr.
16 Gorman's and my recommendation, just what is the
17 appropriate number for that.

18 COMMISSIONER JONES: So I'm going to ask a few
19 questions on that and then move on to your analysis using
20 book value and internal growth and end up with a little
21 bit on the weighting that we should use of these various
22 methodologies.

23 So doesn't the short-form DCF methodology
24 require that g , the growth, be both constant and
25 perpetual?

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1 THE WITNESS: In its original form, yes, it
2 does, because you had to make some simplifying
3 assumptions, and in its original form, yes, it does.
4 However, in practice it does not.

5 COMMISSIONER JONES: So you're saying in the
6 theory it does, but in the application of the DCF -- and
7 you have been doing this for many years, have you not?

8 THE WITNESS: Yes, off and on, sir.

9 COMMISSIONER JONES: So as you apply these
10 theories in practice, that you have to make some
11 adjustments to that. So let's talk about those a little
12 bit.

13 So if that g is not constant and perpetual,
14 doesn't it require that you carry out a calculation in
15 multiple stages?

16 THE WITNESS: No.

17 COMMISSIONER JONES: It does not?

18 THE WITNESS: No, it does not.

19 COMMISSIONER JONES: And why is that?

20 THE WITNESS: Because of the impact of price.
21 So, for example -- and the reason why I say price has
22 such a big impact is that we all agree that the further
23 out you go, the less reliable information and the less
24 reliable your estimates become.

25 And so in the practical application of the DCF,

0848

1 if you go out three to four, maybe even five years,
2 investors make judgments about growth and choose whether
3 to buy or not to buy a stock, and during that ensuing
4 period, if those judgments don't pan out, the price
5 adjusts accordingly.

6 And so you have two parts of the equation,
7 price and growth. And so if you make a purchase decision
8 or investment decision for a share of stock on the basis
9 of, let's say, a 6 percent growth and it doesn't pan out,
10 you -- your options are now to look at other alternatives
11 to capture your required rate of return. So the price
12 adjusts, and when the price adjusts, the yield goes up
13 and new assessments are made.

14 And so that's why I say in practice. Because
15 of competitive markets and the ability to -- prices to
16 change, it's not as critical to be consistent and
17 theoretically consistent with long-term growth.

18 And the second reason I say that is that when
19 you do in perpetuity and you do a multistage DCF,
20 whatever you choose for your long-term growth, the
21 mathematics of the discounting of the cash flow, that
22 derives the result.

23 So you are really there in a single stage
24 anyway. So mathematically that derives the equation, so
25 I think you are better off looking at the prices and what

0849

1 are reasonable estimates of growth over some more
2 narrowed or short-term to intermediate term kind of time
3 horizon.

4 COMMISSIONER JONES: And by short term to
5 intermediate term, that would be five to ten years?

6 THE WITNESS: No. I would say it's three to
7 five years, and it's kind of consistent with the kind of
8 projections that you see Value Line do in the Value Line
9 publication.

10 COMMISSIONER JONES: Now, Dr. Gorman carried
11 out three variants of DCF, did he not?

12 THE WITNESS: Yes.

13 COMMISSIONER JONES: His second methodology is
14 called sustainable yields. Some people call that
15 plowback methodology, correct?

16 THE WITNESS: I don't -- I don't abide by that,
17 so how people call it, I'm --

18 COMMISSIONER JONES: Well, let me describe the
19 substance of it. It basically focuses on retained
20 earnings, the retention ratio of earnings that a utility
21 holds before paying out a dividend, correct?

22 THE WITNESS: Yes.

23 COMMISSIONER JONES: Now, would you agree that
24 that type of a method is similar in many respects to your
25 method of using book value, the B times R, the book value

0850

1 times the retention ratio that you use?

2 THE WITNESS: It's not the book value, sir.

3 It's the return on book times the retention.

4 COMMISSIONER JONES: Yes, the return on book
5 times the retention.

6 THE WITNESS: Yes, though the data that gives
7 rise to how he uses that is the same. We just use the
8 data differently to reach a different -- to reach our
9 conclusion.

10 COMMISSIONER JONES: And what was the end
11 result? The end result of his conclusion of the three
12 DCFs was 9.83, correct?

