

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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 3 WASHINGTON UTILITIES AND)
 4 TRANSPORTATION COMMISSION,) DOCKET NO. UG-941408
 5)
 6 vs. Complainant,)
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8 A hearing in the above matter was held on
 9 August 25, 1995, at 9:30 a.m. at 1300 South Evergreen
 10 Park Drive Southwest before Administrative Law Judge
 11 C. ROBERT WALLIS.

12 The parties were present as follows:

13 CASCADE NATURAL GAS CORPORATION, by JOHN
 14 L. WEST, Attorney at Law, 4400 Two Union Square, 601
 15 Union Street, Seattle, Washington 98101-2352.

16 WASHINGTON UTILITIES AND TRANSPORTATION
 17 COMMISSION STAFF, by ROBERT CEDARBAUM, Assistant
 18 Attorney General, 1400 South Evergreen Park Drive
 19 Southwest, Olympia, Washington 98504.

20 FOR THE PUBLIC, DONALD TROTTER, Assistant
 21 Attorney General, 900 Fourth Avenue, Suite 2000,
 22 Seattle, Washington 98164.

23
 24
 25 Lynda M. Filkins, RPR, CSR
 Court Reporter

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I N D E X

2	WITNESSES:	D	C	RD	RC	EXAM
	P. POPOFF	93	96	142	146	
3	J. STOLTZ	147	149			

4	EXHIBITS:	MARKED	ADMITTED
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1 P R O C E E D I N G S

2 JUDGE WALLIS: Today is Friday, August 25,
3 1995, session in the matter of the Commission Docket
4 UG-941408. I'm review judge C. Robert Wallis presiding
5 at this proceeding on behalf of the Commissioners. The
6 parties have waived participation of the Commissioners
7 in the entry of the initial order for purposes of this
8 proceeding, and upon conclusion of the proceeding, it
9 will be presented to the Commissioners for their
10 decision.

11 I will note we're proceeding in the absence
12 of a court reporter with a mechanical transcription,
13 and we will ask the reporting firm to transcribe that
14 on the same schedule and terms as on the same schedule
15 and terms as it would had the reporter been physically
16 present in the room.

17 Prior to beginning the session this morning,
18 we have identified a number of documents that the
19 parties intend to introduce into the record of today's
20 session. The documents are relatively numerous and
21 they are identified as follows: Exhibit T-21 is a
22 document consisting of the testimony of -- prepared
23 testimony of Mr. Popoff. Exhibit 22 is a document
24 described as PJP 1; Exhibit 23, a document
25 described as PJP 2. Exhibit T-24 is a document

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1 described as PJP 3. Exhibit 25 is a document described
2 as PJP 4. Exhibit 26 for identification is a document
3 described as PJP 5. Exhibit 27 is a document described
4 as PJP 26.

5 Exhibit T-28 is a document designated
6 Supplemental Testimony of Philip G. Popoff. Exhibit 29
7 for identification is a document designated PJP 7.
8 Exhibit 30 for identification is a document designated
9 PJP 8. Exhibit 31 is a document designated PJP 9.

10 Exhibit T-32 is a prepared rebuttal
11 testimony of Mr. Stoltz. Exhibit T-32C is a
12 confidential document consisting of page 18 of
13 Exhibit T-32, with a complete text. Exhibit T-32, a
14 portion of the text deleted as confidential, again
15 page 18. The complete text is designated Exhibit
16 T-32C. 33 for identification is a document designated
17 JTS 7. Exhibit 34 is a document designated JTS 8.
18 Exhibit C-36 is the complete text of Exhibit 34 for
19 identification.

20 On JTS 8, certain portions are designated as
21 confidential and they are deleted from the confidential
22 exhibit. The nonconfidential exhibit Exhibit C-34 is
23 complete, including the confidential information.
24 Exhibit 35 for identification is a document designated
25 JTS 9.

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1 Exhibit 36 for identification and the
2 documents following are those which the parties intends
3 to present and offer on cross-examination of the
4 witnesses. Exhibit 36 is a document is a document
5 designated Response to Date Request No. 4 and the Data
6 Requests that I'm referring to regarding the testimony
7 Mr. Popoff are those Data Requests that the company
8 directed to the Commission staff.

9 Exhibit 37 for identification is response to
10 Data Request No. 5. Exhibit 38 is a response to Data
11 Request No. 6. Exhibit 39 for identification is
12 response to Data Request No. 7 and the supplemental
13 response to Data Request No. 7. Exhibit No. 40 for
14 identification is a response to Data Request No. 8.
15 Exhibit 41 will be the response to Data Request No. 9.
16 Exhibit 42 for identification is the response to Data
17 Request No. 23. Exhibit 43 will be the response to
18 Data Request No. 25. Exhibit 44 is the response of
19 supplemental response to Data Request No. 27. Exhibit
20 45 would be the response and supplemental response to
21 Data Request No. 28.

22 Exhibit 46 for identification is the
23 response to Data Request No. 30. Exhibit 47 for
24 identification is a response to exhibit -- Data Request
25 No. 31. Exhibit 48 for identification, and as to

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1 Exhibits 48, 49, and 50, 51 and 52 for identification,
2 the respondent has presented only the supplemental
3 response to designated Data Requests. The respondent
4 has agreed to submit at a later time the initial
5 response to these data requests so that the full
6 exhibit will be the response and the supplemental
7 response to the data requests.

8 Exhibit 48 for identification, thus, is a
9 response and supplemental response to Data request
10 No. 15. Exhibit 49 for identification is the response
11 and supplemental response to Data Request 16. Exhibit
12 50 is a response to and supplemental response to Data
13 Request No. 20. Exhibit 51 for identification is the
14 response and supplemental response to Data Request No.
15 21, and Exhibit 52 for identification is the response
16 and supplemental response to Data Request No. 22.
17 Exhibit 53 for identification is the response and
18 supplemental response to Data Request No. 32. That
19 has been provided in full. Exhibit 54 for
20 identification is the response to Data Request No. 1.

21 (Marked Exhibits T-21 through 54.)

22 JUDGE WALLIS: I wonder if I might have counsel
23 identify themselves this morning for the record.

24 MR. WEST: Your Honor, my name is John West
25 and I represent Cascade Natural Gas Corporation.

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1 My address 4400 Two Union Square, Seattle, Washington
2 98101 and at counsel table today is Lance Bass from
3 that same address.

4 JUDGE WALLIS: For purposes of the record.
5 How does Mr. Bass spell his last name?

6 MR. WEST: B-A-S-S.

7 MR. CEDARBAUM: My name is Rob Cedarbaum
8 and I'm an assistant Attorney General representing the
9 Commission staff. My business address has been
10 previously noted only record.

11 MR. TROTTER: Donald Trotter, Assistant
12 Attorney General for Public Counsel.

13 JUDGE WALLIS: Thank you very much. Our
14 first order of business is the cross-examination
15 of Mr. Popoff, whose exhibits have been identified as
16 Exhibit T-21 through Exhibit 35. I'm going to ask
17 Mr. Popoff to stand and be sworn.

18

19 PHILIP POPOFF,
20 witness herein, being first duly sworn on oath
21 was examined and testified as follows:

22

23 DIRECT EXAMINATION

24 BY MR. CEDARBAUM:

25 Q. If you could, please state your full name

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1 and spell your last name.

2 A. My name is Philip Popoff. The last name is
3 spelled P-O-P-O-F-F.

4 Q. Mr. Popoff, by whom are you employed?

5 A. I'm employed by the Utilities and
6 Transportation Commission as a utility rate research
7 specialist.

8 Q. And do you have before you what's been
9 marked for identification as Exhibit T-21,
10 which is your testimony in this case?

11 A. Yes.

12 Q. And does that document constitute your
13 direct testimony in this proceedings?

14 A. Yes, it does.

15 Q. You also have before you what's been marked
16 for identification and T-22 through -- Exhibits 22
17 through 27?

18 A. Yes.

19 Q. And are those exhibits the exhibits that
20 you reference in your direct testimony in Exhibit T-21?

21 A. Yes, they are.

22 Q. And were Exhibits T-21 through 27 prepared
23 by you or under your supervision and direction?

24 A. Yes.

25 Q. Are they true and correct to the best of

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1 your knowledge and belief?

2 A. Yes.

3 Q. You also have before you identification of
4 Exhibit T-28?

5 A. Yes, I do.

6 Q. Does that exhibit constitute your
7 supplemental testimony in this case?

8 A. Yes.

9 Q. Do you also have before you what's been
10 marked for identification as Exhibits 29 through 31?

11 A. Yes.

12 Q. And are those the exhibits that are
13 referenced through the course of your supplemental
14 testimony, T-28?

15 A. Yes.

16 Q. And were Exhibits T-28 through 31 prepared
17 by you or under your supervision and direction?

18 A. Yes.

19 Q. Are they true and correct to the best your
20 knowledge and belief?

21 A. Yes.

22 Q. Exhibit T-28 is your supplemental testimony;
23 is that right?

24 A. Yes, it.

25 Q. To the extent that that testimony modifies

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1 or updates the testimony you gave in your direct
2 testimony, T-21, Exhibit T-29 would control the staff
3 presentation in this case; is that right?

4 A. Yes, that's right.

5 MR. CEDARBAUM: Thank you. With that,
6 I would offer, Your Honor, Exhibits T-21 through 31
7 and tender Mr. Popoff for cross-examination.

8 JUDGE WALLIS: Is there an objection?

9 Being no objection, Exhibits T-21 through 31
10 are received in evidence.

11 (Received T-21 through 31.)

12 JUDGE WALLIS: Mr. West?

13

14 CROSS-EXAMINATION

15 BY MR. WEST:

16 Q. Mr. Popoff, referring to the dates of
17 preparation of your supplemental and written testimony, is
18 it correct that your supplemental testimony was
19 prepared and submitted this August and the original
20 testimony for this docket was filed in April?

21 A. Yes.

22 Q. And you stated your intention that to the
23 extent the supplemental testimony is in conflict with
24 the original testimony the supplemental testimony will
25 govern?

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1 A. Where there is specific conflicts, yes.

2 Q. What I would like to do next, Mr. Popoff, is to
3 review your supplemental -- original testimony and discuss
4 some specifics of that to clarify what has been superseded
5 and what perhaps remains at issue in the case.

6 I would like to refer you first to page
7 6 of your initial testimony. Referring now to lines
8 6 through 17 on page 6, is this the portion of your
9 testimony which had been superseded?

10 A. I believe parts of it are.

11 Q. Would you please describe which parts have been
12 superseded.

13 A. Beginning on page 6, line 11, end of line 11
14 where it (inaudible)... shown that four acres is not
15 currently used to.... supply contract (inaudible) and
16 the rest of that paragraph.

17 Q. Mr. Popoff, with respect to lines 7 and 8, is it
18 correct that the staff has changed its recommendation as far
19 as recovery of costs that (inaudible) Tenaska contract

20 A. Yes, that's right.

21 Q. So --

22 A. Line 7, 7 and 8.

23 Q. Refer now to page 17. Line 3 on that page to
24 line 5 on page 18 (inaudible).

25 A. I believe that whole section has been

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1 superseded.

2 Q. We're on page 18, line 16. Following on to page
3 19 following --

4 A. On page 19, lines (inaudible) to the last half of
5 line 2 where it starts a new sentence through page 19, line
6 10.

7 Q. Supply contract (inaudible)

8 A. That's still correct. So through line 4.

9 Q. You're testifying that would be superseded with
10 page 19, line 2 through line 4 (inaudible) sentence?

11 A. Yes.

12 Q. (Inaudible.)

13 A. (Inaudible) Mr. Stoltz explained...

14 (inaudible)... The fact that I don't -- that staff is not
15 recommending cost disallowance because of the issue, I don't
16 think that I can -- I hadn't initially recommended that the
17 cost be disallowed because (inaudible) anyway.

18 Q. Your answer to the question on page 18, line 16,
19 with respect to the (inaudible) or the lack of (inaudible)
20 of (inaudible) supply contracts, that still stands?

21 A. (Inaudible.)

22 Q. Then on page 19 line 8 through 19 still stands
23 (inaudible) concerns about the size of the Tenaska contract?

24 A. The Tenaska contract, it is a large contract.

25 These are things that Mr. Stoltz explained in his

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1 cross-examination for the reasons why Cascade prefers to
2 purchase multiple smaller supply contracts. So to the
3 extent that it's not as much a concern, it's not a concern
4 enough for staff to recommend a disallowance (inaudible).

5 Q. Supplemental testimony stated that you did find
6 that the Tenaska contract was (inaudible)

7 A. Yes.

8 Q. Would you turn to page 23 now, bottom on line
9 23, page 23 testimony to page 26, line 20. Starting at line
10 23 on page 23 you make -- you indicate (inaudible)

11 MR. CEDARBAUM: I guess if the question is does
12 this part of your testimony still hold true today? And I
13 guess I'm going to object to any line of questions along
14 this line. Mr. Popoff (inaudible) line by line, inch by
15 inch analysis of his testimony waste of time (inaudible)
16 more general questions about what's still at issue and
17 what's not at issue. But Mr. West sent me a letter
18 yesterday indicated that he had problems with some of Mr.
19 Popoff's testimony for the first time. (Inaudible) ... offer
20 the testimony in its entirety or consider it
21 in its entirety (inaudible)... page by page (inaudible)....
22 supplemental (inaudible) so I will object on the basis
23 (inaudible).

24 MR. WEST: Your Honor, I believe that I
25 should be entitled to cross-examine the witness on his

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1 testimony. I think that going into the testimony into the
2 record (inaudible) testified what testimony is true and
3 correct as of today, what testimony is not correct all
4 because of the administrative burden of trying to rewrite
5 the testimony in a correct form, I believe that
6 cross-examing him as to details as to what is no longer
7 correct is appropriate (inaudible) administrative burden
8 (inaudible) saving of time.

9 MR. CEDARBAUM: I don't think anybody agrees the
10 supplemental testimony (inaudible)...

11 JUDGE WALLIS: I do think it is clear from the
12 record that the testimony, the supplemental testimony,
13 true and correct, (inaudible) and I believe, as Mr.
14 Cedarbaum suggests, the supplemental testimony does make
15 clear what the staff position is. What is the basis for the
16 position? I would suggest rather than go through the
17 document line by line that it may be more efficient and
18 effective to receive that much as it were with the
19 supplemental testimony and if it is necessary for your
20 arguments to specify if there's any ambiguity in light of
21 that supplemental testimony as to what the staff's position
22 is then you certainly may inquire.

23 MR. CEDARBAUM: I think we're entitled to ask
24 him (inaudible)... basically three reasons why
25 (inaudible)... you want to ask the question (inaudible) four

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1 items (inaudible) but I don't think (inaudible)....

2 JUDGE WALLIS: Mr. West?

3 MR. WEST: Your Honor, I'm willing to ...

4 (inaudible)... supplemental testimony which may or may not

5 JUDGE WALLIS: Certainly you're entitled to ask
6 as to those matters on which the supplemental testimony is
7 silent whether the original testimony continues to be the
8 staff position, but I do agree with Mr. Cedarbaum it may be
9 in fact more effective for record purposes not to do it on a
10 line by line basis.

11 Q. Mr. Popoff, referring to the overall effects
12 covered by your counsel (inaudible) in the original
13 (inaudible) contract costs (inaudible).

14 A. I think the -- my supplemental testimony does
15 explain that the size, need and cost items are no longer an
16 issue for staff. The analysis section is an issue in that
17 my position on what the analysis didn't include is still --
18 has remained unchanged, but as the supplemental testimony
19 explains we're not recommending disallowance of costs.

20 Q. In your supplemental testimony also, there's a
21 reference to reliability or a question of reliability. Am I
22 correct in my understanding that that's also no longer an
23 issue?

24 A. Yes, that's correct. I think that there were
25 some responses to data requests where I had indicated that

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1 staff never included the risk as a reason for disallowance.
2 The intent of why I explained that through my supplemental
3 or through my direct testimony was that I could have made it
4 easier by just saying Tenaska is a 520,000 -- roughly a
5 520,000-therm-a-day contract, but, you know, that's not
6 exactly what the contract says. And so I wanted to
7 make sure, you know, that I wasn't being overly general
8 to say that the way the contract reads it is for the
9 the amount the Defense had nominated, which as I had
10 indicated in my testimony staff would expect that to be
11 high, up to where -- to that 2,000 MMBTU level would --
12 when Cascade would need it, which is certainly one of the
13 reasons why. It's just that I didn't want to write in my
14 testimony that it was a 520,000 therm-a-day contract,
15 if it's something close to that. That was the reason why.

16 Q. One of the items in your testimony (inaudible)
17 related to Cascade (inaudible) contract Tenaska. Is that
18 still an issue for staff?

19 A. I believe that, yes, I think that I'm still
20 concerned about that, yes.

21 Q. Is there a general area that referred to in your
22 testimony(inaudible)...volume...(inaudible)...concern
23 to staff?

24 A. It is a concern to the extent that Cascade
25 did not know how much of the gas would be provided in

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1 from Bellingham before signing the contract, yes,
2 that's certainly a concern.

3 Q. Any longer a concern to the staff that Cascade
4 does not have at the present transportation capacity
5 of 320,000 therms per day (inaudible)?

6 A. I think as I had explained in my supplemental
7 testimony, through displacement effect, I think that Cascade
8 could actually deliver more than 300 or more than just the
9 200,000 therms a day, so to that extent, no.

10 Q. One other item in your original testimony was
11 some possible effect there may have been other comparable
12 resources available to Cascade (inaudible). Does staff feel
13 that would be a concern?

14 A. It's a concern in that I think there may
15 have been other supply contracts available at work.

16 Q. Do you have knowledge of any specific
17 contracts?

18 A. I don't have any knowledge specific ones but
19 in response to data request 11, I'm not sure which exhibit,
20 there's a section that does discuss a peaking supply
21 contract, and it says in there the most attractive one
22 currently before Cascade. So I don't know what the other
23 ones before Cascade at that time were.

24 Q. In your original testimony you stated that
25 both contracts, the Tenaska contract and Columbia

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1 Project contract, were obtained as a result of bypass
2 threats. With respect to Tenaska PGSS contract, do
3 you acknowledge that Tenaska still below its cost
4 (inaudible)?

5 A. It was the lowest cost option available at
6 that time, but I don't know if the company could have
7 gotten it for less than what it paid.

8 Q. Do you have evidence that it could have
9 gotten it for less than it paid?

10 A. I just have no evidence that Cascade did
11 that sort of analysis.

12 Q. In your initial testimony you discuss
13 that Cascade might have incentive to reserve profits
14 (inaudible)...now agree, don't you, that Tenaska can get ...
15 (inaudible) contracts (inaudible) necessary resources?