13 THE WITNESS: I will accept that. I will
14 accept that.

15 COMMISSIONER JONES: Subject to check?

16 THE WITNESS: Yes.

17 COMMISSIONER JONES: And what is the final end
18 result of your DCF analysis?

19 THE WITNESS: No more than 9.5 percent.

20 COMMISSIONER JONES: So fairly close?

21 THE WITNESS: Fairly close.

22 COMMISSIONER JONES: 33 basis points different?

23 THE WITNESS: (Witness nodding head.)

24 COMMISSIONER JONES: Do you have any other
25 comments on Dr. Gorman's analysis of DCF and any of the

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1 discussion that he and I had yesterday, any comments on
2 that before I move on?

3 THE WITNESS: Well, the other thing in Dr.
4 Gorman's, or Mr. Gorman's DCF is that he relies on
5 consensus growth, but then he tempers it with the overall
6 growth in economy as some kind of barrier to what is
7 long-term sustainable growth, and I don't particularly
8 abide by that theory, because utilities have dividend
9 policies and dividend policies have a dramatic impact on
10 growth, and so it has nothing to do with the economy.

11 And so it really boils down to whether or not
12 you think there's a connection between the growth and
13 GDP and long-term sustainable growth for a utility, and I
14 don't believe there is a connection. So I don't do the
15 study that way.

16 COMMISSIONER JONES: I think his testimony was
17 in relation to Dr. Olson's estimate of 7.81 percent of
18 the g, correct?

19 THE WITNESS: Right, but I think in terms of
20 his DCF as well, he tempers that with that GDP growth
21 estimate as a cap.

22 COMMISSIONER JONES: Which is 4.9 percent,
23 correct?

24 THE WITNESS: Yes.

25 COMMISSIONER JONES: Could you turn to pages 57

0852

1 and 58 of your testimony, KLE-1T, where you are
2 discussing Dr. Olson's analysis?

3 THE WITNESS: I have that.

4 COMMISSIONER JONES: Now, do you agree -- I
5 think you are saying here that Dr. Olson's analysis is
6 unreasonable, his 7.81 percent.

7 So could you help me understand why that
8 7.81 percent that he derives from Yahoo Finance in the
9 earnings and the analyst is -- as you say on line 21,
10 clearly strain any notion of reasonableness?

11 THE WITNESS: If you go back up to the math
12 that I did on line 13, sir. So if you assume that his
13 comparable group of utilities have a payout ratio of 55
14 to 60 percent, which is what the industry average is, and
15 if you say that investors are expecting a growth in
16 dividends of 7.81 percent and you divide that by some
17 reasonable retention ratio, you get a return on book
18 equity that I just don't think is credible for a
19 regulated utility. I just don't know how a regulated
20 utility could have that kind of internal growth on its
21 retained earnings.

22 And so the math is pretty straightforward, and
23 to me, I just think 7.81 percent, as I look at that, I
24 just can't get there. And even if I look at some of the
25 similar comparables and I looked at their growth in book

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1 value and growth in retained earnings, the fundamental
2 growth in the book value and the ability of the Company
3 to earn on book just cannot get me to a point where I say
4 that's a credible estimate of growth for the DCF model.

5 COMMISSIONER JONES: I'm going to ask you a
6 question about actual dividends paid. We discussed it
7 with the previous witness, Mr. Gaines, but do you have
8 any idea, is there anything in this record of the actual
9 dividend payout ratio of Puget Sound Energy to its parent
10 that you see in this record?

11 THE WITNESS: Yes. We provided that for you in
12 DEG-22 CX, I believe is the exhibit.

13 COMMISSIONER JONES: Right.

14 THE WITNESS: You can calculate the earnings
15 and then divide that by the dividend declared and then
16 that will give you a payout ratio.

17 COMMISSIONER JONES: Can you do that for me?

18 THE WITNESS: I don't have 22 CX in front of
19 me, but I can provide that in response to a bench
20 request.

21 COMMISSIONER JONES: Could you, please?

22 THE WITNESS: Yes, I will.

23 JUDGE MOSS: Make it BR 13.

24 COMMISSIONER JONES: And, finally, Mr. Elgin,
25 with this -- because the small g debate is so important

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1 and the weighting between historical data and analyst
2 data, which is forward-looking, I think is critical to
3 this record, so can you help me understand how you weight
4 historical growth with prospective growth?