16 A. I agree that it was a contract for which
17 there was a need not that Tenaska specifically was
18 required to fill that.

19 Q. You have testified Tenaska was the lowest cost
20 alternative available (inaudible).

21 A. Right.

22 MR. TROTTER: I object to the question, that
23 the previous answer was quite clear there's no evidence that
24 Cascade did any analysis to (inaudible).

25 MR. WEST: I don't think the question was

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1 whether Cascade had conducted any such investigations but
2 the question was not answered whether the witness had any
3 knowledge of any such (inaudible).

4 JUDGE WALLIS: Witness may answer the question.

5 A. Would you ask the question one more time?

6 Q. The question was whether you have knowledge of
7 any other alternatives Tenaska contract (inaudible).

8 A. No. But coupled with the bypass threat
9 then there's no -- there's a very difficult incentive
10 problem because Cascade without a bypass threat may
11 have been able to get that contract for cheaper.

12 Q. I'd like to turn back to the general
13 (inaudible). You indicate on page 1 of your testimony your
14 background. What year did you obtain your master's from the
15 University of Wyoming?

16 A. In 1992.

17 Q. What years did you work for the Virginia state
18 commission?

19 MR. TROTTER: I guess I would object at this
20 point. This testimony has been allowed into evidence.
21 (inaudible) question his qualifications.

22 JUDGE WALLIS: I will allow some of this, but
23 we'll ask to limit it in light of the evidence that is
24 already admitted.

25 A. I worked at the Virginia commission from May of

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1 1992 until April of 1994.

2 Q. You worked there in (inaudible) capacity?

3 A. Part of my responsibilities, yes.

4 Q. Describe that (inaudible) as it related to gas
5 (inaudible).

6 A. Yes. I assisted in developing and in
7 programming some gas cost of service studies, reviewing
8 PGA filings there, reviewing 5-year forecasts. They do not
9 have a least cost planning rule there but they do have a
10 5-year forecast in place and then general tariff filings,
11 general gas industry.

12 Q. For what time period were these studies
13 made? What were these studies for?

14 A. Well, some, you know, dealing with a little bit
15 of the history of how the gas industry got to where it's at.
16 Five-year forecasts forward.

17 Q. Do you recall the years in which Tenaska
18 (inaudible).

19 A. Roughly 1990 through 1991.

20 Q. (Inaudible.)

21 A. Talking to a lot of the senior staff here at
22 the Commission and having read various publications and
23 information from back then. I worked -- I assisted in the
24 Puget prudence review in terms of the gas industry
25 and the decisions that were going on in that time

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1 frame around 1989. I had some exposure in that sense.

2 Q. Mr. Popoff, you have had distributed to you a
3 number of exhibits or items that have been marked as
4 Exhibits 36 through 53, all of which are responses by staff,
5 data requests from Cascade....(inaudible)...responses for
6 data requests prepared by you or under your supervision?

7 A. Yes.

8 Q. Are these exhibits all correct?

9 A. Yes, though there is -- I think that one of the
10 data requests probably needs some clarification. Data
11 Request No. 9.

12 JUDGE WALLIS: Exhibit No. 41 for him.

13 A. In my direct testimony I had said on page 23 --
14 I'm sorry, page 29, on lines 10 through 12, I explain that
15 LS service is a needle peaking resource similar to propane
16 peak shaving and the Tenaska peaking supply contract, and
17 then this data request says that Tenaska is not comparable
18 to LS service. The difference being that LS -- LS service,
19 which is liquified storage service by Northwest
20 Pipeline, is a needle peaking resource as used by
21 Cascade. They fill the same resource need, but the
22 underlying cost structures and technology structures
23 of how those are delivered to Cascade are very
24 different. I just wanted to clarify why in one place I
25 had said that they are similar because they fill a

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1 similar need, but they are very different how they get into
2 the burn.

3 Q. Are Exhibits 36 through 53 correct?

4 A. Yes.

5 MR. WEST: Your Honor, I move the admission of
6 Exhibits 36 through 53.

7 JUDGE WALLIS: Is there an objection?

8 MR. CEDARBAUM: No objections subject to the
9 addition of the original responses for certain ones
10 of the supplemental responses that had initially been
11 predistributed. No objection beyond that.

12 JUDGE WALLIS: Yes. The respondent has
13 previously agreed to provide the original in addition to the
14 supplemental responses for exhibits for identification 48
15 through 52. Subject to that being received by the
16 Commission, Exhibits 36 through 53 are received. Let's be
17 off the record for just a moment, please.

18 (Received Exhibits 36 through 53.)

19 JUDGE WALLIS: Back on the record.

20 Mr. West?

21 BY MR. WEST:

22 Q. Mr. Popoff, would you please refer to
23 Exhibit 53, which is last of the exhibits which you
24 have submitted?

25 A. Is it one of the data requests?

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1 Q. Yes, it's Data Request No. 32. There in the
2 first paragraph of that response you'll see a reference to a
3 4.9 percent annual gas supply inflator stated in the
4 Washington Water Power 1995 Integrated Resource Plan. Do
5 you see that reference?

6 A. Yes.

7 Q. Do you know on what information the
8 Washington Water Power 1995 Integrated Resource Plan based
9 it's gas supply inflator of 4.9 percent?

10 A. No.

11 Q. Do you know when this inflator was
12 calculated or constructed?

13 A. No.

14 Q. Are you familiar with the methodology?

15 A. No.

16 Q. Do you agree that this inflator
17 is representative of a reasonable approach to the
18 increase in gas costs to be expected in the future?

19 A. Like I said, I haven't looked into the
20 background behind how they calculated it. I'm not sure
21 if staff has. It is in line, does seem to be in line
22 with several of the other forecasts, as far as prices
23 not escalating at tremendous rates and that there
24 certainly being gas there.

25 Q. This was the reference given by staff in

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1 response to Cascade's Data Request as to long-term
2 forecasts indicating the availability and price of gas
3 in the future; is that correct?

4 A. Yes. You would expect that if it wasn't
5 available and Water Power doesn't expect the prices
6 to be stable and gas to be available that it they would
7 have probably chosen something else.

8 Q. Do you know if this inflator applies to
9 peaking services?

10 A. I believe it was applied across the board to
11 their gas supplies.

12 Q. Do you know what would be the cumulative
13 costs of the PGS contract if we assumed that this
14 4.9 percent inflator were applied to the annual cost
15 of 639,887?

16 A. I haven't done that calculation, no.

17 Q. Mr. Popoff, I'm sorry. I was referring to
18 the pricing of the PGS contract if equivalent to the
19 Water Power price, the 639,887, to which I just
20 referred to is the equivalent Water Power storage
21 price. I'm sorry if I confused you with that question.

22 MR. CEDARBAUM: I guess I don't understand
23 what question was, then. Maybe you can restate it.

24 MR. WEST: The question was whether one
25 assumed a 4.9 percent inflator and one looked over a

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1 20-year term, what effect would that have on the
2 639,887 cost of the Water Power storage contract. I
3 believe the answer was the witness did not know because
4 he had not done that calculation.

5 MR. CEDARBAUM: I'll object. If that's the
6 question, I object to it as being irrelevant. The PGS
7 Longview Fiber contract is an annually adjusted
8 contract based on similar alternatives that are lower
9 priced. So what happens 20 years from now, based on
10 the inflator that may or may not apply, is not relevant
11 to looking at the cost of the Longview Fiber contract.

12 MR. WEST: Your Honor, the witness is
13 recommending that the Longview Fiber contract, which is
14 a 20-year contract, be priced in accordance with
15 the Water Power contract. For that reason, I think
16 the witness has incorporated this sum of 639,887 as
17 being a relevant inquiry.

18 MR. CEDARBAUM: That doesn't mean that five
19 years from now or 15 years from now or 20 years from
20 now that's what staff would think this contract --
21 how this contract ought to be priced. It is the
22 reasonably available alternative now. That's the basis
23 for the recommendation. What happens 20 years from now
24 is entirely irrelevant.

25 MR. WEST: I don't believe it's irrelevant

00112

1 at all. The issue here is whether the price for the
2 PGS peaking service is a reasonable one. The witness
3 has testified that a 4.9 annual inflator is anticipated
4 for gas supplies over the last 20 years, and what
5 I'm seeking to do by this line of testimony is to
6 show that when one looks over a period of 20 years
7 at that 4.9 percent inflator, assuming today's gas cost
8 of 639,887, which is subject to inflation, is, in
9 fact, larger than than \$817,381, which is the price of
10 the PGS contract, if that price does not inflate over
11 the next 20 years.

12 JUDGE WALLIS: Is it your assumption that
13 the inflator would remain constant over the period

14 MR. WEST: My assumption is that in
15 answering the question that was put, what would staff
16 assume would happen in the gas market over the next so
17 many years, that their reference was to a 4.9 percent
18 inflator.

19 MR. CEDARBAUM: I still object on the basis
20 of relevance. If in five years from now the company
21 still has its contract with Longview Fiber and they
22 come in for recovery of those costs, the staff will
23 analyze that based on a force in the contract which
24 says that the contract will be renegotiated on the
25 basis of reasonably available lower cost

00113

1 alternatives. There may or may not be the Water
2 Power release. So to ask what the Water Power release
3 adjustment would be worth in price 20 years from now
4 based on this inflator is just not relevant.

5 MR. WEST: Your Honor, the relevancy is that
6 this today is what staff says is the lowest priced
7 available alternative. One could expect over the
8 next 20 years not that the Water Power contract would
9 necessarily be available, but that there would be some
10 other lowest price available contract alternatives.

11 The best we can do today on comparing the
12 existing PGS contract is to compare it to what we
13 expect might happen on a reasonable basis, that is, the
14 4.9 percent inflator that applied to the current least
15 cost alternatives. It may or may not be 4.9 percent.
16 The point I'm making is that when looked at over the
17 long-term, having a rate that does not change is
18 important. Particularly when comparing to a 4.9
19 percent inflation rate or any other reasonable
20 inflation rate, it may be an advantage over a
21 fluctuating lease cost year-by-year comparison.

22 JUDGE WALLIS: I'm going to allow the
23 witness to answer that.

24 A. I think that, first of all, the 4.9 percent
25 inflator that Water Power is using for its gas

00114

1 supplies, I don't know if that's applicable to
2 reasonably expect that's what the inflator on this
3 sort of contract would be or not. But I do -- my
4 testimony specifically says that staff does not accept
5 that the Water Power is the least cost option, just
6 that it's a lower cost option that we were able to
7 identify.

8 There were much cheaper options offered in
9 the unsolicited bids which came in, I believe, in late
10 December or January. So to say that that may be what
11 one would expect the Water Power storage release --
12 assuming all else equal -- to be, to inflate at, but
13 not least cost peaking alternatives, I've not even
14 accept that Water Power is the least cost peaking
15 alternative. Cascade hasn't looked.

16 Q. If one were to compare cost of fixed 20-year
17 contract against the contract which had a market-based
18 rate subject to an inflator such as 4.9 percent
19 annually, how would one make a comparison?

20 A. You would have to make assumptions about
21 the availability of gas supplies.

22 Q. Assuming there is available gas supply and
23 that that price is available over 20 years, is 4.9
24 percent higher than it was -- than it is available now
25 on a year-by-year basis, that's a reasonable

00115

1 assumption, isn't it?

2 A. That could be, but I think another
3 assumption that you're -- that that's not
4 incorporating it is the -- is when the FERC order 636
5 was implemented, what the PGS contract is based on now
6 is a pre-636 price. It would be peculiar not to expect
7 gas supply prices to go down as a result of 636,
8 especially in the long run, because that's why FERC
9 implemented order 636.

10 Q. Are you familiar with the date which those
11 -- order 636 was entered?

12 A. I believe it was implemented on -- I think
13 it was like May of 1992.

14 Q. It would not have been known in November of
15 1991, at which time the PTS Longview Fiber peaking
16 service was offered?

17 A. That's correct, and I don't believe staff
18 proposed to decrease the rate at that time, either.

19 Q. You indicated a familiarity with the FERC
20 order 636. Do you have an opinion as to -- based on
21 that order's effect, as to what will happen to gas
22 prices over the long-term future?

23 A. As I said, the reason for FERC implementing
24 636, they specifically stated, to allow buyers and
25 sellers to come together and to increase the efficiency

00116

1 of the market and allow competition to flourish, and
2 you would expect prices in that environment to go down.

3 Q. I would like to refer you back to Exhibit
4 53. Is it correct that the Washington Water Power
5 Resource Plan that's referred to was a 1995 comparative
6 resource plan and that used the 4.9 percent inflator?

7 A. Yes. I'm sorry. Perhaps I should clarify
8 and say that in the competitive market, prices would be
9 lower without the competition. That doesn't mean that
10 they won't go up due to other inflationary pressures.

11 Q. Well, all things being equal, 636 or no 636,
12 4.9 percent, apparently, is a reasonable way of looking
13 at price inflation for gas over the long-term?

14 MR. TROTTER: Objection... (inaudible)...

15 MR. CEDARBAUM: I will join the objection
16 and also add a further objection that this line of
17 questioning goes beyond the scope of this witness'
18 testimony and what the staff investigation has to be.
19 The burden of proof in this case is on the company
20 to demonstrate that these were the release costs
21 of supply contracts and that analysis was done to
22 support that conclusion. Mr. Popoff is testifying as
23 to what he had to do to try to fill in the gaps for the
24 company, based on his analysis of the company's case.
25 That's the flavor of what all this is. I think its

00117

1 goes well beyond the legal burden that staff has in
2 this proceeding.

3 MR. WEST: Your Honor, I'm just asking the
4 witness to respond to questions relating to data
5 responses that staff had given. If these are beyond
6 the scope of the inquiry, so be it.

7 JUDGE WALLIS: I do think that Mr. West is
8 entitled to inquire of information that the staff
9 has provided and the basis of staff recommendations.
10 I understand the Commission staff's position, but I
11 believe the inquiry so far was within the scope of
12 permissible questions.

13 Q. Mr. Popoff, what I would like to do is to
14 try to construct a hypothetical that would compare the
15 cost of a flat rate, 20-year contract with the cost of
16 an inflating contract over that same period of time.

17 A. Are we still talking about the Fiber
18 contract?

19 Q. Yes.

20 A. Which is not a flat rate contract.

21 Q. Well, if -- I think we'll come to that a
22 little later in the discussion. I think where the
23 questioning was when I started was to discuss with you
24 how one would construct such a hypothetical; that is,
25 how would one go about comparing the costs of a 20-year

00118

1 fixed contract with a 20-year variable contract
2 starting at an assumed number. Can you describe for
3 us how that would be done?

4 MR. CEDARBAUM: I object on the basis of
5 relevance. As Mr. Popoff just indicated, none of the
6 contracts in this hypothetical that we might get to
7 are fixed rate contracts. The Fiber contract isn't and
8 the contract that isn't, isn't. The Fiber contract is
9 annually renegotiated based on reasonably available
10 lower cost alternatives. It is not a flat fixed rate,
11 so the comparison has no relevance to this case.

12 JUDGE WALLIS: Mr. West, would you state
13 what you believe the relevancy might be?

14 MR. WEST: I believe I can, through asking
15 the witness another question, indicate what the
16 relevance is.

17 MR. CEDARBAUM: There is no relevance to
18 discussing a fixed rate contract in this case.

19 MR. WEST: The relevance is that Cascade
20 personnel offered to negotiate a PGS contract at a
21 fixed rate and in discussion with staff, staff
22 indicated that they did not think that --

23 MR. CEDARBAUM: Before you even continue, I
24 will object as being highly inappropriate to discuss
25 negotiations settlements on this record. It's

00119

1 surprising to me that counsel would even get into it.
2 And I would ask that the beginning portion of Mr.
3 West's testimony -- which it was -- be stricken.
4 In light of the Commission's initiative to have people
5 engage ADR type of initiatives, it amazes me that ...
6 (inaudible)...

7 MR. WEST: Your Honor, if Mr. Cedarbaum
8 believes that I have breached confidence or acted
9 inappropriately with respect to this reference, I do
10 apologize. That was not my intention.

11 MR. CEDARBAUM: I don't know how else that
12 could have been taken.

13 JUDGE WALLIS: I am concerned that as thus
14 described, the relevance to this proceeding -- to the
15 inquiry that the Commission must make at this point is,
16 I think, limited and I'm going to sustain the
17 objection.

18 MR. CEDARBAUM: I would also ask that
19 counsel's statement be stricken. I would like a ruling
20 on that.

21 JUDGE WALLIS: Mr. West, do you object --

22 MR. WEST: I do not have an objection to
23 that.

24 JUDGE WALLIS: Very well.

25 BY MR. WEST:

00120

1 Q. Mr. Popoff, are you familiar with the terms
2 of the PGS Longview Fiber contract?

3 A. Yes.

4 Q. And I believe that's Exhibit 15. You might
5 want to refer to that contract.

6 MR. TROTTER: C-15.

7 THE WITNESS: I don't have a copy of it with
8 me.

9 JUDGE WALLIS: Does the respondent have a
10 copy of the exhibit?

11 Q. Mr. Popoff, I would like you to refer to
12 the contract, and you might want to look at page 3,
13 paragraph 4, with respect to the question, and that is,
14 does this contract contain an inflator or escalation
15 contingent?

16 A. It's a floating contract based on the price
17 of -- it says, based on -- it's comparable to least
18 cost alternative sources of peaking services reasonably
19 available to Cascade.

20 MR. TROTTER: This document has been
21 marked confidential and ... (inaudible).

22 MR. WEST: I believe the particular question
23 is not part of a confidentiality concern. In fact,
24 one of the... (inaudible)...

25 Q. Mr. Popoff, there is no inflation factor

00121

1 built into this contract. It must be subject to the
2 mutual agreements of the parties; is that correct?

3 A. The contract does not specifically have a
4 provision that raises the -- doesn't have an inflator
5 rate. If you were to use LS service as the basis of
6 comparison and Northwest Pipeline would raise its LS
7 rates, it would seem to indicate that if that was going
8 to be your concept of what least cost is, then they
9 would have a right to increase the price of the
10 contract, according to this contract, in my economist's
11 opinion, and after having discussed it extensively with
12 staff.

13 Q. Do you have an opinion as to the
14 likelihood of that happening?

15 A. Likelihood of Northwest Pipeline raising its
16 rates?

17 Q. Do you have an opinion or understanding as
18 to the likelihood of Longview Fiber initiating a change
19 in the rate of this contract absent Cascade's approval?