5 I think in your analysis of looking at book
6 value and retained earnings you look at both, both
7 historical and prospective, but is it fair to assume that
8 you, for example, would use equal weight to historical
9 data and prospective data or less weight to historical,
10 more to prospective? Just give me a sense of that as you
11 look at these numbers that determine growth.

12 THE WITNESS: I would like to -- first off, let
13 me clarify the record. Unfortunately, the rebuttal
14 testimony gave the impression that I used historical
15 growth or historical data from Value Line to estimate
16 growth, and I did not. I used Value Line's projections.

17 So to the extent that Value Line analysts use
18 historical growth in their projections, that's in there,
19 but my growth in book value, my growth in dividends and
20 my growth from retained earnings, that was all based on
21 Value Line's projection for the time period of the data
22 that I had.

23 And so if you look at the exhibit that we
24 introduced to Dr. Olson for Nevada Energy where you
25 see -- where we had him highlight those future years,

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1 that's what -- that's what I relied on.

2 And then also I relied on Value Line's
3 projections for earnings and tried to reconcile the
4 earnings that they're projecting with the underlying book
5 value and dividend growth that they have in their
6 exhibits.

7 So all my growth, or estimates for growth were
8 based on Value Line future projections. So there's
9 nothing in there that is for historical growth in my DCF.
10 So it's a hundred percent future.

11 Now, in terms of the weighting of the two,
12 it's -- there is no mechanical. I tried to lay out each
13 of the factors and then tried to say what an upper bound
14 would be in terms of a reasonable estimate of growth, and
15 it seems to me that my studies suggest that 5 percent for
16 the comparable group is the upper bound that investors
17 can reasonably expect for growth in dividends under the
18 DCF model. So that's how I did it.

19 COMMISSIONER JONES: So, Mr. Elgin, just to get
20 this straight, when you were just correcting the record,
21 on page 58, lines 12 through 20 -- this deals with
22 Dr. Olson -- you seem to be critiquing his analysis in
23 some respect, and you issued a data request here to see
24 what historical earnings he used in the context of
25 projecting future earnings, right?

0856

1 THE WITNESS: Yes.

2 COMMISSIONER JONES: And there were none
3 provided, but you do state here that, "While I do
4 disagree that historical earnings are not indicative of
5 future earnings," and then you go on to say that they do
6 have some impact on future earnings based on volatility
7 and economic cycles up and down, correct?

8 THE WITNESS: Right. In particular, NV Energy
9 is a good example, and you have the evidence there. If
10 you look at the history of Nevada Energy, their earnings
11 were like in the mid-2000s about \$1.14, \$1.14 a share and
12 it tanked, and now Nevada Energy is coming back out, and
13 to some extent analysts' estimates in terms of their
14 growth expectations capture that rebound in earnings.

15 So that's one of the things that earnings
16 analysts' estimates need to be tempered for, is what
17 happens to a specific company and are there any events
18 that would cause a high short-term earnings and then
19 question is that sustainable for long-term growth under
20 the DCF.

21 COMMISSIONER JONES: So basically what you are
22 describing, Mr. Elgin, is economic cycles perhaps, or
23 cycles of earnings of the utility in response to economic
24 cycles?

25 For example, the Nevada economy could have gone

0857

1 into a deep depression. They didn't sell as many
2 kilowatt hours and therefore their sales and earnings
3 went down, but as they move into the future -- I'm
4 looking at the exhibit now -- they're estimating growth
5 and earnings of 10 percent?

6 THE WITNESS: Right.

7 COMMISSIONER JONES: And their past ten years
8 was 3.5 percent. So that's a big difference?

9 THE WITNESS: Right. So my point is, is that
10 once Nevada Energy gets stabilized again and they get
11 that 10 percent rebound, now the question is what is
12 sustainable for the long term.

13 COMMISSIONER JONES: And that's what you are
14 driving at with your analysis and I think Dr. Gorman is
15 driving at in his analysis through different
16 mechanisms --

17 THE WITNESS: That's right.

18 COMMISSIONER JONES: -- of the DCF, and you
19 both arrive at roughly with a 30 basis point difference?

20 THE WITNESS: That's correct.

21 COMMISSIONER JONES: Thank you.

22 JUDGE MOSS: Anything else from the bench?

23 CHAIRMAN GOLTZ: I have a couple of questions
24 for Mr. Elgin on the last part of his testimony, part 4,
25 attrition.

0858

1 And just to set the stage, I understand you
2 propose two possible mechanisms for getting at attrition.
3 One is an attrition adjustment, and you give some history
4 there, and the other is -- I guess I reread your
5 testimony at a break and you call it an expedited rate
6 case? Is that how you refer to it?

7 THE WITNESS: Yes.

8 CHAIRMAN GOLTZ: So taking the second one
9 first, the expedited rate case, were you in the hearing
10 room yesterday when I asked Mr. DeBoer about that, and I
11 recall him saying he didn't know enough about it?

12 THE WITNESS: Yes, I recall that testimony.

13 CHAIRMAN GOLTZ: So I would just like to ask
14 you some more about it and what Commission Staff would
15 expect from the Company -- from a company that wished to
16 undertake such an option.

17 And I will also probably ask Mr. Story, because
18 I think Mr. DeBoer deferred to him, but Mr. Story
19 testifies about what he would -- you know, about what
20 burden that would impose on the Company. So what would
21 you expect to see?

22 THE WITNESS: I would expect to see a very
23 clean case. And the Commission basis reports that the
24 companies for monitoring purposes file annually, I would
25 suggest be the foundation.

0859

1 And that I would also expect that if -- as I
2 looked at all these cases and when I looked at this whole
3 notion of attrition, what struck me after I filed my
4 testimony, the real thing that is driving this and
5 driving rate cases is investment, it's rate base.

6 So what I'm suggesting here is some mechanism
7 to capture that so that we know what is spent, and we
8 know what are the underlying factors that impact load,
9 and we know what are the underlying impacts that impact
10 operating expenses, and try to capture that in a snapshot
11 to provide a more timely response to the growing rate
12 base that appears to be going on for all our utilities.

13 And so that's what I'm trying to capture. It's
14 nothing complicated. I think our rate -- over the years,
15 I think our rate cases have become way too complicated,
16 way too complex, way too many different adjustments for
17 different companies, and what I'm suggesting is the
18 process could be streamlined and get a better result for
19 all the parties.

20 So that's what I'm looking for, some simple
21 mechanism to update rate base, to capture the load
22 impacts of DSM and whatever is else out there that is
23 impacting load, and then operating expenses, and
24 establish those relationships.

25 And then the other thing that I felt my

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1 analyst, my analysis showed was that the timing was
2 important, because the rates need to go into effect
3 before the heating season.

4 And that impacts two fiscal reporting cycles
5 for the utility, the fourth quarter of the year that the
6 rates are filed and the first quarter of the following
7 year, and that's where 70 percent of the NOI comes into
8 the operations, and to get rates then, that has a big pop
9 on their results and their financial results.

10 CHAIRMAN GOLTZ: To analyze net operating
11 income?

12 THE WITNESS: That's correct.

13 CHAIRMAN GOLTZ: So as I understand it,
14 attrition can occur either up or down when the match that
15 has been established in the historical test period
16 between revenues, expenses and rate base gets out of
17 whack; is that right?

18 THE WITNESS: Yes.

19 CHAIRMAN GOLTZ: And so what your, I gather
20 your observation is, is that a potential frequent cause
21 of that is that the rate base gets out of -- gets skewed,
22 upward presumably.

23 So would you envision in this expedited rate
24 case simply a discussion of how rate bases increase, or
25 would you also have to address revenues and expenses as

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1 well?

2 THE WITNESS: Both.

3 CHAIRMAN GOLTZ: So what would be the -- what
4 would make it simpler in addressing the revenue and the
5 expenses, or is that the simplest part of it all?

6 THE WITNESS: The pro forma adjustments tend to
7 be the most complex and controversial, and, also, the way
8 the pro forma adjustments, particularly for rate base,
9 have kind of morphed over the years to, in my mind,
10 violate the matching principal.