20 A. I don't see that ratepayers are protected
21 from anything in this contract. They -- ratepayers
22 don't have any such protection under this contract, and
23 as far as I know, Cascade hadn't hedged that risk in
24 any way, if that was possible.

25 MR. WEST: I don't believe that was a

00122

1 response to the question and I would ask the witness
2 to perhaps rephrase his answer?

3 JUDGE WALLIS: Would you repeat the
4 question in light of statement.

5 MR. WEST: The question was whether the
6 witness had an opinion as to the likelihood that
7 Longview Fiber would have approached Cascade for an
8 adjustment in the price of this contract, if Cascade
9 did not do so first.

10 A. I have not talked to -- not only have I not
11 talked to Longview Fiber, I have no way to know what
12 the likelihood. They -- seems to me they have the
13 legal ability to do that.

14 Q. In order to do that, would they have to have
15 information from Cascade as to what it's least price --
16 least cost alternative might be?

17 A. Um, if -- Cascade used -- they negotiated
18 based on the price of LS service and Cascade accepted
19 that as the least cost alternative, then I don't know.
20 I don't know if there might be -- they might be able to
21 get at it through your least cost plan. I'm not sure.

22 Q. Is there anything in this contract which
23 indicates that it is priced based on LS service?

24 A. No.

25 Q. Mr. Popoff, referring again to Exhibit 53,

00123

1 the answer to B refers to the Energy Information
2 Administration. Would you describe what or who that
3 agency might be?

4 A. Pardon?

5 Q. Would you describe -- tell us who the Energy
6 and Information Administration is?

7 A. I believe that that is a federal government
8 agency that's funded perhaps by the DOE or at times by
9 the DOE. It provides several energy information
10 publications and on-line information.

11 Q. Are you familiar, Mr. Popoff, with the term
12 "gas bubble"?

13 A. Yes.

14 Q. Can you describe, please, your understanding
15 of the meaning of that?

16 A. That's what the gas industry has taken
17 to call an over supply of gas. There are rumors that
18 there was one in the late '80s and it went away and
19 it's back again. Some analysts don't believe it was
20 ever there; some believe it never went away.

21 Q. Are you familiar with the term "fly-up" as
22 it applies to gas prices?

23 A. I don't know that I've specifically heard
24 that term.

25 Q. Are you aware that some of Cascade's core

00124

1 customers are industrial gas users and that the core
2 market is not strictly residential and commercial
3 users?

4 A. As Cascade defines core, yes.

5 Q. Are you aware that some members of the core
6 market as defined by Cascade have alternative fuel
7 capabilities?

8 A. Makes it seem peculiar to call them core
9 then, but, yes, under Cascade's definition.

10 Q. So that there are, perhaps, some -- perhaps
11 there are some large enough users of gas in Cascade's
12 core market that they could purchase their own gas
13 supply rather than purchase a bundled gas supply and
14 distribution service?

15 A. That could be the case, yes.

16 Q. In your analysis of the PGS peaking service
17 that Cascade obtained from Longview Fiber, did you
18 consider the cost or the value of the pipeline capacity
19 which is part of the PGS contract?

20 A. I believe I clearly explained in my direct
21 testimony that the Water Power storage release comes
22 delivered equally, as well as in the unsolicited bids
23 that Cascade had obtained also came delivered. So yes.

24 Q. What value did you ascribe to that for
25 Cascade?

00125

1 A. Bundled to the city gate, it's more
2 expensive than the Water Power storage release. The
3 whole contract -- I'm sorry -- not just the
4 transportation. I don't see much point in breaking the
5 two apart. You should be comparing to-the-city-gate
6 delivery.

7 Q. Did you consider the value over the 20-year
8 period of the PGS contract of physical capacity?

9 A. There is -- that's quite difficult to do.
10 Especially now with 636, there is a wide variety of
11 things that you can do to get that transportation
12 cost, either bundled or unbundled or --

13 Q. Are you aware of what the availability of
14 such capacity might have been in 1991, at the time this
15 contract was negotiated and signed?

16 A. I don't believe that there were those -- the
17 same types of things -- like I said, the post-636 sorts
18 of opportunities. Those weren't available then but
19 they are now. Perhaps that's part of the reason why
20 staff didn't recommend to price the Water Power -- the
21 contract lower then. I'm not sure. So it doesn't seem
22 particularly relevant if it was then but it's not now.
23 Because now those opportunities are there.

24 Q. Is it true, to your knowledge, or would you
25 accept, subject to check, that at the tariff rates for

00126

1 Northwest Pipeline, the annual cost of 150,000 therms
2 per day of pipeline capacity in the amount of the PGS
3 contract, would be about \$1.5 million?

4 MR. CEDARBAUM: Can you restate the
5 question?

6 MR. WEST: The question was whether the
7 witness could testify or whether he would accept,
8 subject to check, that the annual cost at the tariff
9 rates of pipeline of 150,000 therms per day of capacity
10 would be about \$1.5 million.

11 MR. CEDARBAUM: At what point in time?

12 A. I would be willing to accept that, subject to
13 check, but as I had mentioned, there is a lot of other
14 options rather than just buying capacity. So that does
15 become very difficult.

16 Q. Are you aware of any such options that
17 are available in a 20-year period?

18 A. I don't know what the time horizon on them
19 would be, and I have no information from the company to
20 say whether they are or they aren't or why that's
21 relevant to the PGS contract.

22 Q. I would like to refer you now, Mr. Popoff,
23 to your supplemental testimony on page 2, please.

24 MR. CEDARBAUM: Counsel, what page?

25 MR. WEST: Page 2.

00127

1 Q. I'm referring to lines 11 through 15. You
2 indicate that the prepayment of oil charge, as it's
3 termed, must be paid whether Cascade dispatches the
4 supplier or not. The amount that Cascade pays to
5 Tenaska, which you term the prepayment of oil charge,
6 is used by Tenaska to buy oil; is that correct?

7 A. I believe that -- I'm not sure exactly
8 whether Cascade would give the money to Tenaska. If
9 they had already purchased -- Tenaska had already
10 purchased the oil, then I would imagine they would.
11 But if Cascade were to arrange for other transportation
12 of the oil there, I don't know who would pay the
13 supplier of the oil, whether it -- whether Cascade
14 would hand the monies to Tenaska and they would hand it
15 to the supplier.

16 Q. However those mechanics would go, the
17 purpose of the payment is it not, is to -- so that
18 Tenaska may buy oil as ultimate fuel?

19 A. So that there would be oil in the tank. I'm
20 not sure if Tenaska is going to buy it or you're going
21 to buy it.

22 Q. Putting aside that the purpose of the
23 payment is to furnish alternative fuel so that
24 Tenaska's generator can run even though Cascade was
25 using the gas; is that right?

00128

1 A. Yes.

2 Q. As is it true that Cascade has the
3 discretion to nominate PDSS gas service at any time
4 Under this contract?

5 A. I think there are some hourly notice
6 prenotification. I'm not sure exactly off the top of
7 my head what those are.

8 Q. Right, but subject to the mechanics of the
9 number of days or hours that are appropriate for each
10 type of payment, the nomination of the service in the
11 first instance is under Cascade's control; isn't that
12 correct?

13 A. Again, Tenaska can't force Cascade to take
14 it. Cascade decides whether or if they take it.

15 Q. Cascade chooses whether or not to nominate
16 all or any of the service, correct?

17 A. Yes.

18 Q. And if in a particular winter, Cascade
19 decides not to nominate, then this payment doesn't have
20 to be made?

21 A. Payment has already been made. It's
22 prepaid.

23 Q. Isn't it correct that it's prepaid only
24 when Cascade decides to prepay it? It must be prepaid
25 before it's used, but the decision to prepay and the

00129

1 timing of the prepayment under this contract are
2 Cascade's decisions; is that correct?

3 A. I believe so.

4 Q. I'm referring you now, please, to page 4 of
5 your supplemental testimony. Beginning on line 12,
6 there is a discussion of a two-step examination
7 process. Can you tell me what the origin of this
8 two-step process is?

9 A. As I mentioned, I had assisted somewhat with
10 the Puget Prudence Order -- sorry, not the order, but
11 the staff analysis. And that is the same approach that
12 staff took in that case, to first determine if a
13 prudent level of activity had been done and then to
14 determine if ratepayers had been harmed and by how
15 much, if they had been.

16 Q. Is this process spelled out in a statute or
17 WAC regulation anywhere?

18 MR. CEDARBAUM: Your Honor, I'll object as
19 calling for a legal conclusion, and Cascade wasn't
20 involved in the prudence case, but I was, as were other
21 people in this room. I think it's well established,
22 not only by that case but by prior Commission order as
23 to what prudence and review is. To retread that
24 ground now is -- brings -- not only brings up bad memories
25 but I think it's just not probative in this record at

00130

1 all. The Commission order in this case is a public
2 document. We can all read it and cite it for what
3 we want. It's a waste of our time.

4 MR. WEST: Your Honor, what I'm trying to
5 determine is whether there was something that was
6 available in 1991 and 1990 and when Cascade was engaged
7 in this process which Cascade should have been looking
8 into but was not.

9 MR. CEDARBAUM: Your Honor, if Mr. West
10 wants to ask Mr. Popoff what analysis the company
11 should have done but didn't, that's fine, but the
12 statutes in this State have been on the book for a long
13 time as to who's got the burden of proof to demonstrate
14 reasonableness and prudence of their cost they are
15 proceeding to recover. I don't think anybody doesn't
16 understand that. So I don't know at what point we're
17 getting to in this line of questioning.