11 So the idea is to have the case cleaner and
12 have actual test period rate base match up with revenues
13 and expenses from the rate year in a straightforward
14 filing.

15 And, also, when we normalize load, to the
16 extent that a company has conservation programs, the
17 normalization process and the capturing of real billing
18 determinants, if DSM is really acquiring 25 or 35 average
19 megawatts, or whatever the number is, it's captured.

20 And so I think those are the kinds of things I
21 envision, and while I agree with Dr. DeBoer, it's not
22 really spelled out, but I think that that's just because
23 the Company would prefer a CSA, and we're not prepared to
24 go there.

25 And so -- but I think the Company could -- the

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1 Company controls the filing, and if they want to make it
2 work, I think they can, and it's up to them to figure
3 out, you know, how to file that clean case, make it
4 consistent with the adjustments that you're comfortable
5 with and let's move forward.

6 CHAIRMAN GOLTZ: So the other mechanism you
7 suggested -- this is actually the one you suggested
8 first -- was an attrition adjustment, and I gather you
9 are basically saying here's what the Commission used to
10 have, used to consider those from time to time in the
11 '70s, '80s, maybe even in the '90s, but memories fade,
12 and so you did a little historical research to kind of
13 say here's what was done in the past.

14 So what would that look like? And I'm getting
15 it a little bit confused with the expedited rate case
16 mechanism, because I gather that a company using -- would
17 put on its case, general rate case using an historical
18 test year, but it would also put into evidence at that
19 time that it has some trending analysis to show that the
20 relationship between revenues, expenses and rate base is,
21 will or is likely to or is to get out of balance in the,
22 during the rate year?

23 THE WITNESS: Yes. That's what the attrition
24 study is, a demonstration to the Commission that there is
25 a strong probability that the historical relationships

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1 will not hold for the rate here.

2 And every attrition study I looked at, it's not
3 a real black-and-white thing. It's the weight of the
4 evidence to suggest that those relationships are indeed
5 happening, they're out of whack. They -- over time this
6 is the trend and this is what has happened.

7 And so, you know, I guess I'm not offering two
8 remedies. I'm just saying, if you file a general rate
9 case and you allege attrition, you need to file an
10 attrition study and specify what the remedy is.

11 CHAIRMAN GOLTZ: Is the necessary attrition
12 study in your view, speaking for the Commission Staff,
13 that it would have to show rate year impacts on -- or
14 show the rate year revenues, expenses and rate base, so
15 it has to do all of those?

16 THE WITNESS: Yes.

17 CHAIRMAN GOLTZ: So what is the difference
18 between that and basically filing a case with a
19 historical test year and at the same time filing one with
20 a future test year?

21 THE WITNESS: Well, the future test year,
22 everything is up to judgment, and the attrition study is
23 showing that the historic trends in the items of expense
24 and rate base and revenues are divergent and this is the
25 impact on rate of return.

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1 So in a future test year everything is
2 estimates, rate base, expenses, revenues, impact of --
3 whatever out in the future affects those relationships.

4 The attrition looks at the historical trends,
5 and then says these are the likely outcomes and this is
6 what has been happening, and this is the attrition rate
7 of return that we are experiencing as a result of those
8 trends, and that's the difference. It's what data you
9 look at in terms of saying here's the impact of attrition
10 on the Company's ability to earn a fair rate of return.

11 CHAIRMAN GOLTZ: So, for example, a company
12 could say over the past several years, X-number of years,
13 because of conservation efforts the revenues per customer
14 have gone down and we project that going into the future,
15 and then -- but at the same time they'd also have to say
16 at the same time we also do not believe that our
17 operating expenses are going to go down, in fact they
18 might even go up, and then you add rate base element to
19 that and that's the sort of study you'd be talking about?

20 THE WITNESS: That's right.

21 CHAIRMAN GOLTZ: And that would then become an
22 adjustment to the rate, an adjustment to the -- an
23 overall adjustment, increase presumably in the facts I
24 specified, to the revenue requirement, and that would
25 just go into the calculation of the rates and it wouldn't

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1 show up as a line item on the bill?

2 THE WITNESS: That's right.

3 CHAIRMAN GOLTZ: Thank you. I have nothing
4 further.

5 JUDGE MOSS: Any follow-up?

6 MS. CARSON: Yes. I did want to move to admit
7 the cross-exam exhibits into evidence for Mr. Elgin.
8 That's KLE-8 CX through KLE-12 CX.

9 JUDGE MOSS: Those will be admitted. Thank
10 you.

11 (Exhibit KLE-8 CX through KLE-12 CX admitted.)

12 JUDGE MOSS: Any redirect, Mr. Cedarbaum?

13 MR. CEDARBAUM: I do have some questions, Your
14 Honor.

15 JUDGE MOSS: Go ahead.

16 REDIRECT EXAMINATION

17 BY MR. CEDARBAUM:

18 Q. Mr. Elgin, if you could turn to Exhibit KLE-8,
19 which was one of your cross-exhibits. This is your
20 response to the Company's Data Request 38.

21 Do you have that?

22 A. Yes.

23 Q. You were asked about your response. In the
24 first paragraph, in part A, you describe what you
25 characterize as a -- you believe the Company has

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1 mischaracterized your testimony.

2 Can you please clarify that, first of all?

3 A. Yes. My testimony does not attempt to
4 calculate what PSE's actual equity ratio is for a rate
5 period or future period.

6 My testimony characterizes all these different
7 factors leading up to a conclusion that appropriate
8 capital structure is still 46 percent, and part of the
9 reason for that is the fact that the capital structure is
10 controlled by the Puget Energy's board and the investor
11 consortium in terms of how they choose to send dividends
12 up to the parents and how they accept equity from the
13 parent.

14 Q. I am now looking at Exhibit KLE-9.

15 A. I have that.

16 Q. And the data request on the first page, it's
17 the Company's Data Request 39 to Staff, and your response
18 referred to page 33 of the Company's response to Staff
19 Data Request 11; is that right?

20 A. Yes.

21 Q. And page 33 that you were referencing in your
22 response is page 39 of the cross-exhibit; is that right?

23 A. That's correct.

24 Q. And this comes from a rating agency
25 presentation of the Company from January 2011?

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1 A. Yes.

2 Q. Now, there was a supplemental response to this,
3 the Staff Data Request 11; is that right?

4 A. Yes.

5 Q. And is that included in the cross-exhibit?

6 A. That is what this is. This is PSE's
7 supplemental response to data request, Staff Data
8 Request 11, which we received a rating agency
9 presentation that was previous to this one, and this is a
10 follow-up which we received in early February as a
11 supplement. So this is the supplemental response.

12 Q. So you didn't have the supplemental response at
13 the time you originally responded to the Company's data
14 request?

15 A. No, I did not.

16 Q. Does the supplemental response that is in the
17 cross-exhibit contain any information about the amount of
18 debt that the Company expects for the rate year?

19 A. Yes. It has -- on page 39 of the exhibit, it
20 has, lays out 2010 through 2015. 2010 is nine months
21 actual, three months projected, I think is what it says.
22 Eight months actuals, four months forecast, and then the
23 rest is all projections.

24 So it has their projected equity ratios, debt
25 ratios and balance sheet items for purposes of presenting

0868

1 this to the rating agency.

2 Q. Does the information in the supplemental
3 response reconcile with the Company's filed exhibits in
4 the case?

5 A. No, it does not.

6 Q. Why do you say that?

7 A. Well, if you turn to Mr. Gaines' exhibit,
8 DEG-4, page 1, I believe, he has the Company's proposed
9 capital structure, and you see on that exhibit it has --
10 for the 48 percent, it has no amounts of capitalization,
11 but down below it has the average amounts that he's
12 saying are the 2010 test period.

13 And then if you try to reconcile that with his
14 cost of debt calculation on page 7, which shows
15 \$3.7 billion of debt, which is the basis for his cost of
16 debt calculations, you will see that that figure does not
17 jibe with the amount of equity that is projected for
18 PSE's regulated operations, not even out as far as -- you
19 could say as early as 2015 we might be there, without
20 referring to any specific numbers on this exhibit.

21 MS. CARSON: I want to clarify what exhibit
22 number we're on right now.

23 THE WITNESS: I'm -- I don't have it in front
24 of me. I should have.

25 BY MR. CEDARBAUM:

0869

1 Q. I believe you are referring to -- it's Exhibit
2 DEG-15?

3 A. DEG-15. And reconcile that with his
4 capitalization ratios on DEG-15, which are, I think, the
5 same as on DEG-4, and they don't reconcile with this
6 document.