18 JUDGE WALLIS: I share Mr. Cedarbaum's
19 concern that a prudence evaluation not be relitigated.
20 Certainly, you may inquire into the areas of analysis that
21 guided the witness' preparation of the information. As to
22 the statutes and timing of the prudence order or contents of
23 the prudence order are matters that may be cited for legal
24 analysis.

25 MR. WEST: Your Honor, I believe the witness

00131

1 testified that these were the staff processes that he
2 used and I would like to know if these are internal
3 staff processes or if they were available outside
4 from outside sources.

5 MR. CEDARBAUM: I don't know what the point of
6 that is. If Mr. West is saying that the company wasn't
7 aware of its responsibility to demonstrate prudence
8 we've got a major problem. The question about whether or
9 not the requirement demonstrates prudence of cost is an
10 internal document or an outside document, I just don't know
11 what the point of all that is. If you want to ask
12 Mr. Popoff about what analysis does he think the company
13 should have taken to demonstrate prudence and what they
14 didn't do or even if they weren't prudent, that's fine. I
15 guess I thought the company knew what its burden was
16 (inaudible).

17 JUDGE WALLIS: What is the purpose?

18 MR. WEST: The purpose is to familiarize the
19 company with this two-step process. I'm familiar with the
20 Puget order but I wasn't aware that the Puget order
21 contained a reference to the two-step process.

22 MR. WALLIS: Is --

23 MR. CEDARBAUM: Again, I've read the orders,
24 prudence orders, a bunch of times. They set out in very
25 clear terms and refer to prior orders that the

00132

1 Commission (inaudible)... Mr. West can provide the company
2 with a copy of the order they can find -- they can read it
3 to figure out what the Commission says. To question
4 (inaudible) on that process is to relitigate the issue
5 the Commission tried to put behind them a few months ago.
6 So I don't know the company needs to be educated
7 on that. Again, they can do that outside this room.
8 This doesn't add anything to the record.

9 JUDGE WALLIS: I do believe that the witness may
10 be asked why he engaged in a two-step process. Would
11 that satisfy your inquiry, Mr. West?

12 MR. WEST: Yes, Your Honor, it would. That
13 was what I was intending to do. I was not intending to
14 relitigate the prudence question from the beginning. I
15 was just trying to understand the witness' application
16 of this process to this document.

17 JUDGE WALLIS: Does the witness have the --

18 THE WITNESS: I can get it --

19 Q. The question is, can you please describe
20 the two-step examination that you applied that was
21 applied to this docket and the basis for that.

22 A. Well, looking Tenaska and having -- looking
23 at when I first received the company's initial filing,
24 which was UG-941213, you know, the huge oil cost in
25 Tenaska as well as Tenaska being a new item in the PGA

00133

1 sent up a flag for me to say, well, that makes me
2 suspect something right there. So I started to look
3 into what it was and why it was there. So to figure
4 out if the company needed that resource, if it was the
5 best -- if it did need that resource, was that the best
6 resource available and was it priced as low as it could
7 have been. That's to decide if it was a prudent
8 action. And then if I don't think it was, then what
9 was the appropriate adjustment. That's the second
10 step. If I've decided that, as far as I'm concerned,
11 it doesn't look -- doesn't look like the appropriate
12 amount of analysis was done, that the contract wasn't
13 negotiated as aggressively as it should have been, I
14 look to see how were ratepayers harmed by that.

15 JUDGE WALLIS: We need to go off the record.

16 (Recess.)

17 JUDGE WALLIS: Let's go back on the record.

18 BY MR. WEST:

19 Q. Mr. Popoff, again referring to the Longview
20 Fiber service, have you investigated or do you have
21 information as to the present book value of the
22 facilities that serve the Longview Fiber mill?

23 A. I guess I'm not following. Per book value
24 of your pipes in the ground that serve the mill?

25 Q. Correct, all of Cascade's facilities that

00134

1 serve the mill, are you familiar with that?

2 A. I haven't, at least especially recently,
3 haven't looked at that, and I don't know why that
4 matters. In a supply contract delivered to your
5 city gate, if it's something that's beyond your city
6 gate, I'm not sure that that's particularly relevant to
7 the price of the supply contract.

8 Q. It has been a subject of the companion
9 piece. I just was wondering if you have that
10 information. Would you accept, subject to check, that
11 that value is less than \$500,000?

12 MR. CEDARBAUM: Objection on the basis
13 of relevance, and the witness already indicated that he
14 hasn't looked at that. I don't think it's fair to
15 accept something subject check at this stage of the
16 proceeding. Mostly, it's not relevant to the cost
17 analysis that was done of the supply contract.

18 MR. TROTTER: (Inaudible).

19 What is the relevance, Mr. West?

20 MR. WEST: The relevance is that the witness
21 has testified that Cascade's reason for granting this
22 contract to this customer had to do with a bypass, and
23 this is a question is designed to discuss the bypass
24 portion of this piece.

25 JUDGE WALLIS: The witness may

00135

1 answer.

2 MR. CEDARBAUM: Still I -- as to relevance,
3 the relevance of Longview Fiber's cost to bypass
4 would be relevant to -- the subject would be relevant
5 to the bypass issue... (inaudible).

6 MR. WEST: The other -- one of the items in
7 the case is that view of Cascade's incentives to
8 preserve its margins and a comparison of the margins
9 being compared to facilities is a relevant issue.

10 A. The question again?

11 Q. The question is whether you would accept,
12 subject to check, that the value of all facilities
13 serving the Longview Fiber plant are less than
14 \$500,000.

15 A. I don't have any way to check that. As far
16 as I know, I have not -- I don't have that -- I
17 initially was thinking that perhaps it had something to
18 do with the Longview Fiber bypass contract that you
19 have, which I might have access to that information
20 readily, but since there was -- this is basically the
21 first time that there was ever -- that we were informed
22 that there had been a bypass started at Fiber, I don't
23 know how I would check it.

24 And also, I think that my testimony said
25 that this is a reason why staff is concerned, not

00136

1 whether or not there was actually a bypass threat there
2 or not. Whether or not there was one, if there was a
3 real one, then that is a pretty good reason for Cascade
4 -- that highlights or supports my concern that there
5 was an incentive to perhaps overprice the contract.

6 So if there was one, if that's -- I think
7 the company has established that there may indeed have
8 been a bypass threat at Fiber, but that doesn't mean
9 that that should be addressed by charging more than is
10 necessary on a gas supply contract to make up for that
11 difference. There is a lot of problems with doing
12 that.

13 Q. Mr. Popoff, you believe that the company
14 should negotiate with its customers for things like
15 peaking services without considering the total benefits
16 to the system? In other words, if there were
17 both peaking service and bypass issues involved, should
18 one only look to one or only look to the or the company
19 look to both?

20 A. I think it's fine if the company wants to
21 look at both. It would be nice if they would inform
22 staff sometime sooner than four years afterwards. But
23 also, that doesn't mean that I don't -- I just can't
24 foresee a situation where staff would agree to accept
25 more costs in the PGS than is necessary, especially

00137

1 according to the terms of the contract. So if there
2 was a bypass threat, I don't think there is still a
3 bypass threat, as long as the PGS contract is still
4 in effect. So whether now you renegotiate the price,
5 whether there was a bypass threat back then, maybe
6 that's why it was initially priced at LS service.
7 Perhaps that is true. That could be the case. Maybe
8 it was priced that high to begin with. But now as far
9 as the company has explained that the bypass threat
10 doesn't exist, as long as the PGS contract is in
11 effect -- so if there was bypass threat, then there
12 may be not. There is a whole separate proceeding
13 for a bypass.

14 MR. WEST Your Honor, I have no further
15 questions of this witness.

16

17 CROSS-EXAMINATION

18 BY MR. TROTTER:

19 Q. You were asked questions regarding your
20 background and your understanding of the gas market
21 when these contracts were negotiated. Do you recall
22 that?

23 A. Yes.

24 Q. Did you gain any information on that topic
25 through the discovery process?

00138

1 A. Yes, I believe that in response to Data
2 Request 11 they had indicated -- which, I'm sorry, I
3 don't remember what exhibit that is -- that they had
4 indicated that several options were not available then.
5 So they did indicate that additional SGS storage wasn't
6 available then. So that line of response -- I think
7 that's it.

8 Q. Could Cascade have gotten the Tenaska
9 contract?

10 A. I don't know if they could have.

11 Q. So they couldn't?

12 A. No.

13 Q. So then how come -- how can you conclude it
14 was... (inaudible) ...

15 A. Based on the prices of other contracts,
16 especially right now, in the analysis of looking at the
17 costs of those contracts, I had used some very
18 restrictive assumptions, especially based on some
19 low-priced contracts, and then I made even additional
20 assumptions, and Tenaska still appeared to be cheaper.
21 So that doesn't mean that I had no -- I had no way
22 to develop cost adjustment to say what exact --
23 specifically how much less it should have been.

24 Q. In your analysis of comparable contracts you
25 said "especially now." Do you recall that?

00139

1 A. Yes.

2 Q. (Inaudible).

3 A. Somewhat, yes.

4 Q. Is it correct that the staff expressly
5 did not look at conditions after the contracts ...
6 (Inaudible)...; i.e., lower gas prices?

7 A. Um, I could give I my thinking of what
8 happened but I wasn't involved in that portion.

9 Q. Referring to Exhibit C-32 if you will,
10 page 3, paragraph 4 --

11 A. I'm sorry, C-15 is --

12 Q. It's the Longview Fiber contract. The
13 question was on this paragraph. I don't know that this
14 was characterized as open escalating, but isn't it
15 correct that the price could go down with this
16 contract?

17 A. Yes. It should, according to my testimony.

18 Q. Is your understanding from there paragraph
19 as economist that only one change can be made to insure
20 this the fee is comparable to least cost alternative
21 resources... or that change could be (inaudible)...

22 A. It says that it's an annually renegotiated
23 component, so that would lead me to believe that once
24 annually.

25 Q. Depending on what at alternative sources of

00140

1 peaking service was available, the peaking service
2 could decrease or increase?

3 A. Yes. And I would also expect that there
4 would be different ways to look at it to say that there
5 if there was a three-year alternative available that
6 the contract could be negotiated down that three years.
7 It's a little vague in that sense, but that's one
8 respect, but that's what I would expect.

9 Q. In your supplemental testimony, page 5, here
10 you based your analysis of Tenaska based on a design
11 day criteria; is that right?

12 A. Yes.

13 Q. As part of your analysis you didn't conduct
14 an independent investigation?

15 A. No.

16 Q. You were asked questions regarding the
17 Longview Fiber bypass issue. In your opinion, is the
18 bypass issue a factor comparable to reflect the PGA...
19 (inaudible)...

20 A. No, that's not the appropriate way for the
21 company to deal with that. There is several problems
22 with that. One is that it doesn't allow the staff or
23 other parties to thoroughly examine the information.
24 So to now try and do that in the context of a PGA
25 with other complex issues, you know, there is -- that's

00141

1 why there is a separate proceeding for it.

2 Secondly, I think that it creates higher
3 than necessary gas costs, which can be a significant
4 problem. I think that in the future there is no way to
5 tell, especially now. But even then, there was no way
6 to tell what -- that the LDC would be the sole provider
7 of gas to core markets for the rest of time. So
8 that would make the LDCs merging naturally have higher
9 prices is they are forced to compete. That would be
10 a problem. And then if you do go to some form of
11 unbundling in the future, there could be gas supply
12 realignment costs in that. That's going to make those
13 higher.

14 I don't know if those will be or not, but if
15 they are, there is no reason to start inflating it now.
16 that works for both ratepayers and stockholder earnings
17 because stockholders might have to bear a portion. I
18 think that's not an appropriate way to be handling it.
19 That's not why the PGA was invented or created, to
20 allow the company 100 percent recovery of its base
21 costs.

22 Q. Exhibit 54 is the staff's response to
23 company Data Request No. 1. Do you have that in front
24 of you?

25 A. Yes.

00142

1 Q. Is that a true and correct copy of the
2 request as you understood it in your response?

3 A. Yes, I believe so.

4 MR. TROTTER: Request that Exhibit 54 be
5 received in evidence.

6 JUDGE WALLIS: Exhibit 54 is received into
7 evidence.

8 (Received Exhibit 54.)

9 MR. TROTTER: No further questions.

10 JUDGE WALLIS: Any questions?

11

12 REDIRECT EXAMINATION

13 BY MR. CEDARBAUM:

14 Q. Mr. Popoff, you were asked some questions by
15 Mr. West about how your supplemental testimony modified
16 your direct testimony. Do you recall that?

17 A. Yes.

18 Q. Is it correct that the supplemental
19 testimony was prompted by data that you received from
20 the company after your direct testimony was submitted?

21 A. Yes.

22 Q. And is it your opinion that the company
23 should have provided that information sooner than
24 it did?

25 A. Might have been easier, I think so, yes.

00143

1 Q. Was that the type of information that they
2 should have provided to you in order to demonstrate
3 the reasonableness of the Tenaska cost?

4 A. I thought it was the kind of information
5 that should have had on hand that they had done four
6 years ago.

7 Q. And was it information that they provided in
8 response to your Data Request?

9 A. That later Data Request, I think I sent a
10 letter containing all -- a lot of information --
11 asking for a lot of information, and then a follow-up
12 call to get the rest of the information that I had
13 asked for.

14 Q. Had you had all that information that you
15 had to request later, earlier in the case, it could
16 have been incorporated into your direct testimony?

17 A. Yes.

18 Q. You also indicated that you weren't sure
19 whether or not the Tenaska contract could have been set
20 at a lower price than it was set. Do you recall that?

21 A. Yes.

22 Q. Did the company provide any analysis to you
23 that demonstrated that the Tenaska contract as
24 currently priced was the least costly?

25 A. Other than saying that there was additional

00144

1 pressure to lower the distribution rate, no.

2 Q. Would that type of analysis be important?

3 A. Yes.

4 Q. Did the company provide any analysis about
5 the -- that they looked at the cost of oil in the
6 Tenaska contract as negotiated and signed?

7 A. I think that they -- there was a response to
8 a late Data Request that showed that they had been
9 receiving bunker fuel reports but I had -- I still
10 don't have any analysis that shows that they considered
11 the full cost of the Tenaska, the full cost of Tenaska
12 police the oil compared to anything. So I think that
13 they showed that they had bunker fuel reports, they had
14 been getting those, but I never did receive any kind
15 of oil -- you know, oil price forecasts or anything
16 like that.

17 Q. You have discussed with Mr. West the core
18 market versus noncore, and you indicated that at -- you
19 indicated company's definition of core. What is your
20 definition of core market?

21 A. Those customers have no other alternatives.

22 Q. Primarily residential?

23 A. Residential and small commercial.

24 Q. Those are customers --

25 A. Maybe even large commercial. Those who have

00145

1 no alternatives.

2 Q. So I take it that the company -- do you
3 believe company has or does not have an incentive to
4 negotiate strongly to keep those types of customers on
5 its system?

6 A. What I would define as core?

7 Q. Yes.

8 A. No, they don't. They have an incentive to
9 price below -- in the long run to price below the
10 price of other alternatives, such as electricity. But
11 you know, that's -- that's not particularly relevant
12 for people who already have furnaces in their house. I
13 don't know that -- I don't know that that's -- it's not
14 a tough incentive to beat.

15 Q. Finally, you discussed the topic that in
16 1992 -- I believe it was that date -- that the staff
17 did not recommend any kind of an adjustment in the PGA
18 for the Longview Fiber contract. Do you recall that?

19 A. Yes.

20 Q. Why was that?

21 A. Well, I think that they -- staff especially
22 didn't make this similar argument because at that time
23 the Water Power storage release wasn't available --
24 well, they had already purchased it. So there was no
25 incremental Water Power storage release available. So

00146

1 other than that --

2 MR. CEDARBAUM: Thank you. That's all.

3 JUDGE WALLIS: Any further questions?

4 MR. WEST: Just one.

5

6 RE-CROSS-EXAMINATION

7 BY MR. WEST:

8 Q. Mr. Popoff, are you aware of competitive
9 situations between gas and oil in the 1980s, as far as
10 fuel switching by major industrial customers?

11 A. Generally. There was some and there were
12 reasons why they switched to oil and back again.

13 Q. Are you aware that those reasons are related
14 to the price of oil relative to the price of gas?

15 A. Especially the price of gas delivered.

16 Q. And would you expect that a company which
17 serves customers who are fuel-switchable between gas
18 and oil would have information and understanding of the
19 relative prices between gas and oil in that time
20 period?

21 A. In the time period -- in the 1980s?

22 Q. Correct.

23 A. Yes.

24 Q. Do you know what time, about what year that
25 ceased to be such an issue in the industry, or has

00147

1 it ceased to be?

2 A. Um, I'm sure that for your large industrial
3 customers that's always going to be an issue. For your
4 residential and small commercial, it probably won't be
5 an issue until there is an unbundling kind of
6 situation, and it could be a problem.

7 MR. WEST: No further questions, Your Honor.

8 JUDGE WALLIS: Anything further?

9 MR. CEDARBAUM: No, Your Honor.

10 JUDGE WALLIS: Mr. Popoff, there are no
11 further questions for you. Thank you for appearing
12 today. You're excused from the stand.

13 (Discussion off the record.)

14 JUDGE WALLIS: Let's be back on the record.

15 Mr. Stoltz I believe you've been previously
16 sworn in this proceeding. You may resume the stand
17 at this time.

18 Whereupon,

19 JOHN P. STOLTZ,

20 having been previously sworn, was called as a witness
21 herein and was examined and testified as follows:

22

23 DIRECT EXAMINATION

24 BY MR. WEST:

25 Q. Mr. Stoltz, please state your name and

00148

1 business address for the record.

2 A. My name is John P. Stoltz. My business
3 address is 222 Fairview Avenue North, Seattle,
4 Washington.

5 Q. Please state your occupation and position.

6 A. Senior vice president of planning and rates
7 for Cascade Natural Gas.

8 Q. Did you prepare rebuttal testimony in this
9 document?

10 A. I did.

11 Q. I would refer to the testimony which has
12 been marked Exhibit T-32 and Exhibits -- pardon me --
13 Exhibits 33, 34, and 35, also, Exhibits T-32C and
14 Exhibit C-34. Are these the testimony and exhibits
15 which you prepared?