7 Q. Based on information in Exhibit KLE-9, can you
8 calculate a total PSE equity ratio for 2012?

9 A. Yes. Basically you would -- the problem I
10 have -- yes, you could. The problem I would have
11 calculating that is I don't know where the Company's
12 unregulated operations and subsidiaries would be at that
13 point in time, but even on these numbers, the book equity
14 is approximately 47 percent and they claim a regulatory
15 book equity of 48.

16 So it seems to me for them to achieve and
17 balance what they say for cost of debt purposes, you are
18 going to have to add some additional equity and then
19 remove the investment in subsidiary equity. It's a
20 calculation you could do. The numbers, though, do speak
21 for themselves in terms of the reconciliation.

22 Q. Thank you. That's all I have.

23 MS. CARSON: Your Honor, I do have just a few
24 questions to follow up to Mr. Cedarbaum's questions.

25 JUDGE MOSS: I suppose in fairness, I let him

0870

1 do it, I will let you do it.

2 RE CROSS-EXAMINATION

3 BY MS. CARSON:

4 Q. Mr. Elgin, I want you to please take a look at
5 KLE-9 CX again.

6 A. Okay.

7 Q. And this is the response to a PSE data request,
8 and it's asking about the equity ratio, and in your
9 response you pointed to a PSE response to a Staff data
10 request, page 33.

11 So if we turn to page 2 of that exhibit, this
12 is the PSE response to the Staff data request, and you
13 can see that the date of the original response was
14 July 21, 2011, correct, at the bottom of page 2?

15 A. This document I have has nothing at the bottom.

16 JUDGE MOSS: We're talking about page 2 of the
17 exhibit in the upper right-hand corner. Is that the
18 page 2 you are looking at?

19 MS. CARSON: Yes. Upper right-hand corner,
20 page 2.

21 THE WITNESS: Yes, I see that.

22 BY MS. CARSON:

23 Q. And you see the date of the response then is
24 July 21, 2011?

25 A. Yes.

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1 Q. So when you responded to this PSE data request,
2 you pointed to an earlier PSE response that you received
3 in July of 2011?

4 A. That's right.

5 Q. And that was the original. So immediately then
6 behind the response, beginning on page 5 in the upper
7 right-hand corner of this exhibit, there's some
8 preliminary pages, and then on page 7 is the 2011 rating
9 agency's presentation.

10 Do you see that?

11 A. Yes.

12 Q. And so then if we look at page, what was
13 page 33 of that presentation, which is marked for the
14 exhibit page 39 of the January 2011 ratings agency
15 exhibit, or presentation, are you there?

16 A. Yes.

17 Q. So here we can see the year-end equity ratio
18 regulatory, correct?

19 A. Yes.

20 Q. And so you can see what it is for 2011 and
21 2012, correct?

22 A. That's PSE's presentation of those ratios.

23 Q. Right. And then behind this is what was
24 supplemented, and this exhibit was supplemented with the
25 2012 rating agency presentation?

0872

1 A. That's correct.

2 Q. And so if we turn to 68 of that, of this long
3 exhibit, we see the response, and then if we turn to
4 page 103 we see the updated 2012 equity ratio regulatory.

5 Do you see that?

6 A. Yes. Yes, I see what you're saying. Page what
7 was that again?

8 Q. Page 103 of 132.

9 A. That's correct.

10 Q. So the numbers on this are consistent with the
11 general rate case request, aren't they? If you look at
12 the year-end equity ratio regulatory for 2012 and 2013,
13 it's consistent with the numbers that Mr. Gaines had in
14 DEG-15?

15 A. They're still not.

16 Q. The common stock, 48 percent, is that not
17 consistent?

18 A. One moment, please. Could I have my DEG-14?

19 MR. CEDARBAUM: May I approach the witness,
20 Your Honor?

21 JUDGE MOSS: Sure.

22 THE WITNESS: Yes, the debt numbers are
23 consistent. The equity ratio numbers aren't.

24 BY MS. CARSON:

25 Q. So, Mr. Elgin, are you looking at DEG-15,

0873

1 page 1 of 5, column C, line 12?