16 A. Yes, they are.

17 Q. Do you have any additions or corrections to
18 these exhibits?

19 A. I do not.

20 Q. If I were to ask you the same questions
21 today that appear in your testimony, would your answers
22 be the same?

23 A. They would.

24 Q. In your opinion, are the answers set forth
25 in your testimony true and correct?

00149

1 A. Yes, they are.

2 MR. WEST: Your Honor, I move the admission
3 of Exhibit T-32 and T-32C and Exhibits 33, 34 and C-34 and
4 Exhibit 35.

5 JUDGE WALLIS: Being no objection. The
6 exhibits are received in evidence.

7 (Received Exhibits T-32, T-32C,
8 33, 34, C-34 and 35.)

9 MR. WEST: Mr. Stoltz is available for
10 cross-examination.

11

12 CROSS-EXAMINATION

13 BY MR. CEDARBAUM:

14 Q. Good afternoon.

15 A. Good afternoon.

16 Q. On page 20 of your rebuttal testimony,
17 Mr. Stoltz, starting at the bottom and on to page 21,
18 you discuss the subject of RFPs for similar services in
19 the context of your testimony on the Longview Fiber
20 contract; is that right?

21 A. Yes.

22 Q. If I could have you turn to Exhibit C-17,
23 do you have that?

24 A. Yes, I have that.

25 Q. And this was the company's response to our

00150

1 Data Request 21; is that right?

2 A. Yes, that's correct.

3 Q. Beginning at the third page in of the
4 exhibit, there is a document where the subject
5 is, Requests for Proposals for Firm Gas Supply, dated
6 September 7, 1994; is that correct?

7 A. Yes, that's right.

8 Q. And there are four pages listed; is that
9 right?

10 A. Yes, that's correct.

11 Q. Essentially four types of supplies, four
12 packages describing supplies the company is seeking; is
13 that right?

14 A. Yes, that's right.

15 Q. And each of the packages contain specific
16 terms as to volume, source, point of purchase, term,
17 anticipated load factor and comments; is that right?

18 A. Yes, that's correct.

19 Q. Are those types of terms for an RFP pretty
20 standard types of information that the company would
21 be looking for in an RFP, perhaps these and others?

22 A. Probably these and others. Submitting RFPs
23 for gas supplies is fairly new to our industry and
24 it's still evolving, so there is -- currently that's
25 the information we. In future RFPs there maybe more

00151

1 information... (inaudible).

2 Q. At this point in time and at future points
3 in time, the company will be seeking standard
4 information or information, information typically one
5 RFP to the next that will be fairly consistent and
6 there might be differences amount them, but the type of
7 information that you will be looking for will be
8 standard types of information?

9 A. I can only assume that would be the case.
10 As I indicated before, this is an evolving process.
11 I'm not sure how long things we're doing now will work
12 well. If they do not work well, we will change the
13 procedure to try to make them work better.

14 Q. But the types of information that you would
15 be seeking are important from a company's operational
16 point of view?

17 A. Yes, generally.

18 Q. On page 21 of your rebuttal testimony,
19 you discuss your concern about putting out RFPs where
20 the company doesn't have the intent to sign contracts,
21 and then you state at line 13 that "To date, staff has
22 not disagreed with the company's concerns in this
23 matter." Do you see that?

24 A. Yes, I do.

25 Q. And is it correct that your rebuttal

00152

1 testimony was filed with the Commission in mid-May
2 of 1995?

3 A. Yes, that's correct.

4 Q. Is it also correct that the company asked
5 staff in Data Request No. 30 -- give me a
6 minute I'll find the exhibit number -- Exhibit No.
7 46 -- concerning the types of issue that you're
8 referring to on page 21 of your testimony?

9 A. I didn't bring 46 up with me. Excuse me a
10 second. I'll grab my copy.

11 Q. Do you have it now?

12 A. I have it now.

13 Q. For example, subpart A of Data Request 46
14 asks staff whether they advocate that Cascade send
15 out an RFP for service it does not reasonably intend
16 to purchase. Do you see that?

17 A. Yes.

18 Q. Would you accept, subject to check, that
19 Data Request No. 30 was mailed to the company by
20 letter date of April 27, 1995?

21 A. I would accept that.

22 Q. If I could refer you to Exhibit No. 55 for
23 identification, do you recognize this as your response
24 to staff Data Request No. 30?

25 A. I do.

00153

1 JUDGE WALLIS: Marking Exhibit 55 for the
2 Commission. It's a single-page document.

3 (Marked Exhibit 55.)

4 MR. CEDARBAUM: Offer Exhibit 55.

5 MR. TROTTER: Your Honor, I note
6 that there is some handwriting at the bottom, Is
7 that... (inaudible).

8 MR. CEDARBAUM: It came to us this way.

9 THE WITNESS: I believe it says orally in
10 negotiations for... with negotiations (inaudible)...

11 Q. On page 9 of your testimony, Mr. Stoltz,
12 you --

13 JUDGE WALLIS: Let me just state that
14 Exhibit 55 is received in evidence.

15 (Received Exhibit 55.)

16 Q. On page 9 of your rebuttal testimony,
17 Mr. Stoltz, you compare the Tenaska contract with the
18 company-built LNG facility. You also state that the
19 520,000 therms per day key is not an unreasonable
20 quantity for the company, referring to the
21 600,000-therm-per-day LS-1 service that the company has
22 with Northwest Pipeline. Do you see that portion of
23 your testimony?

24 A. I do.

25 Q. Looking at Exhibit 55, part C, your response

00154

1 indicates that the company doesn't know how many days
2 of oil Tenaska needs as backup fuel under its power
3 contract with Puget Power; is that right?

4 A. Yes, I do.

5 Q. Do you know how many days generally of
6 backup fuel a co-generator is required to have on
7 hand to be able to sell its power?

8 A. No, I do not.

9 Q. Your response also indicates --
10 referring back to Exhibit 55 -- that the oil capacity
11 used to provide the PGSS service is incremental or in
12 addition to the oil requirements under its power
13 contract. My question is, does that imply that Tenaska
14 would have to have some oil storage even without its
15 contract?

16 A. Yes.

17 Q. Also, with regard to the oil inventory
18 issue that's discussed in your rebuttal, is it correct
19 or would you accept, subject to your check, that in the
20 company's response to Data Request No. 15 under Docket
21 UG-941213, staff asked you to explain the procedure of
22 the company would use to determine the reasonableness
23 of the oil costs, and your answer was that the company
24 has not attempted to determine the reasonableness
25 of the Tenaska oil cost. Subject to your check, do

00155

1 you recall that?

2 A. I recall that was a portion of our answer to
3 that question.

4 Q. Is it correct that the Tenaska contract
5 is partially deliverable over Cascade's direct line to
6 Sumas?

7 A. Yes, that's correct. It's entirely capable
8 of being delivered over the Sumas connection
9 that Cascade has. However, we do not have to unload
10 in the core in Bellingham to absorb it all or enough
11 downstream distribution capacity to satisfy if we had
12 the oil. Therefore, part of it has to be delivered
13 to Northwest Pipeline as well.

14 Q. If Tenaska had entered into the heating
15 supply contract with another party rather than Cascade,
16 would that other party have been able to take advantage
17 of the intraBellingham delivery as Cascade can take
18 advantage of?

19 A. Not currently. Cascade would have the
20 opportunity and that point to sell transportation
21 capacity on that level. We do not currently have a
22 tariff to do so. Without that tariff, the other entity
23 would have to take possession at Sumas through
24 Northwest Pipeline facilities.

25 MR. CEDARBAUM: Thank you. That's all I

00156

1 have.

2

3

CROSS-EXAMINATION

4 BY MR. TROTTER:

5 Q. Just a couple. On page 11... (inaudible) on
6 lines 11 through 13, you indicated that your long range
7 weather forecast that it is unlikely that a design day
8 would occur in the remainder of the 1994 heating
9 season? Do you see that?

10 A. Yes, I do.

11 Q. When will the next design day occur,
12 pursuant to your long range weather forecast?

13 A. The long range weather forecast that was
14 indicated there was for the remainder of the 1994-95
15 heating season. I have not seen a published long range
16 forecast for the 1995-96 heating season; however,
17 traditionally, the very first forecast given gives a
18 probability of a design year occurring.

19 Q. Currently what is the series of design days

20 A. What is the -- I don't know what the
21 published report would say. We would consider it
22 having a 1 in 30 chance of occurring.

23 MR. TROTTER: No further questions.

24 JUDGE WALLIS: Mr. West?

25 MR. WEST: No questions.

00157

1 JUDGE WALLIS: Thank you very much,
2 Mr. Stoltz. You're excused from the stand.

3 Let's be off the record for administrative
4 purposes.

5 (Discussion off the record.)

6 JUDGE WALLIS: Let's be back on the record,
7 please. The reporter has arrived and has committed to
8 make the transcript by Wednesday, August 30th, at the
9 close of or before. And it will be delivered
10 simultaneously to the Commission and to the company and
11 public counsel on that day, pursuant to prior
12 transcript orders.

13 The parties' briefs, they have agreed, will
14 be due two weeks after receipt of transcript and reply
15 for answering briefs are not contemplated. If the
16 party believes it necessary to answer, the
17 party should submit a request to submit the answer
18 stating the reasons.

19 Is there is anything further to come before
20 the Commission in this proceeding? Appears that
21 there is not. Thank you all very much and this matter
22 is adjourned.

23 (Hearing adjourned at 12:45 p.m.)

24

25