2 A. The first thing I'm looking at is DEG-15,
3 page 1, where the Company says that its common stock is
4 3.245 billion and its amount of long-term debt
5 outstanding is 3.3 billion, and then I go to DEG --

6 Q. Just a minute.

7 A. Wait a second, please. You asked me a
8 question, what is --

9 Q. But you are not looking at the lines that I
10 pointed you to.

11 JUDGE MOSS: Do you want to know what Mr. Elgin
12 is looking at or not?

13 MS. CARSON: Well, I'd like him to look at the
14 lines that I asked him to look at.

15 THE WITNESS: On page 103 of KLE-9?

16 BY MS. CARSON:

17 Q. No. We're on DEG-15.

18 A. Okay.

19 Q. Page 1 of 5.

20 A. I'm there.

21 Q. Column C.

22 A. I'm there.

23 Q. Line 12.

24 A. Yes.

25 Q. Is not that number consistent with what we have

0874

1 for the year-end equity ratio regulatory?

2 A. Oh, yes, that number is consistent. What I'm
3 saying is what I can't reconcile is, if you look at
4 DEG-1, the capitalization ratios on lines -- the amounts
5 for long-term debt and common stock on line 26 and 28, I
6 can't reconcile that with what they're proposing for the
7 general rate case up above, because if you see, there is
8 no amounts in column B, and then if I look at DEG-15,
9 \$3.7 billion of debt, which is the basis for the cost of
10 debt calculation, I can't reconcile that with these S&P
11 financial projections, is what I'm saying.

12 Q. Okay. Well, thank you. I think you answered
13 my question about the 48 percent in column C, line 12.

14 And also I guess I'd like to call your
15 attention to the fact that when we're looking at KLE-9
16 CX, page 103, do you see at the bottom the note?

17 A. Yes.

18 Q. In terms of calculations, it says 2011 includes
19 nine months of actuals and three months of forecast,
20 correct?

21 A. That's correct.

22 Q. And that plays into some of the difference you
23 are identifying, doesn't it?

24 A. Yes, it does, but still -- let me try to
25 summarize it for the Commission here.

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1 If indeed DEG-15 is \$3.77 billion, and
2 that's -- they're saying that's 48 percent of capital.
3 Then if they say their equity ratio is 48 percent of
4 capital, how much equity has to be in the business? The
5 same amount, right, 48 percent?

6 If you look at these financial forecasts, not
7 until 2016, at the end of the forecast period on page 103
8 of 132, we don't have that much equity until 2016.

9 And so I just can't reconcile why 48 percent,
10 their proposed equity ratio, is reflective of what is
11 likely to occur, even if that would be something that I
12 would advocate, to say what is the actual amount of
13 equity supporting the business.

14 But having said all that, my testimony still is
15 46 percent meets your standard of economy and safety,
16 companies BBB, corporate credit rating A-minus secured,
17 and I'm pretty confident that with that that's where
18 they'll be.

19 MS. CARSON: I have no further questions.

20 JUDGE MOSS: Thank you. Mr. Elgin, we
21 appreciate you being here, particularly late in the day
22 like this and giving your testimony, and with that you
23 may step down.

24 It is 5:10. If I relied on my instincts, I
25 guess I'd be dead. It appears we will be back tomorrow.

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1 I think we have approximately five hours of cross-
2 examination time indicated left in this proceeding. I'm
3 hopeful that it will be somewhat less than that, but in
4 any event we will get through it tomorrow, I'm confident.

5 In the meantime I'm going to encourage counsel
6 overnight to try to hone their cross-examination
7 testimony to that that is essential and no more.

8 I will note that we have just finished with our
9 last witness for February 15th, and today is the 16th, so
10 we are somewhat behind, which is perhaps explaining my
11 irascibility at points today, since managing this thing
12 is my job, but in any event I am hopeful that we will
13 succeed in finishing at a reasonable hour tomorrow before
14 the end of the day, shortly after the elevator is
15 repaired. With that, we will be in recess until 9:30
16 tomorrow morning.

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18 (Proceedings adjourned at 5:12 p.m.)

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